OFFICIAL STATEMENT DATED OCTOBER 1, 2009

Standard & Poor's: "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. The Bonds are obligations described in section 1503 of the American Recovery and Reinvestment Act of 2009 and, accordingly, the interest on the Bonds will not be included in the owner's alternative minimum taxable income under section 55 of the Internal Revenue Code of 1986. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

$15,000,000
MUELLER LOCAL GOVERNMENT CORPORATION
(A not-for-profit local government corporation acting on behalf of the City of Austin, Texas)
Tax Increment Contract Revenue Bonds, Series 2009

Dated: October 1, 2009 Due: September 1, as shown below

Interest on the $15,000,000 Mueller Local Government Corporation Tax Increment Contract Revenue Bonds, Series 2009 (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, 2010, 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 September 1, 2009 (the "Indenture"), by and between the Corporation and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"). The Bonds are payable solely from the "Trust Estate" (as defined in the Indenture), which consists primarily of the "Pledged Revenues" as hereinafter defined, which Pledged Revenues include tax increment revenues generated from taxation of real property within the boundaries of Tax Increment Reinvestment Zone Number Sixteen, City of Austin, Texas (the "Zone") from taxing units participating in the Zone. Currently, only the City of Austin, Texas (the "City") participates in the Zone by contributing its tax increment revenues to the Zone, and it is not expected that any other taxing unit will participate in the Zone. The tax increment revenues of the City will be contributed by the City to the Corporation pursuant to the terms of a Tri-Party Agreement among the City, the Corporation and the Zone (the "Tri-Party Agreement"). In addition, the City has entered into a grant agreement with the Corporation pursuant to which the City may make available grant funds, subject to annual appropriation from available monies in the general fund, in amounts sufficient to pay debt service on the Bonds should Pledged Revenues be insufficient to allow the Corporation to meet its debt service obligation. GRANT PAYMENTS, IF ANY, MADE BY THE CITY SHALL BE TREATED AS 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, WHICH IS THE SOLE ASSET OF THE CORPORATION PLEDGED THEREFOR. The Bonds are being issued to provide funds for certain public infrastructure improvements within the Zone and to pay costs of issuance.

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 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	Initial Yield	Maturity (September 1)	Amount	Interest Rate	Initial Yield
2011	$605,000	2.500%	1.000%	2017	$685,000	3.500%	2.900%
2012	610,000	2.500%	1.380%	2018	705,000	4.000%	3.100%
2013	620,000	3.500%	1.710%	2019	730,000	4.000%	3.220%
2014	630,000	3.500%	2.070%	2020	755,000	4.000%	3.350%
2015	645,000	3.500%	2.370%	2021	785,000	4.000%	3.450%
2016	665,000	3.500%	2.650%				

$3,460,000 4.000% Term Bonds due September 1, 2025, Yield 4.100%

$4,105,000 4.250% Term Bonds due September 1, 2029, Yield 4.400%

SIEBERT BRANDFORD SHANK & CO., LLC

The Corporation reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2020, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on September 1, 2019, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "BOND INFORMATION – 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"). Certain legal matters will be passed on for the Underwriters by their counsel, Bracewell & Guiliani LLP, Houston, Texas.

It is expected that the Bonds will be delivered through the facilities of DTC on or about October 27, 2009.

No dealer, broker, salesman or other person has been authorized by the Corporation or by the Underwriters 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 Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of 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 Underwriters. 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 UNDERWRITERS 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.

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

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CITY OF AUSTIN/MUELLER LOCAL GOVERNMENT CORPORATION*

Elected Officials

Name	Office	Term Expires June 15
Lee Leffingwell	Mayor	2012
Chris Riley	Councilmember Place 1	2011
Mike Martinez, Mayor Pro Tem	Councilmember Place 2	2012
Randi Shade	Councilmember Place 3	2011
Laura Morrison	Councilmember Place 4	2011
Bill Spellman	Councilmember Place 5	2012
Sheryl Cole	Councilmember Place 6	2012

Appointed Officials

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

*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. Marc A. Ott serves as President of the Board of Directors and Rodney Gonzales 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

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Austin, Texas

For additional information regarding the Corporation, please contact:

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SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds 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 $15,000,000 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 September 1, 2009 (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 "Trust Estate" (as defined in the Indenture), which consists primarily of the "Pledged Revenues", which Pledged Revenues include tax increment revenues generated from taxation of real property within the boundaries of the Zone from taxing units participating in the Zone. Currently, only the City participates in the Zone by contributing its tax increment revenues to the Zone, and it is not expected that any other taxing unit will participate in the Zone. The tax increment revenues of the City will be contributed by the City to the Corporation pursuant to the terms of a Tri-Party Agreement among the City, the Corporation and the Zone (the "Tri-Party Agreement"). In addition, the City has entered into a grant agreement with the Corporation pursuant to which the City may make available grant funds, subject to annual appropriation from available monies in the general fund, in amounts sufficient to pay debt service on the Bonds should Pledged Revenues be insufficient to allow the Corporation to meet its debt service obligation. The City is under no obligation to make grant payments.

Redemption of Bonds .... The Corporation reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2020, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2019, 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 of each of the years 2025 and 2029 are subject to mandatory sinking fund redemption, on the dates and in the amounts described under "BOND INFORMATION – Mandatory Sinking Fund 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

$15,000,000
MUELLER LOCAL GOVERNMENT CORPORATION
(A not-for-profit local government corporation acting on behalf of the City of Austin, Texas)
Tax Increment Contract Revenue Bonds, Series 2009

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" or the "Issuer"), of $15,000,000 Mueller Local Government Corporation Tax Increment Contract Revenue Bonds, Series 2009 (the "Bonds"). The Bonds are being issued to provide funds for certain public infrastructure improvements within the Zone and to pay costs of issuance.

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 PFM Group, Austin, Texas, the Corporation's 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 September 1, 2009 (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 "Trust Estate" (as defined in the Indenture), which consists primarily of the "Pledged Revenues", which Pledged Revenues include tax increment revenues generated from taxation of real property within the boundaries of the Zone from taxing units participating in the Zone. Currently, only the City participates in the Zone by contributing its tax increment revenues to the Zone, and it is not expected that any other taxing unit will participate in the Zone. The tax increment revenues of the City will be contributed by the City to the Corporation pursuant to the terms of a Tri-Party Agreement among the City, the Corporation and the Zone (the "Tri-Party Agreement"). In addition, the City has entered into a grant agreement with the Corporation pursuant to which the City may make available grant funds, subject to annual appropriation from available monies in the general fund, in amounts sufficient to pay debt service on the Bonds should Pledged Revenues be insufficient to allow the Corporation to meet its debt service obligation. The City is under no obligation to make grant payments.

The City created the Zone by ordinance adopted December 16, 2004. In connection with the creation of the Zone, the "base value" of real property within the Zone was established to be zero, as the property within the boundaries of the Zone was publicly-owned. Ad valorem tax revenues generated on the difference between the base value and the assessed value of real property within the Zone in each fiscal year thereafter are captured by the City and deposited to the credit of the "Tax Increment Fund" established for the Zone. The 2009 Certified Tax Roll for the City indicates that the current assessed value in the Zone is $292 million. Under the terms of the Tri-Party Agreement, tax increment revenues deposited to the Tax Increment Fund will be transferred to the Corporation for use to pay "Project Costs" for the Zone, including the payment of debt service obligations on bonds or other obligations issued or incurred by the Corporation to finance the payment of Project Costs.

Tax Increment Fund

On December 16, 2004, the City Council authorized an ordinance (the "Creation Ordinance") which established the Zone as a tax increment reinvestment zone. The Zone encompasses the area in which the Robert Mueller Municipal Airport was located. The Zone became effective upon the adoption of the Creation Ordinance, and shall terminate on December 31, 2045, or at an earlier time designated by the City Council by ordinance if the City Council determines in its sole discretion that the Zone should be terminated due to insufficient private investment, accelerated public investment or other good cause, or when all project costs and any obligations secured by and payable from tax increment revenues, including interest, have been paid in full.

In accordance with the provisions of Chapter 311, Texas Tax Code, and the Creation Ordinance, the City has established for the benefit of the Zone a fund designated as the Tax Increment Reinvestment Zone Number Sixteen, City of Austin, Tax Increment Fund (the "Tax Increment Fund"). Tax increment revenues collected by the City are deposited to the credit of the Tax Increment Fund for use consistent with the Creation Ordinance and the project and financing plan governing the affairs of the Zone. As described above under "SECURITY AND SOURCE OF PAYMENT – Security for the Bonds", in accordance with the terms of the Tri-Party Agreement, tax increment revenues will be transferred to the Corporation for use to pay Project Costs, including the payment of debt service on the Bonds. The City shall maintain the Tax Increment Fund until such time as the Zone is terminated.

The following tables provide information relating to tax increment revenues collected to date and the top ten taxpayers within the Zone.

Historical Assessed Valuation Applicable to the Zone

Tax Year	Net Taxable Assessed Value	Captured Appraised Value	Tax Increment Revenue (1)
2007	$ 52,866,137	$ 52,866,137	$ 213,262
2008	120,170,029	120,170,029	482,122
2009	292,078,479	292,078,479	1,229,358

(1) The City is currently the only participant in the Zone.

Top Ten Taxpayers in the Zone (Certified Tax Roll)

Taxpayers	Property Description	2009 Taxable Value	Percent of 2009 Taxable Value
TRT 1345 Philomena Street Owner LLC	Commercial	$44,402,527	15.2%
Catellus Austin Mixed Use LP	Multi-family	32,589,392	11.2%
Strictly Pediatrics Land Co. LLP	Commercial	31,499,794	10.8%
Catellus Austin Retail II LP	Commercial	30,436,633	10.4%
Catellus Austin Retail LP	Commercial	9,517,909	3.3%
Weekly Homes LP	Residential	6,277,496	2.1%
Meritage Homes of Texas LLC	Residential	3,685,705	1.3%
Streetman Homes LTD LLP	Residential	2,514,494	0.9%
Standard Pacific of Texas Inc.	Residential	2,026,778	0.7%
Catellus Austin LLC	Commercial	1,379,262	0.5%
TOTAL		$164,329,990	56.4%

Projected Revenue Adequacy for the Bonds

Projected Coverage	
Annual Principal and Interest FY 2010	$ 527,828
Projected Tax Increment Revenue at 100% Collections	1,229,358
Debt Service Requirement Coverage	2.33x

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. On August 27, 2009, the City Council approved the execution and delivery of a grant agreement with the Corporation (the "Grant Agreement"), pursuant to which the City, subject to annual appropriation at the sole discretion of the City Council, may grant funds to the Corporation to enable the Corporation to pay debt service on the Bonds and any additional bonds issued by the Corporation.

The City entered into a similar grant agreement with the Corporation in respect to the Corporation's Contract Revenue Bonds, Series 2006 (the "Series 2006 Bonds"). The Series 2006 Bonds are **not** secured by a pledge of tax increment revenues generated within the Zone. The City intends to fund the grant in respect to the Series 2006 Bonds from sales taxes generated within the Zone, and to the extent sales taxes generated within the Zone are insufficient to fund the grant, it is anticipated that the balance of the grant amount shall be funded from the City's general fund. To date, the City has funded grants in the amount of $2,024,193 to enable the Corporation to make debt service payments on the Series 2006 Bonds and to pay fees and expenses of the trustee for the Series 2006 Bonds. Sales tax collections within the Zone have totaled $1,057,853 since inception. A delay of approximately 12 months in the opening of a major retailer within the Zone has resulted in lower than anticipated sales tax collections to date. The City anticipates that future sales tax collections within the Zone will be sufficient to enable the Corporation to adequately fund Series 2006 Bond debt service amounts over the life of the bonds.

GRANT PAYMENTS, IF ANY, MADE BY THE CITY UNDER THE GRANT AGREEMENT SHALL BE TREATED AS 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. THE CITY IS UNDER NO OBLIGATION TO APPROPRIATE FUNDS TO MAKE GRANT PAYMENTS. SEE "INVESTMENT CONSIDERATIONS" BELOW.

The Tri-Party Agreement

The Tri-Party Agreement by and among the City, the Zone and the Issuer, vests in the Issuer the authority to issue the Bonds or to enter into other contractual obligations that are to be repaid from moneys to be paid by the City and the Zone to the Issuer from Tax Increments pursuant to the Tri-Party Agreement, in furtherance of the implementation of the Plan.

The Issuer is expressly granted the right and authority in the Tri-Party Agreement from time to time to issue bonds upon such terms and conditions as the Issuer and the City shall determine to be necessary or desirable to implement the Plan. The Bonds constitute bonds that are permitted to be issued under the terms of the Tri-Party Agreement.

Under the Tri-Party Agreement, the Issuer has agreed to commence the process to issue and sell bonds from time to time, at such times and in such amounts as are required to produce bond proceeds in an amount sufficient to accommodate the construction of improvements within the Zone and to pay other Project Costs as necessary. The issuance of bonds by the Issuer is subject to the approval of the City by a resolution duly adopted by the City Council.

In accordance with the terms of the Tri-Party Agreement, the City established the Tax Increment Fund and has deposited therein all Tax Increments. During the term of the Tri-Party Agreement, the City is required to pay to the Issuer, on a monthly basis on the first business day of the month, all Contract Tax Increment then available in the Tax Increment Fund for deposit into the Pledged Revenue Fund established by the Issuer in the Indenture pursuant to the Tri-Party Agreement.

The Issuer is required by the Tri-Party Agreement to use the monies in the Pledged Revenue Fund in accordance with the description of the flow of funds outlined in the Plan.

The obligation of the City and the Zone to the Issuer under the Tri-Party Agreement is limited to the Contract Tax Increments of the City and the other Taxing Units, if any, which are received by the City. Currently, the City is the only Taxing Unit contributing Tax Increments to the Zone. The Tri-Party Agreement does not create any obligation on the City or the Zone which is payable from taxes or other moneys of the City other than the Contract Tax Increments which are collected by the City. The obligation of the City and the Zone to the Issuer shall be subject to the rights of any of the holders of bonds, notes or other obligations that have heretofore or are hereafter issued by the City or any other Taxing Units that may contribute Tax Increment to the Tax Increment Fund that are payable from or secured by a general levy of ad valorem taxes throughout the taxing jurisdiction of the City or any such other Taxing Units. In the Tri-Party Agreement, the City covenants and agrees, for so long as any Bond secured by Tax Increments is outstanding and unpaid, to annually assess, levy and collect its ad valorem taxes within the Zone.

The obligations of the City and the Zone to make payments to the Issuer from the sources and in the manner set forth in the Tri-Party Agreement are absolute and unconditional, and, until such time as all bonds and obligations incurred pursuant to the Tri-Party Agreement, including the Bonds, have been fully paid or provided for in accordance with their terms or the date of expiration of the Zone, whichever comes first, the City and the Zone will not suspend or discontinue any payments provided for in the Tri-Party Agreement and will not terminate the Tri-Party Agreement for any cause, including the failure of the Issuer to perform or observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or in connection with the Tri-Party Agreement.

The Tri-Party Agreement will terminate upon the termination of the Zone. A party may terminate its performance under the Tri-Party Agreement only upon default by another party. A default shall occur if a party fails to perform or observe any of the terms and conditions and such failure is not cured within the 30-day cure period. No termination of the Tri-Party Agreement, however, will affect the obligation of the City and the Zone to pay from Contract Tax Increment an amount that will permit the Issuer to pay its bonds, notes or other obligations issued or incurred pursuant to the Tri-Party Agreement prior to termination. The Tri-Party Agreement may be amended upon mutual written consent of the parties thereto.

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, 2010, 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 amounts necessary to make the amounts on deposit therein equal to the interest due on the Tax Increment Contract Revenue Bonds on the next succeeding Interest Payment Date;

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;

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 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 First through Fourth have been provided for.

The foregoing notwithstanding, after the deposits required by First through Fourth above have been made or provided for, the Trustee may make deposits as permitted by Fifth above in accordance with written directions executed by an Authorized Representative and approved by the City, provided that after such deposits and transfers required by First through Fourth above have been made, upon transferring funds as permitted by Fifth above, there shall be on deposit in the Pledged Revenue Fund moneys not less than $100,000 (the "Pledged Revenue Fund Balance").

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 Improvements Fund

The Public Improvements Fund shall initially be funded as provided in the Bond Resolution. The money and securities in the Public Improvement 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.

A. The Trustee is authorized and directed to make disbursements from the Public Improvements Fund and to issue its checks therefor or otherwise pay upon receipt of a requisition in accordance with paragraph B below. The Trustee shall keep and maintain adequate records pertaining to the Public Improvements Fund and all disbursements therefrom.

B. The Trustee shall use money in the Public Improvements 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 Improvements 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 Improvements 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 or any other agreement to which it is a party and has so certified.

INVESTMENT CONSIDERATIONS

Nonappropriation

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 IN ANY YEAR SUBSEQUENT TO A YEAR IN WHICH GRANT PAYMENTS ARE APPROPRIATED.

Other Obligations of the City

Grant Payments, if any, made by the City 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. 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.

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 October 1, 2009, 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, 2020, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2019, 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 Sinking Fund Redemption

The Bonds maturing on September 1 in the years 2025 and 2029 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity, in part at random, by lot or other customary method selected by the Paying Agent/Registrar, from the mandatory sinking fund payments set forth below, on September 1 on or after the first date upon which such mandatory sinking fund payments are to be made, at the principal amount thereof and accrued interest thereon to the redemption date, but without premium.

Term Bonds Maturing September 1, 2025

Mandatory Sinking Fund Redemption Date (September 1)	Mandatory Sinking Fund Payment
2022	$815,000
2023	845,000
2024	880,000
2025*	920,000

Term Bonds Maturing September 1, 2029

Mandatory Sinking Fund Redemption Date (September 1)	Mandatory Sinking Fund Payment
2026	$ 960,000
2027	1,000,000
2028	1,050,000
2029*	1,095,000

*Stated maturity.

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 Bond Resolution provides 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 Bond Resolution 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 its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that 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 City in the proceedings providing for the firm banking and financial arrangements (i) 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 Trustee the amount due under the Bond Resolution and the Indenture. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described herein.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 Paying Agent/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 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Bonds 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 Trustee, 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 Trustee, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Trustee, 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 Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

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

Paying Agent/Registrar

The Trustee will act as paying agent and registrar for the Bonds (as used herein, the "Paying Agent/Registrar"). 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 Summit, New Jersey (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 City 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 Bonds 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 or Certificates Called for Redemption

Neither the Corporation nor the Paying Agent/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.

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) 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.

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 in an aggregate principal amount not to exceed $50 million. The Corporation currently estimates that the total amount of bond indebtedness incurred by the Zone, including the Bonds, will not exceed $50 million. The Corporation currently does not anticipate any additional Parity Bonds will be issued prior to 2011. See "SECURITY AND SOURCE OF PAYMENT- Additional Parity Bonds".

Marketability of the Bonds

The Corporation has no understanding with the Underwriters 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".

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 adopted 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.

The Zone was effective on December 16, 2004 and shall terminate on December 31, 2045, or at an earlier time designated by the City Council by ordinance if the council determines in its sole discretion that the Zone should be terminated due to insufficient private investment, accelerated private investment or other good cause, or when all project costs and tax increment bonds, if any, including interest, have been paid in full. The base on values of real property within the Zone was established at zero, as the property within the boundaries of the Zone was publicly-owned. Tax increment revenues are those revenues generated from real property value increases in excess of the base value, are deposited to the tax increment fund established for the Zone, and shall be transferred to the Corporation in accordance with the terms of the Tri-Party Agreement.

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Mueller Local Government Corporation
Debt Service Requirements

Fiscal Year Ending 30-Sep	The Bonds Principal	Interest	Total	% of Principal Retired
2010	$ -	$ 527,828	$ 527,828	
2011	605,000	575,813	1,180,813	
2012	610,000	560,688	1,170,688	
2013	620,000	545,438	1,165,438	
2014	630,000	523,738	1,153,738	16.43%
2015	645,000	501,688	1,146,688	
2016	665,000	479,113	1,144,113	
2017	685,000	455,838	1,140,838	
2018	705,000	431,863	1,136,863	
2019	730,000	403,663	1,133,663	39.30%
2020	755,000	374,463	1,129,463	
2021	785,000	344,263	1,129,263	
2022	815,000	312,863	1,127,863	
2023	845,000	280,263	1,125,263	
2024	880,000	246,463	1,126,463	66.50%
2025	920,000	211,263	1,131,263	
2026	960,000	174,463	1,134,463	
2027	1,000,000	133,663	1,133,663	
2028	1,050,000	91,163	1,141,163	
2029	1,095,000	46,538	1,141,538	100.00%
	$ 15,000,000	$ 7,221,066	$ 22,221,066	

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 approximately 4,900 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 1,225 affordable units distributed throughout the community.

The project will also include more than three million square feet of commercial space with a wide range of uses including:

- The Dell Children's Medical Center of Central Texas (currently 515,000 square feet),
- 790,000 square feet of retail, including both regional retail, a market district 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 exceed $1 billion in 2009 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 circular service to connect to 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, new lakes, 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.

- 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

Current development of Mueller encompasses 324 acres of completed infrastructure, with a well established employment center and vibrant residential neighborhood. This includes completion of more than 50% or 75 acres of the open space planned, creating activated parklands.

In the northwest quadrant, 32 employers already provide more than 3,000 jobs at Mueller. Along with the Dell Children's Hospital in 2007, Strictly Pediatrics opened a 127,000 sq. ft. medical office building, Ronald McDonald House opened a 30,000 sq. ft. facility, and SEDL (Southwest Educational Development Laboratory) opened their 56,000 sq. ft. headquarters. In 2009 the 156,000 sq. ft. Seton Family of Hospitals headquarters and the 150,000 sq. ft. University of Texas' Dell Pediatric Research Institute were completed.

From the start of home sales in 2007, the community has been well received. As of January 1, 2009, approximately 472 single family residential homes were either under construction or being built and the first phase of the 441-unit apartment complex was within three months of its completion for occupancy. The home construction pace has held up with an additional 110 houses either completed or under construction in 2009 and the delivery of about 221 completed apartment units. With the completion of the first two phases of single family homes and the first apartment complex, approximately 1,100 families will have residences at Mueller. Catellus is currently working on the third phase single family residential lots. Approximately 100 additional homes are projected to be built when the phase is complete.

Retail Description

The first phase of the Mueller's established regional retail center opened in 2007, followed in 2008 by a second phase to more than 350,000 sq. ft in place. The tenant mix includes large format "power" retailers Home Depot, Best Buy, Bed Bath & Beyond and Old Navy complemented by small shops, services and restaurants like Starbucks, WhichWich?, Jamba Juice and Chipotle Grill. The center currently includes 28 stores with 17,000 sq. ft. of newly leased spaces added in 2009.

Catellus is currently in negotiations with retailers for a future market district to include a large format grocer and neighborhood serving stores. Additional retail along with restaurant and entertainment use is planned for a future town center.

THE MASTER DEVELOPMENT AGREEMENT

In December 2004, the City and Catellus executed the Master 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 Master 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.

The primary source of funding for the Master Development is proceeds from the sale of the land and other related revenues. These sources are projected to provide approximately 85 percent of total Master Development costs. In addition the Corporation issued $12 million in contract revenue bonds in August 2006 to provide additional funding.

At the end of the redevelopment, after all costs and land-sale proceeds are known, there will be a final accounting, and Catellus anticipates that it 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 is a master developer responsible for many of the most innovative and sustainable mixed-use and retail land developments in the United States. Catellus has a national reputation for developing inventive, highly functional communities that adhere to stringent sustainable design principles and add economic, social and environmental value to the communities they serve. Catellus specializes in the management and development of complex mixed-use real estate projects in locations across North America.

Catellus

Catellus formerly operated as a Real Estate Investment Trust (REIT) and was 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 a leading global provider of distribution facilities, with more than 475 million square feet of industrial space (44 million square meters) in markets across North America, Europe and Asia. The company leases its industrial facilities to more than 4,500 customers, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises with large-scale distribution needs.

ProLogis was founded in 1991 on a single, core idea: that it could create exceptional value by focusing on service and forging close, long-term ties with the companies it serves. Traditionally, industrial developers had been transaction-focused rather than service-oriented. From its earliest days, ProLogis has embraced a different approach, seeking to become a valued business partner for its customers in an era of revolutionary change in manufacturing and distribution.

Since going public in 1994, ProLogis has grown from $400 million in assets under management in the United States to a global portfolio of properties in 18 countries, comprising over $32 billion in assets. ProLogis continues to offer its customers the most modern and geographically diverse platform of distribution space in the world, enhanced by unparalleled customer service and an unwavering commitment to sustainability.

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SELECTED INFORMATION FOR THE CITY OF AUSTIN, TEXAS

GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

(Amounts are in thousands)

	Fiscal Year Ended September 30				
	2004	2005	2006	2007	2008
Revenues:					
Taxes (1)	$281,720	$264,786	$294,344	$326,576	$347,961
Franchise Fees	29,018	28,973	30,677	32,275	35,577
Fines, Forfeitures and Penalties	16,976	17,529	18,832	16,094	18,946
Licenses, Permits and Inspections	15,317	17,399	22,131	25,635	24,268
Charges for Services	15,565	23,064	24,453	26,357	29,175
Interest and Other	19,168	10,691	15,882	13,602	12,639
Total Revenues	$377,764	$362,442	$406,319	$440,539	$468,566
Expenditures:					
Administration	$ 8,199	$ 8,699	$ 9,018	$ 10,607	$ 11,592
Urban Growth Management	10,246	15,205	16,701	18,886	20,692
Public Safety	262,086	296,335	323,006	352,149	384,081
Public Services and Utilities	8,669	473	262	297	340
Public Health	15,728	26,715	29,824	32,545	34,823
Public Recreation and Culture	43,255	45,145	47,599	53,213	58,919
Social Services Management	9,579	0	0	0	0
Nondepartmental Expenditures	46,983	52,044	54,494	68,170	65,112
Total Expenditures	$404,745	$444,616	$480,904	$535,867	$575,559
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	$ (26,981)	$ (82,174)	$ (74,585)	$ (95,328)	$(106,993)
Other Financing Sources (Uses):					
Capital Leases	$ 634	$ 932	$ 0	$ 0	$ 0
Transfers from Other Funds	95,894	94,451	97,658	107,241	116,311
Transfers to Other Funds	(48,766)	(14,154)	(16,611)	(16,907)	(27,438)
Net Other Financing Sources	$ 47,762	$ 81,229	$ 81,047	$ 90,334	$ 88,873
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	$ 20,781	$ (945)	$ 6,462	$ (4,994) (2)	$ (18,120)
Special Item – Hospital District Reserve	(7,700)	0	0	0	0
Fund Balances at Beginning of Year	93,206	106,287	105,342	111,804	106,810
Fund Balances at End of Year	$106,287	$105,342	$111,804	$106,810	$ 88,690 (3)

(1) Consists of property, sales and mixed drinks tax.

(2) The City's financial policies were amended in 2006 to establish a budget stabilization reserve in the General Fund. The policies allow the expenditure of one-third of this reserve in any given year to fund capital or other one-time costs. During 2006 and 2007, the City allocated reserve funds to pay for capital and one-time costs that had been deferred during fiscal years 2002 through 2004.

(3) In addition to the budget stabilization reserve, the ending balance includes a contingency reserve of approximately $5.7 million and an emergency reserve of $40 million.

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
2000	$194.31	$122,157	68.16%
2001	186.23	123,218	63.80%
2002	172.03	115,441	52.55%
2003	163.70	110,454	47.34%
2004	173.44	117,725	48.79%
2005	177.64	123,617	56.14%
2006	196.75	139,289	60.06%
2007	211.43	153,098	61.32%
2008	207.00	154,445	55.70%
2009 (1)	181.47	139,001	45.32%
2010 (2)	169.83	132,051	39.13%

(1) Estimate
(2) Estimate used in FY 2010 Approved 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
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	94,116	20.9%
2006	97,658	20.3%
2007	106,471	20.0%
2008	115,629	19.8%
2009 (1)	121,505	20.6%
2010 (2)	128.967	21.0%

(1) Estimate
(2) Estimate used in FY 2010 Approved Budget.

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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 property's market value in the most recent tax year in which the market value was determined by the appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

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

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

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

Section 1-b, Article VIII of the Texas Constitution, and State law authorize a county, city, town or junior college district to establish an ad valorem tax freeze 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 residence homestead exemption for persons who are disabled or sixty-five years of age or older may not be increased, 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 tax limitation applicable to a person's homestead may be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

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

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

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

Article VIII, Section 1-j of the Texas Constitution provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. In addition, Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods in transit." "Goods in transit" is defined as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. The Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods in transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods in transit exemptions for items of personal property. Freeport property is exempt from taxation by the City; and, the City has taken action to tax goods-in-transit.

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 create one or more tax increment financing districts ("TIF") within the City and freeze the taxable values of real property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF. The City may also 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.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public fund for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City has entered into several such Chapter 380 agreements in recent years.

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Tax Valuation

January 1, 2009 Appraised Valuation (1)		$91,479,975,535
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead over 65	$1,295,136,718	
Homestead 10% Increase Cap	1,710,771,380	
Disabled Veterans	84,905,694	
Agricultural and Historical Exemptions	480,325,104	
Disability Exemption	130,058,422	
Other Exemptions	6,570,995,694	
Freeport Exemption	1,030,750,797	11,302,943,810
January 1, 2009 Net Taxable Assessed Valuation (1)		$80,177,031,725

(1) 2009 Certified Appraised Value includes $ 6,429,455,352 in property in the appeals process.

(2) Exemptions or adjustments to assessed valuation granted in 2009 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, 2009)

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

Public Improvement Bonds	$853,065,000	
Certificates of Obligations	120,495,000	
Contractual Obligations	76,240,000	
Assumed Bonds (1)	7,395,000	
Total		$1,057,195,000
Less Self-Supporting Debt:		
Assumed Bonds (1)	$ 6,681,368	
Airport (2)	275,727	
Austin Energy (2)	1,352,968	
City Hall (2)	26,506,074	
CMTA Mobility (3)	11,620,000	
Convention Center (2)	26,516,758	
Financial Services (2)	24,381,917	
Fleet Management (2)	5,066,521	
Golf (4)	3,934,053	
One Texas Center (2)	10,910,000	
PARD – Zilker Park	2,500,000	
Solid Waste (2)	49,774,101	
Transportation (2)	13,326,209	
Water and Wastewater (2)	18,406,540	
Watershed Protection (2)	10,607,947	
Total Self-Supporting		$ 211,860,183
Interest and Sinking Fund, All Public Improvement Bonds (4)		18,723,919
Self-supporting General Fund Payments (5)		10,142,213
Net Debt (5)		$ 816,468,685
Ratio Total Debt to FY 2009 Net Taxable Assessed Valuation		1.38%
Ratio Net Debt to FY 2009 Net Taxable Assessed Valuation		1.07%

2009 Population (Estimate) – 765,957 (6)
Per Capita Net Taxable Assessed Valuation – $99,816.91
Per Capita Net Debt Outstanding – $1,065.95

(1) Represents bonds of utility districts annexed by the City.
(2) Airport, Austin Energy, City Hall, 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, 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. Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.
(3) 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.
(4) Represents estimate of cash plus investments at cost on September 30, 2009.

(5) 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.
(6) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

Revenue Debt (As of September 30, 2009)

In addition to the above, on a pro forma basis, the City had outstanding $217,913,234 Combined Utility Systems Revenue Bonds payable from a first lien on the combined net revenue of the Electric System and the Water and Wastewater System and $240,974,512 Combined Utility Systems Revenue Bonds payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System; $1,025,940,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System; $1,476,745,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and $340,248,000 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 $349,440,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding $232,230,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

Obligations Subject to Annual Appropriation

With respect to the redevelopment of Mueller, the City entered into the Development Agreement with Catellus, effective as of December 2, 2004, and in the Development Agreement, the City agreed to issue debt to finance certain "Public Finance Reimbursable Project Costs" either directly or through the auspices of a local government corporation to be created by the City. The City has entered into a economic development grant agreement (the "2006 Grant Agreement") with the Corporation. Under the terms of the 2006 Grant Agreement, the City will make grant payments to the Corporation from the General Fund, subject to annual appropriation by the City, in amounts sufficient to pay debt service on bonds issued by the Corporation to fund Public Finance Reimbursable Project Costs and pay administrative costs associated with such bonds. It is anticipated that sales tax revenues generated by properties developed at Mueller will be sufficient to fund the grants throughout the term of the 2006 Grant Agreement. $12,000,000 in Contract Revenue Bonds were issued in 2006 (the "2006 Bonds") by the Corporation to finance Public Finance Reimbursable Project Costs. As of the date of the Official Statement, the City has appropriated $1,057,853 in funds to fund payments under the 2006 Grant Agreement, transferred such funds to the Corporation, and the Corporation has used such funds to pay debt service on the 2006 Bonds and pay fees of the trustee for the 2006 Bonds. The 2006 Bonds are not secured with Contract Tax Increments, and are not on a parity with the Bonds.

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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
2000	628,667	$35,602,840,326	$ 56,632.27	$540,283	$ 859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	861,158	1,283.31	1.80%	99.23%
2003	674,719	50,759,650,668	75,230.80	891,334	1,321.04	1.76%	99.60%
2004	683,551	48,964,275,008	71,632.22	948,997	1,388.33	1.94%	98.90%
2005	695,881	49,702,906,522	71,424.93	925,423	1,329.86	1.86%	99.60%
2006	714,237	52,349,642,297	73,294.50	936,104	1,310.63	1.79%	100.32%
2007	732,381	60,512,328,889	82,624.11	862,253	1,177.33	1.42%	100.20%
2008	746,105	68,736,790,926	91,386.91	901,253	1,207.94	1.32%	99.56%
2009	765,957	76,455,460,639	99,816.91	817,259	1,066.98	1.07%	99.47% (3)
2010	777,559	80,177,031,725 (4)	103,113.76	915,981 (5)	1,178.02 (5)	1.14%	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, 2009 based on the July 2009 Certified Tax Roll tax levy.
(4) Certified taxable value for the 2009 tax year.
(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
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 (1)	0.4430	0.2747	0.1683	220,183,876	98.97%	99.60%
2006	0.4430	0.2841	0.1589	231,908,915	99.55%	100.32%
2007	0.4126	0.2760	0.1366	249,673,869	99.61%	100.20%
2008	0.4034	0.2730	0.1304	277,284,215	99.14%	99.56%
2009	0.4012	0.2749	0.1263	306,739,308	98.79% (2)	99.47% (2)
2010	0.4209	0.2950	0.1259	337,456,127 (3)	N/A	N/A

(1) The total tax rate decreased by 6.35¢ as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new County wide hospital district, which resulted in public health services previously provided by the City to be provided by the hospital district. (See "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes".)
(2) Estimated collections as of June 30, 2009 based on the July 2009 Certified Tax Roll tax levy.
(3) Projected.

Ten Largest Taxpayers (1)

Name of Taxpayer	Nature of Property	January 1, 2009 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Samsung Semiconductor LLC	Manufacturing	$1,389,941,494	1.73%
Thomas Property Group LLC	Commercial	654,674,179	0.82%
St. David's HealthCare	Commercial	362,093,926	0.45%
Freescale Semiconductor Inc.(2)	Manufacturing	346,685,378	0.43%
Dell Computer Corporation	Manufacturing	333,194,017	0.42%
Advanced Micro Devices Inc	Manufacturing	281,357,924	0.35%
IBM Corporation	Manufacturing	255,793,064	0.32%
Spansion LLC (3)	Manufacturing	237,133,802	0.30%
Shopping Center at Gateway LP	Commercial	211,160,347	0.26%
Brandywine Acquisition Partners LP	Commercial	202,117,918	0.25%
TOTAL		$4,274,152,049	5.33%

(1) Six of the companies represent computer technology manufacturers.
(2) The Motorola Corporation released a portion of its operations to form Freescale Semiconductor Inc.
(3) The Advanced Micro Devices corporation released a portion of its operations to form Spansion LLC.
Source: Travis Central Appraisal District.

Property Tax Rate Distribution

	Fiscal Year Ended September 30				
	2006	2007	2008	2009	2010
General Fund	$.2841	$.2760	$.2730	$.2749	$.2950
Interest and Sinking Fund	.1589	.1366	.1304	.1263	.1259
Total Tax Rate	$.4430	$.4126	$.4034	$.4012	$.4209

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Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended 9-30	Valuation Date	Real Property Amount	Real Property % of Total	Personal Property Amount	Personal Property % of Total	Net Taxable Assessed Valuation	Total Tax Levy	% Current Collections	% Total Collections
2000	1-1-99	$30,114,175,223	84.58%	$5,488,665,103	15.42%	$35,602,840,326	$179,224,698	99.08%	99.85%
2001	1-1-00	35,257,000,679	85.23%	6,110,383,576	14.77%	41,419,314,286	193,138,262	98.98%	99.60%
2002	1-1-01	40,775,710,666	85.34%	7,007,162,430	14.66%	47,782,873,096	219,657,867	98.81%	99.23%
2003	1-1-02	44,261,013,540	87.20%	6,498,637,128	12.80%	50,759,650,668	233,342,114	98.84%	99.60%
2004	1-1-03	42,832,762,815	87.48%	6,131,512,193	12.52%	48,964,275,008	241,295,947	99.06%	98.90%
2005	1-1-04	43,662,323,952	87.85%	6,040,582,570	12.15%	49,702,906,522	220,183,876 (1)	98.97%	99.60%
2006	1-1-05	46,492,828,677	88.81%	5,856,813,620	11.19%	52,349,642,297	231,908,915	99.55%	100.32%
2007	1-1-06	53,724,137,471	88.78%	6,788,191,418	11.22%	60,512,328,889	249,673,869	99.61%	100.20%
2008	1-1-07	61,455,307,904	89.41%	7,281,483,022	10.59%	68,736,790,926	277,284,215	99.14%	99.56%
2009	1-1-08	68,524,326,704	89.63%	7,931,133,935	10.37%	76,455,460,639	306,739,308	98.79% (2)	99.47% (2)
2010	1-1-09	72,029,659,502	89.84%	8,147,372,223	10.16%	80,177,031,725	337,456,127	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 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, 2009 based on the July 2009 Certified Tax Roll tax levy.

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Tax Rate Limitation

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

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

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

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

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

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DEBT INFORMATION (a)

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 (b)	Net Total Requirements	Percent Principal Payout
2010	98,780,222	14,894,066	17,115,200	997,573	131,787,060	33,639,470	98,147,590	
2011	92,873,198	15,008,674	16,715,915	1,001,480	125,599,267	34,383,394	91,215,873	
2012	85,361,403	14,758,478	14,435,442	1,003,240	115,558,562	33,135,323	82,423,239	
2013	85,161,127	9,509,346	11,330,063	1,017,960	107,018,495	29,017,366	78,001,129	
2014	80,280,818	11,603,260	9,044,700	1,214,635	102,143,413	25,543,195	76,600,217	35.55%
2015	79,693,753	9,141,851	7,439,773	1,213,546	97,488,923	20,830,660	76,658,263	
2016	72,374,361	9,183,555	4,778,570	1,229,024	87,565,510	18,467,886	69,097,624	
2017	78,328,131	7,857,962	1,830,065	1,011,643	89,027,800	15,127,880	73,899,919	
2018	77,136,148	7,160,563	855,216	716,688	85,868,614	11,243,149	74,625,466	
2019	71,202,069	9,774,718	613,638		81,590,424	11,002,650	70,587,774	65.01%
2020	65,899,641	9,725,310	309,956		75,934,907	10,328,231	65,606,675	
2021	56,412,343	11,090,830			67,503,174	10,531,247	56,971,927	
2022	49,402,403	9,322,053			58,724,456	7,911,609	50,812,847	
2023	42,316,377	6,619,368			48,935,745	5,181,936	43,753,809	
2024	34,995,420	6,294,641			41,290,061	4,897,599	36,392,462	86.73%
2025	29,153,090	4,362,572			33,515,662	2,954,684	30,560,978	
2026	33,970,055	3,798,335			37,768,390	2,565,711	35,202,679	
2027	52,979,669	1,880,202			54,859,871	799,606	54,060,265	
2028	20,270,321	1,593,813			21,864,133	704,500	21,159,633	
2029	6,534,486	707,870			7,242,356	707,870	6,534,486	99.71%
2030		384,920			384,920	384,920	0	
2031		388,640			388,640	388,640	0	
2032		386,655			386,655	386,655	0	
2033		389,200			389,200	389,200	0	
2034		391,040			391,040	391,040	0	99.84%
2035		392,175			392,175	392,175	0	
2036		397,450			397,450	397,450	0	
2037		396,775			396,775	396,775	0	
2038		400,388			400,388	400,388	0	
2039		398,050			398,050	398,050	0	100.00%

(a) As of September 30, 2009

(b) Includes principal and interest on all self-supporting debt (see "Statement of Debt", p. 22).

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-08) (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 the major taxing bodies in the area.

Taxing Jurisdiction	Total Funded Debt	Estimated % Applicable	Overlapping Funded Debt
Austin, City of	$830,016 (1)	100.00%	$ 830,016
Austin Community College	96,479	91.47%	88,249
Austin Independent School District	703,244	77.79%	547,054
North Austin MUD #1	6,235	100.00%	6,235
Northwest Travis County Road District #3	13,300	100.00%	13,300
Round Rock Independent School District	502,242	5.40%	27,121
Travis County	539,050	73.14%	394,261
Del Valle Independent School District	167,482	3.90%	6,532
Eanes Independent School District	133,590	3.62%	4,836
Leander Independent School District	946,879	1.52%	14,393
Manor Independent School District	199,446	2.52%	5,026
Pflugerville Independent School District	387,484	4.89%	18,948
Williamson County	693,722	4.09%	28,373
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT			$1,984,344
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (2)			2.89%
Per Capita Overlapping Funded Debt (3)			$2,659.60

(1) Excludes general obligation debt reported in proprietary funds.
(2) Based on assessed valuation of $68,736,790,926 provided by the Travis Central Appraisal District and Williamson County Appraisal District.
(3) Based on 2008 estimated population of 746,105.
Source: Outstanding debt and percentage of overlapping area with the City are provided by the taxing jurisdictions.
Note: Overlapping governments are those that coincide, as least in part, with the geographic boundaries of the City. This schedule estimated the portion of the outstanding debt of those overlapping governments that is borne by the City residents and businesses. This process recognized that, when considering the City's ability to issue and repay long-term debt, the entire debt borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

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Authorized General Obligation Bonds

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Unissued Balance
Brackenridge 2000	10-22-83	$ 50,000,000	$ 40,785,000	$ 9,215,000
Parks Improvements	09-08-84	9,975,000	9,648,000	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	5,395,000
Street Improvements	11-07-00	150,000,000	133,002,000	16,998,000
Transportation (Prop 1)	11-07-06	103,100,000	49,860,000	53,240,000
Drainage Improvements (Prop 2)	11-07-06	145,000,000	83,000,000	62,000,000
Park Improvements (Prop 3)	11-07-06	84,700,000	31,445,000	53,255,000
Cultural Arts (Prop 4)	11-07-06	31,500,000	11,000,000	20,500,000
Affordable Housing (Prop 5)	11-07-06	55,000,000	13,500,000	41,500,000
Central Library (Prop 6)	11-07-06	90,000,000	500,000	89,500,000
Public Safety Facility (Prop 7)	11-07-06	58,100,000	40,850,000	17,250,000
TOTAL		$797,660,000	$428,480,000	$369,180,000

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2010. 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.

INVESTMENTS

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

Legal Investments

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

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

Effective September 1, 2005, the City, as the owner of a municipal electric utility that is engaged in the sale of electric energy to the public, may invest funds held in a "decommissioning trust" (a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation) in any investment authorized by Subtitle B, Title 9, Texas Property Code (commonly referred to as the "Texas Trust Code"). The Texas Trust Code provides that a trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.

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

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

Investment Policies

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

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

Additional Provisions

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

Current Investments

As of June 30, 2009, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	8.6%
U. S. Agencies	50.3%
Money Market Funds	3.7%
Local Government Investment Pools	37.4%

The dollar weighted average maturity for the combined City investment portfolios is 1.04 years. The City prices the portfolios weekly utilizing a market pricing service.

CONTINUING DISCLOSURE OF INFORMATION

In the Indenture, the Corporation has made the following agreement for the benefit of the 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 quantitative financial information and operating data with respect to the Corporation of the general type included in the main text of the Official Statement within the various tables and in APPENDIX B. The Corporation will update and provide this information as of the end of each fiscal year within six months after the end of each fiscal year. The Corporation will provide in accordance with prescribed procedures the updated information to the Municipal Securities Rulemaking Board (the "MSRB") through the "EMMA" information system.

The Corporation may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the "Rule"), promulgated by the United States Securities and

Exchange Commission (the "SEC"). The updated information will include audited financial statements, if the Corporation 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 audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the Corporation may be required to employ from time to time pursuant to State law or regulation.

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

Material Event Notices

The Corporation will also provide timely notices of certain events 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 Tax-Exempt Bonds; (7) modifications to rights of Holders of the Bonds; (8) redemptions; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. 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 the MSRB.

Availability of Information

Effective July 1, 2009, with respect to obligations such as the Bonds, all such information must be filed with the MSRB. The MSRB intends to make the information available to the public without charge through an internet portal.

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

Compliance with Prior Undertakings

Since its creation and issuance of bonds in 2006, the Corporation has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

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 are obligations described in Section 1503 of The American Recovery and Reinvestment Act of 2009, and accordingly, the interest will not be included in the owner's alternative minimum taxable income under section 55 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 C - Form of Bond Counsel's Opinions.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of 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 any series 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 any series of 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 Issuer 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 any series 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 of 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 the 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 BONDS 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 a rating of "AA+" by Standard & Poor's Rating Services, a Division of The McGraw-Hill Companies ("S&P"). The presently outstanding tax supported debt of the City is rated "AAA" by S&P, "AA+" by Fitch and "AA1" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and neither the Corporation nor the City make any 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. Neither the Corporation nor the City 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 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 City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Legal Investments and Eligibility to Secure Public Funds in Texas

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 at least "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 City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the 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 City 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 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. 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 was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "SECURITY AND SOURCE OF PAYMENT" (exclusive of the subcaptions "Historical Assessed Valuation Applicable to the Zone", "Top Ten Taxpayers in the Zone (Certified Tax Roll)" and "Projected Revenue Adequacy for the Bonds"), "BOND INFORMATION" (exclusive of the subcaptions "Book-Entry-Only System", "Bondholder Remedies" and "Marketability of the Bonds"), "THE CORPORATION AND THE ZONE", "CONTINUING DISCLOSURE OF INFORMATION" (exclusive of the subcaption "Compliance with Prior Undertakings"), "TAX MATTERS", "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS" and the subcaptions "OTHER RELEVANT INFORMATION - Registration and Qualification," "OTHER RELEVANT INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION - Legal Opinions and No-Litigation Certificate" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues purported to be addressed therein and, with respect to the Bonds, such information conforms to the Bond Resolution and the Indenture. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by their counsel, Bracewell & Guiliani LLP, Houston, Texas. 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.

Underwriting

The Underwriter has agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the Corporation at a price equal to the par amount of the Bonds, less an underwriting discount of $80,238.75. The Underwriter will be obligated to purchase all the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. Certain legal matters will be passed on for the Underwriter by their counsel Bracewell & Guiliani LLP, Houston, Texas. The fee to be paid to the counsel for the Underwriter is contingent on the delivery of the Bonds.

Authenticity of Financial Data and Other Information

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

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Indenture adopted by the City Council on August 27, 2009.

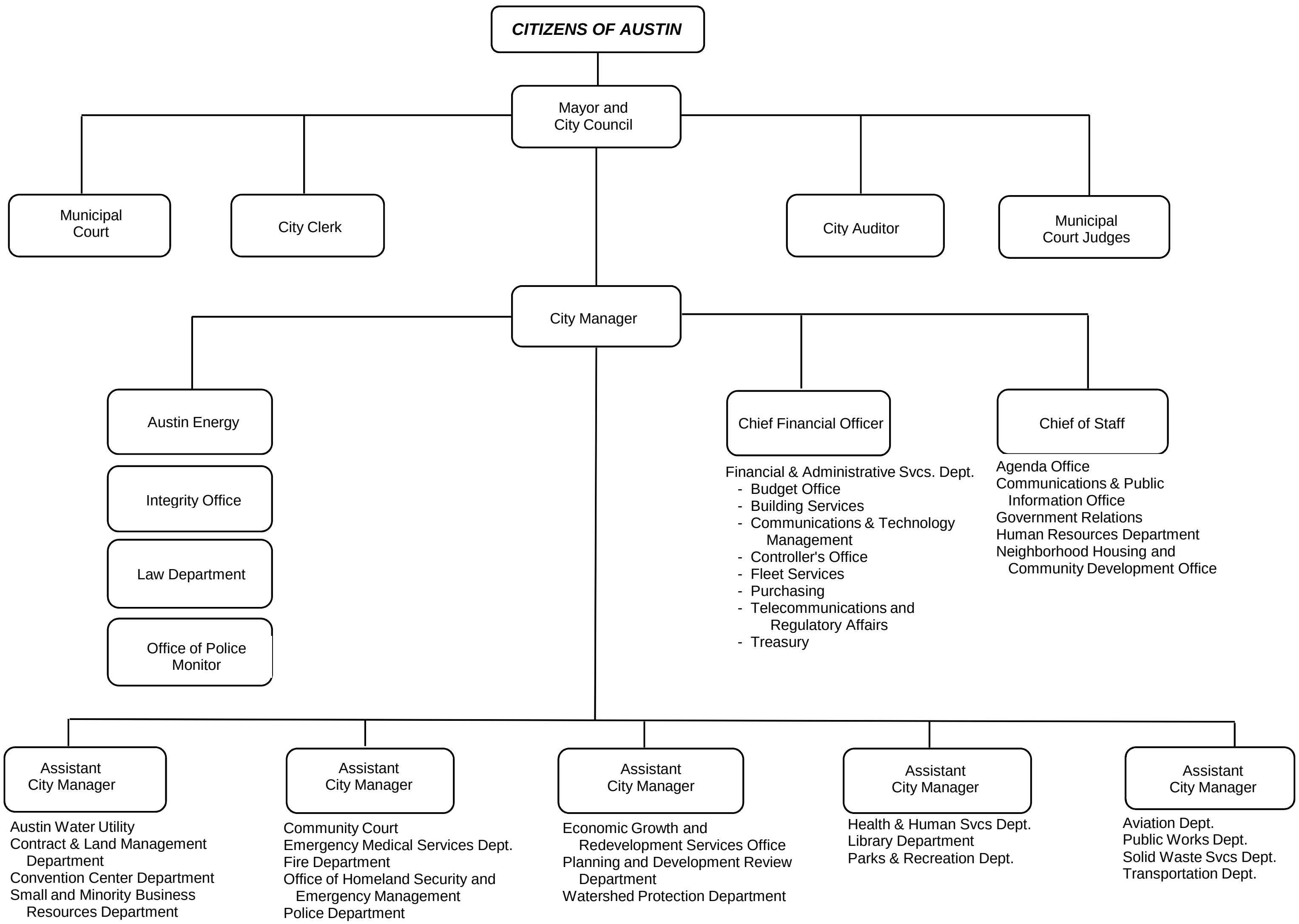
/s/ Marc A. Ott
President
Mueller Local Government Corporation

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

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

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

City Manager – Marc A. Ott

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

Chief Financial Officer – Leslie Browder, CPA

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

Services Provided by the City

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

Employees

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

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

Pension Plans

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

The Police Officers contribute 13.0% and the City contributes 18.25% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 15.7% of payroll, and the City contributes 18.05%.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund over 35.4 years as of December 31, 2008. As of December 31 2008, the amortization period of the unfunded actuarial accrued liability for the Municipal Employees Fund was infinite. As of December 31, 2007, the amortization period of the unfunded actuarial accrued liability for the Firefighters Fund was 0.6 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2008 was $2,246,903,861 and the funded ratio was 65.9%. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2008 was $693,202,499 and the funded ratio was 67.0%. The actuarial accrued liability for the Firefighters Pension Fund as of December 31, 2007, was $586,802,156 and the funded ratio was 99.6%.

As reported in the actuarial valuation of the Municipal Employees Fund prepared for the period ending December 31, 2008, current contributions to the Municipal Employees Fund are not sufficient to adequately fund the current benefit structure. Although the Municipal Employees Fund has had an infinite funding period since December 31, 2002, investment losses in 2008 of -25.9% led to a significant decrease in the actuarial funded ratio and a significant increase to the unfunded actuarial accrued liability. Although a Supplemental Funding Plan ("SFP") was implemented in 2005 to address the previous infinite funding period, it is no longer sufficient to address the losses incurred in 2008. For FY 2009, the City is contributing an additional 2% pursuant to the terms of the SFP; and is obligated to increase the rate to 3% in FY 2010. However, due to the financial status of the Municipal Employees Fund, the City has approved the acceleration of the SFP to the maximum contribution rate of 4%. Additionally, the City is evaluating future benefits to ensure adequate funding for 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 health care and insurance benefits to its retirees. Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these benefits. Post retirement benefits include health, dental, vision, and $1,000 of life insurance. The City pays a portion of the retiree's medical insurance premiums and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection and years of service. The City pays the entire cost of the premium for life insurance for the retiree.

The City recognizes the cost of providing these benefits as payroll expenses/expenditures in an operating fund with corresponding revenue in the Employee Benefits Fund and are funded on a pay-as-you-go basis. The estimated cost of providing these benefits for 2,956 retirees was $21.0 million in 2008, $16.9 million in 2007 for 2,800 retirees, $15.7 million in 2006 for 2,682 retirees and $13.3 million in 2005 for 2,554 retires.

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

As of September 30, 2008, the City's unfunded actuarial accrued liability is approximately $1 billion; the net OPEB obligation is $87.5 million. The City has engaged a subsequent actuarial study to utilize for the City's FY 2009 CAFR. The City has worked with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to assess the effect these would have on reducing retiree benefits or developing other cost-sharing strategies. Cost reduction strategies have also been implemented. Recently, the City self insured its Health Maintenance Organization (HMO) medical plan which the City believes will result in significant medical cost savings during Calendar Year 2009 and beyond.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to fifth party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately $7.8 million for claims and damages at the end of fiscal year 2008. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

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.

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2009-2010 Capital Budget

The 2009-2010 five-year Capital Improvement Program (CIP) plan was reviewed by the Planning Commission, the Bond Oversight Committee and other boards and commissions. Public input was received at a public hearing held by the Planning Commission and the Bond Oversight Committee. The plan estimates city-wide capital spending in 2009-2010 of $388.7 million in enterprise funds and $240.0 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 2009-2010 Capital Budget. Total new approved appropriation for General Government CIP Funds is $125.1 million and total new approved appropriation for Enterprise CIP Funds is $602.1 million. Appropriation by department is listed below.

Summary of 2009-2010 Approved Capital Budget (millions):	
Austin Energy	$199.1
Austin Water Utility	334.2
Aviation	27.0
Convention Center	6.0
Solid Waste Services	13.5
Watershed Protection	22.3
Enterprise Appropriations	$602.1
Communications & Technology Management	$ 3.7
Financial & Administrative Services	3.6
Fleet	0.5
Neighborhood Housing & Community Development	7.3
Parks & Recreation	24.3
Planning & Development Review	0.6
Public Works	55.9
Watershed Protection	29.2
General Government Appropriations	$125.1
TOTAL APPROVED NEW APPROPRIATIONS	$727.2

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

2009–2010 Budget (Amounts are in thousands)

The 2009-2010 operating budget was presented on July 22, 2009, and was prepared in accordance with guidelines provided by the City Council. The budget was approved by the City Council on September 14, 2009. The approved budget includes a total tax rate of $0.4209 per $100 assessed valuation, which is based on the 2009 certified tax roll. The property tax revenue in the approved budget is not significantly different with the revised tax rates. The following is a summary of the approved 2009-2010 General Fund Budget.

Beginning Balance, October 1, 2009 (Budget Basis) (000's omitted)		$ 0
Summary of Budgeted General Fund Resources		
Revenue:		
General Property Taxes	$232,473	
City Sales Tax	132,051	
Other Taxes	5,971	
Gross Receipts/Franchise Fees	34,082	
Miscellaneous	79,727	
Total Revenue		484,304
Transfers In:		
Electric Light and Power System	100,000	
Water and Wastewater System	28,967	
Total Transfers In		128,967
Total General Fund Resources		613,271
Summary of Budgeted General Fund Requirements		
Departmental Appropriations:		
Administrative Services	11,820	
Urban Growth Management	19,389	
Public Safety	403,776	
Public Works	350	
Public Health and Human Services	38,708	
Public Recreation and Culture	60,518	
Total Departmental Appropriations		534,561
Transfers Out:		
Support Services Fund	27,019	
Other Funds	29,420	
Total Transfers Out		56,439
Other Requirements		22,271
Total General Fund Requirements		613,271
Use of Beginning Balance		0
Ending Balance		0
One-Time Critical Equipment		7,193
Transfer to/from Budget Stabilization Reserve		(7,193)
Adjusted Ending Balance		0
Budgeted Reserve Requirements		
Emergency Reserve		40,000
Contingency Reserve		5,958
Budget Stabilization Reserve Fund		21,412
Total Budgeted Reserve Requirements		$ 67,370

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.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

The following information has been presented for informational purposes only.

General Information

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

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with an estimated population of more than 746,000 in 2008. Over the past ten years, Austin's population has increased by approximately 127,000 residents, or 20.5 percent. Geographically, Austin consists of approximately 298 square miles. The current estimated median household income and per capita income for the Austin-Round Rock Metropolitan Statistical Area (MSA) is $46,340 and $39,010, respectively.

Austin is frequently recognized as a great place to live. According to a study by American Cities Business Journals, Austin ranked as the 2nd best US city for opportunities for young adults and Bizjournals.com ranked Austin as the 2nd best job market in the nation. In July 2008, *Kiplinger's Personal Finance* ranked Austin 6th as the best city to live, work and play, based on the strong economy, solid and moderate housing market, growing population and natural beauty of Austin and the surrounding region.

Travel + Leisure ranked Austin high in America's favorite cities in several categories: 2nd in friendliness and athleticism; 3rd in intelligence and attractiveness and 2nd for bands and live music. *MovieMaker* magazine names Austin as one of the top ten cities in America to live and make movies. Austin offers a wide variety of entertainment, with music as a special element. Known as the "Live Music Capital of the World," Austin has more than 120 live music venues and is host to the annual South by Southwest and Austin City Limits music festivals. Austin's culture, business opportunities, overall health and environmental concerns led *Hispanic Magazine* to include Austin in its list of top ten cities for Latinos in the U.S.

The City also offers a broad range of educational opportunities. Austin is a highly educated city, with approximately 43 percent of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 27 percent for the U.S. as a whole. With its seven institutions of higher learning and more than 121,000 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin (UT), the sixth largest public university in the nation, is known as a world-class center of education and research.

Recent Economic Performance

While Austin's economy began slowing in 2008, it still outperformed many other areas of the country in creating and sustaining jobs and economic growth, and ranked fourth on the Milken Institute and Greenstreet Real Estate Partners' 2008 Best Performing Cities list. Forbes.com also recognized Austin as the number one best-value city in 2008, based on a combination of job growth, affordable housing and cost of living. Since 1999, employment in Austin increased by more than 113,000 jobs. The Bureau of Labor Statistics reports the 2008 Austin MSA employment base at 822,000, a loss of approximately 2,000 from 2007 and unemployment rose from 3.6 percent in 2007 to 5.2 percent at the end of 2008, which is below both the state and national levels.

The Texas economy performed better than the U.S. economy during 2008, and while the state's economy began cooling in 2008, jobs creation continued. According to the *Monthly Review of the Texas Economy* report for January 2009 published by The Real Estate Center at Texas A&M University, the U.S. economy lost more than 2.8 million jobs from December 2007 to 2008, while Texas gained over 154,000 jobs during that same period, resulting in a 1.5 percent growth rate. According to the Bureau of Labor Statistics, Texas ended the year with an unemployment rate of 5.7 percent. The *Southwest Economy*, published by the Federal Reserve Bank of Dallas attributes the comparatively better performance of the Texas economy to the rest of the nation to the better condition of Texas' housing sector, energy industry and its lower costs of living and doing business.

The national economy continued the recession that began in December 2007, caused by a combination of the housing market collapse, credit crunch, and financial turmoil. The Bureau of Labor Statistics reports that the unemployment rate fluctuated between 4.8 and 7.1 percent during the year, ending the year at 7.1 percent. The Texas Consumer Price Index (CPI-U), as reported by the Texas Comptroller, shows a slight increase of 0.3 percent from December 2007 to 2008, which compares to the increase of 0.1 percent for the same period at the national level, as reported by the U.S. Department of Labor. The Bureau of Labor Statistics cited declining energy prices, particularly gasoline, as the driving factor for the smallest calendar year increase since 1954.

Home sales are an important indicator of the local and national economy. In the Austin market, annual home sales declined, as did sales at both the state and national level. Data compiled by the Real Estate Research Center at Texas A&M shows Austin sales declined by 20.2 percent, with an ending inventory of 5.4 months. Texas sales also decreased, with annual home sales declining 15.9 percent, and an ending inventory of 6.4 months. National sales of existing homes declined 13.1 percent from 2007 to 2008, the lowest sales volume since 1997. The total nationwide housing inventory at the end of the year was a 9.3 month supply, 72 percent higher than that of Austin.

Economic Outlook

The Federal Reserve has predicted that the national economy will continue to shrink and unemployment will rise in 2009, and that the pace of recovery will be slow in 2010 and pick up speed in 2011. One of the region's leading economists, Angelos Angelou, expects Austin's retail sales to decrease slightly through 2009 as the effects of the weaker housing market and slower national economy dampen consumer spending and forecasts Austin's economy to experience sluggish job growth in 2009 before returning to form in 2010.

According to the *Financial Times* of London and as reported in the Texas Comptroller's *Fiscal Notes,* Texas is the top U.S. state in terms of its ability to weather the current economic challenges, citing Texas' employment growth rate and low income foreclosure rate among the reasons. Overall rankings were based on an average of four economic indicators: employment growth rate, gross state product growth rate, personal income growth rate and lowest foreclosure rate. The Texas Comptroller's Office reports that Texas appears to be avoiding the worst of the economic meltdown and that most of the national forecasts state that Texas looks better than the rest of the nation due to a better employment situation.

Long-term Financial Planning

A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a planning tool in developing the following year's operating budget. The City's budget approach emphasizes not spending any more in a given year than collected in revenue. Standard and Poor's recognized Austin's sound financial management when the rating agency upgraded the City's general obligation bond rating to AAA status in January 2008 and upgraded the Austin Water Utility's bond rating two levels from A+ to AA in December 2008.

The FY 2008-2009 Proposed Budget for the General Fund eliminated a shortfall of $25.3 million that was previously identified during the five-year financial forecast. In order to achieve a balanced budget, revenue projections were refined and increased by $4.7 million and expenditures were reduced by $20.6 million. Expenditure reductions include reduced General Fund transfers to support and internal service departments based on budgeted savings, General Fund departmental savings, and reduced employee pay increases when compared to recent years. The FY 2008-2009 budget also authorizes approximately $10.5 million of the budget stabilization reserves to address capital replacement and other critical needs. The Approved Budget projects budget reserves of $67 million at the end of FY 2008-2009.

Austin includes several enterprise activities. A key enterprise is Austin Energy, which is the ninth largest U.S. public power utility in customers served, according to the latest available data from the American Public Power Association. The utility has over $1.3 billion in annual revenues, over 390,000 customers and a service territory of approximately 437 square miles. The utility has a diverse generation mix that includes nuclear, coal, natural gas and renewable energy sources. The budget includes funding for additional generation peaking capacity at the Sand Hills Energy Center, expected to be on line in late summer 2009.

The City enterprise activities also include the Austin Water Utility, which provides water and wastewater services. The FY 2008-2009 operating expense budget of $412.3 million provides for funding increases for customer care, personnel, fuel charges and chemical costs. The five-year forecast projects a moderate growth in base revenue of 1.4 percent annually and 25 percent combined rate increases in total over the five-year forecast period to fund system capital improvements, including new service extensions and rehabilitation of aging infrastructure.

Other enterprise funds and their FY 2008-2009 expense budgets include Aviation ($76.9 million), Convention Center ($68.3 million) and Solid Waste Services ($66.6 million).

Major Initiatives

The City of Austin's vision of being the most livable city in the country means that Austin must also be the best managed city in the country where all residents can participate in its opportunities, its vibrancy and its richness of culture and diversity.

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

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

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

<u>Waller Creek Tunnel Project</u>. This project is a stormwater bypass tunnel that will include the stretch of Waller Creek from Waterloo Park to Lady Bird Lake. During FY 2007-2008, several key steps and actions related to this project occurred. From October 2007 to February 2008, consultants began the pre-design phase of the tunnel, which included survey and geotechnical work and developed the initial project schedule. In November 2007, the Request for Qualifications (RFQ) for the Waller Creek District Master Plan was issued and the first public input workshop was held. During the first few months of 2008, City staff evaluated the RFQ responses and several more stakeholder meetings were held. In May 2008, City staff presented the results of the RFQ evaluation and recommendations and City Council authorized the negotiation and execution with the selected consultant for professional planning services for the Waller Creek District Master Plan. By September 2008, site preparation and development plans were complete and the project entered the design phase.

<u>Zero Waste Initiative.</u> Following the guiding principles for the delivery of solid waste services, first adopted by the City Council in 2006, a Zero Waste Strategic Plan was drafted for City Council's consideration. The plan development process began with hiring an independent consultant to develop the plan and, working with City staff, included obtaining public input over a four-month period, performing additional research and visiting peer sites. In May 2008, the City also received support for the initiative from the Capital Area Council of Government, Solid Waste Advisory Committee, and the Travis County Commissioners Court. Also during FY 2007-2008, the Solid Waste Services

Department prepared for the roll-out of the Single Stream Recycling Service. The implementation, that began in early FY 2008-2009, is another step towards reaching the City's Zero Waste goal and increasing individual participation in the City's recycling programs.

Redevelopment of Green Water Treatment Plant. During FY 2007-2008, the City took several key steps toward the redevelopment of the Green Water Treatment Plant site. On February 14, 2008, City Council passed a resolution amending the designated Central Library location to be the Austin Energy South Substation across Shoal Creek from the Green Water Treatment Plant site and initiating the Request for Proposal (RFP) process to sell the treatment plant site and the nearby Austin Energy Control Center property. On June 18, 2008, the City Council selected developer Trammell Crow to enter into an exclusive negotiating agreement for the sale and redevelopment of the property. The site's location between City Hall/ Second Street Retail District and the Seaholm Redevelopment makes it a strategic opportunity in the City's Downtown Redevelopment initiatives.

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

Progress made during FY 2007-2008 included the following:

- A Climate Action Team was formed to work on developing recommendations for reducing greenhouse gas emissions within their departments and City wide.
- The City of Austin compiled a greenhouse gas inventory for all City departments.
- Austin Energy launched a Public Participation Process to determine future energy generation and continues to work in a variety of areas to achieve the goals set by the plan.
- The Energy Efficiency Upgrades Task Force worked to identify and recommend City Code revisions to implement cost effective energy efficiency retrofits and upgrades of Austin's homes and buildings and compiled the results to present to the City Council for consideration.
- The framework for a community coordinating committee was created.
- The City of Austin is finalizing development of an Austin specific carbon footprint calculator.

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

- Affordable Housing Incentives Task Force. In 2007, the task force presented several recommendations to provide a platform for continuing to develop a more comprehensive and equitable affordable housing strategy. In April 2008, Neighborhood Housing and Community Development completed an assessment of housing affordability in Austin, national trends and best practices on how to retain it and released its Preserving Affordable Housing in Austin: A Platform for Action report. Also in April 2008, the City issued a RFP for the City of Austin's Comprehensive Housing Market Study. In August 2008, Council authorized the execution of a contract with the selected consultant to assist in developing the study.
- General Obligation Bonds. In November 2006, citizens of Austin approved the use of $55 million of general obligation bonds to increase homeownership and rental opportunities for low-to-moderate income households. By the end of FY 2007-2008, Council had approved 14 projects – homeownership and rental – for a total of $13.6 million. During FY 2007-2008, the first 100 affordable rental units were completed at Skyline Terrace, a former hotel that was renovated and now houses very low-income individuals.
- Other Council Affordable Housing Initiatives include Vertical Mixed Use Developments, Affordable Housing Partnership Agreements (Green Water Treatment Redevelopment), Transit Oriented Developments, and Downtown Affordable Housing.

OTHER

Financial Policies

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

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

Budgetary Control
The annual operating budget is proposed by the City Manager and approved by the City Council after public discussion. Annual updates to the Capital Improvements Program budgets follow a similar process. Primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. As demonstrated by the statements and schedules included in the City's 2008 CAFR, the City continues to meet its responsibility for sound financial management.

Cash Management
The City's investment policy is to minimize credit and market risk while maintaining a competitive portfolio yield. Cash balances of all City funds are invested in consideration of five factors: safety, term, liquidity, market exposure, and rate of return. Cash balances of most funds, except for debt service and other legally restricted funds, are pooled for investment purposes. The City's investments are made in accordance with the Texas Public Funds Investment Act and the City of Austin Investment Policy. During 2009, the City's cash resources were invested in local government investment pools and U.S. Treasury and Agency issues.

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

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

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	2005	% of Total	2006	% of Total	2007	% of Total	2008	% of Total	August 2009	% of Total
Manufacturing	57,500	8.4%	57,400	7.9%	60,600	7.9%	55,000	7.0%	51,600	6.7%
Government	146,800	21.5%	156,600	21.5%	158,400	20.8%	163,700	21.0%	159,300	20.7%
Trade, transportation & utilities	118,600	17.3%	151,400	20.8%	159,800	21.0%	163,700	21.0%	155,700	20.3%
Services and miscellaneous	281,300	41.1%	275,800	37.9%	290,100	38.0%	300,500	38.5%	311,900	40.6%
Finance, insurance and real estate	40,200	5.9%	42,500	5.8%	45,200	5.9%	47,200	6.0%	45,700	5.9%
Natural resources, mining & construction	39,800	5.8%	44,600	6.1%	49,200	6.4%	50,800	6.5%	44,600	5.8%
Total	684,200	100.0%	728,300	100.0%	763,300	100.0%	780,900	100.0%	768,800	100.0%

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

Source: Texas Labor Market Review, September 2009, Texas Workforce Commission.

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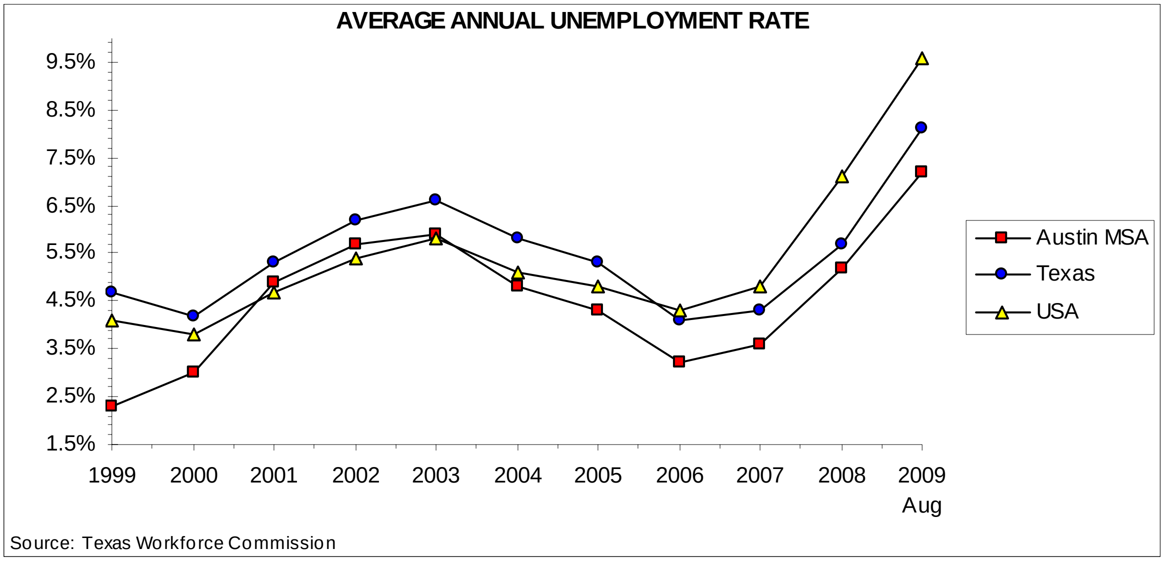
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1999	2.3%	4.7%	4.1%
2000	3.0%	4.2%	3.8%
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008	5.2%	5.7%	7.1%
2009 August	7.2%	8.1%	9.6%

Note: Information is updated periodically, data contained herein is latest provided.
Source: Texas Labor Market Review, September 2009, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-05	$ 9.076	1-1-06	$10.334	1-1-07	$11.422	1-1-08	$11.639	1-1-09	$10.864
2-1-05	13.171	2-1-06	14.818	2-1-07	16.371	2-1-08	16.569	2-1-09	14.289
3-1-05	9.049	3-1-06	10.051	3-1-07	11.080	3-1-08	12.109	3-1-09	10.528
4-1-05	8.660	4-1-06	9.930	4-1-07	11.414	4-1-08	11.355	4-1-09	9.724
5-1-05	11.795	5-1-06	12.950	5-1-07	14.611	5-1-08	13.882	5-1-09	12.612
6-1-05	9.718	6-1-06	10.725	6-1-07	11.748	6-1-08	12.185	6-1-09	11.213
7-1-05	8.936	7-1-06	11.981	7-1-07	12.011	7-1-08	12.129	7-1-09	10.752
8-1-05	12.004	8-1-06	11.880	8-1-07	14.101	8-1-08	14.486	8-1-09	13.495
9-1-05	9.938	9-1-06	11.152	9-1-07	11.883	9-1-08	12.349	9-1-09	10.673
10-1-05	10.182	10-1-06	11.535	10-1-07	12.257	10-1-08	11.781		
11-1-05	11.735	11-1-06	13.401	11-1-07	14.774	11-1-08	13.595		
12-1-05	10.532	12-1-06	11.525	12-1-07	12.365	12-1-08	12.190		

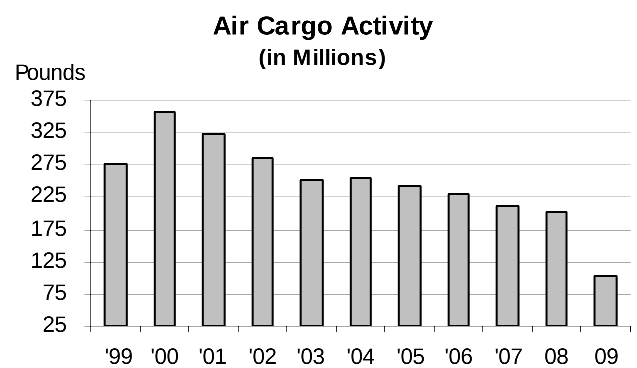
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2008)

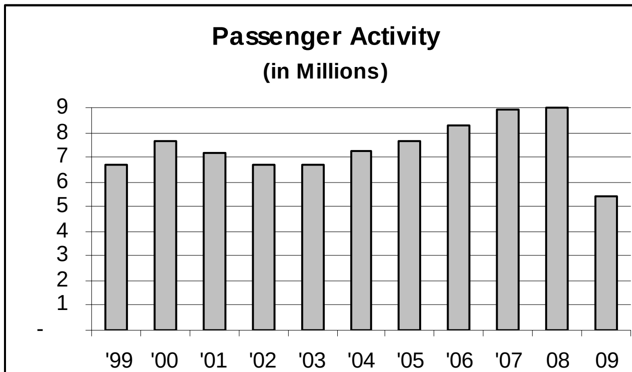
Employer	Product or Service	Employees
State Government	State Government	37,192
The University of Texas at Austin	Education	24,527
Dell Computer Corporation	Computers	17,000
City of Austin	City Government	12,236
Austin Independent School District	Education	11,102
Federal Government	Federal Government	10,200
HEB Grocery	Grocery/Retail	6,746
Seton Healthcare Network	Healthcare	6,700
IBM Corporation	Computers	6,239
St. David's Healthcare Partnership	Healthcare	6,219

Source: 2008 Comprehensive Annual Financial Report.

Transportation



Source: COA Aviation Department. 2009 Activity through August - Calendar Year basis.



Source: COA Aviation Department. 2009 Activity through August - Calendar Year basis.

Austin-Bergstrom International Airport

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

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 11 major airlines with scheduled air service: Air Canada, American, Continental, Delta, Frontier, JetBlue, Northwest, Southwest, United, US Airways and vivaAerobus. Non-stop service is available to 42 U.S. destinations including 39 in the U.S. and 3 international destinations.

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

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

Wealth Indicators

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

Demographic and Economic Statistics - Last Ten Years

Year	City of Austin Population (1)	Area of Incorporation (Square Miles) (1)	Population MSA (2) (3)	Income (MSA) (thousands of dollars) (2)	Median Household Income MSA (4)	Capital Personal Income MSA (2)	Unemployment Rate (MSA) (3)
1999	619,038	252	1,205,898	$37,408,615	$36,532	$31,021	2.3
2000	628,667	265	1,249,763	41,157,290	36,321	32,548	3.0
2001	661,639	266	1,319,797	42,489,015	39,811	32,213	4.9
2002	671,044	273	1,341,464	41,908,425	47,089	31,128	5.8
2003	674,719	276	1,376,008	43,104,097	41,909	31,325	6.0
2004	683,551	291	1,411,483	46,191,915	39,227	32,726	4.8
2005	695,881	294	1,454,706	50,101,884	40,335	34,441	4.4
2006	714,237	296	1,513,565	54,954,527	40,888	36,308	3.9
2007	732,381	297	1,567,317	59,938,903	42,263	38,243	3.7
2008	746,105	298	1,666,700 (5)	65,017,961 (5)	46,340	39,010 (5)	4.7
1999-2008 Change	20.53%	18.11%	38.21%	73.80%	26.85%	25.75%	

(1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
(2) Source: Bureau of Economic Analysis
(3) Source: Bureau of Labor Statistics, Texas A&M University as of September 30.
(4) Source: Claritas, a Nielson Company.
(5) Data not available for 2008. Figures are estimated.

Growth Indicators

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

Connections and Permits

	Utility Connections			Building Permits		
Year	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1999	348,721	173,038	173,150	$1,501,435,229	$54,399,189	$1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361
2001	349,671	178,608	172,177	1,625,508,854	71,189,116	1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786
2007	388,626	199,671	188,101	2,529,648,915	14,272,851	2,543,921,766
2008	396,791	206,695	198,718	1,468,699,801	4,099,000	1,472,798,801

Source: Austin Energy, Austin Water Utility, the City's Planning and Development Review Department, and the City's Telecommunications and Regulatory Affairs Office.

Housing Units

The average two-bedroom apartment in the Austin MSA was $830 per month, with an occupancy rate of 89.63% for the first quarter 2009.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1998	15,583	$2,334,200,698	$149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,047	6,910,684,916	246,397
2008	22,438	5,469,870,991	243,777
2009 August	13,682	3,238,756,278	236,717

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
2000	96.0%
2001	81.2%
2002	77.1%
2003	76.5%
2004	76.7%
2005	83.1%
2006	87.5%
2007	85.6%
2008	84.3%
2009 (2nd qtr)	81.6%

Source: Oxford Commercial.

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Education

The Austin Independent School District has an enrollment of 82,074 for the 2009 school year. This reflects a slight increase in enrollment from the end of the 2008 school year. The District includes 110 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,145	76,821
2007/08	81,332	76,096
2008/09	82,027	77,193

Source: Austin Independent School District. (2008/09 data is for the sixth six weeks, as of 06-03-09. Data for the first six weeks of the 2009/10 school year is not yet available.)

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 has total enrollment of 51,032 for the fall semester of 2009 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were $4.626 billion in 2008. There are more than 189 hotels available within the Austin Metropolitan Area, as of the second quarter of 2009, with a hotel occupancy rate of 64.3 percent.

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

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APPENDIX B

EXCERPTS FROM THE CITY OF AUSTIN, TEXAS ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the City implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires the measurement, recognition, and display of other postemployment benefits for the year ended September 30, 2008.

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

Deloitte & Touche LLP

April 28, 2009

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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, 2008. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 48 and No. 50.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2008, resulting in $4.5 billion of net assets. Net assets associated with governmental activities are approximately $1.6 billion, or 36% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.9 billion, or 64% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is $3.4 billion, or 74% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are $560.2 million, or 12% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $1.6 million; unrestricted net assets for business-type activities are approximately $558.6 million, or 19% of total business-type net assets.

Total net assets for the City of Austin increased $154.4 million, or 3.6% during fiscal year 2008. Of this amount, governmental activities decreased $23.7 million, or 1.5% from the previous year and business-type activities increased $178.1 million, or 6.6% from the previous year.

Total revenues for the City increased $299.5 million; revenues for governmental activities increased $24.2 million; revenues for business-type activities increased $275.3 million. Total expenses for the City increased $356.6 million; expenses for governmental activities increased $120.9 million; expenses for business-type activities increased $235.7 million.

In fiscal year 2008, the City implemented GASB Statement No. 45, entitled *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions".* This implementation resulted in the recognition of a new other postemployment benefits liability and expense in the government-wide and proprietary fund financial statements totaling $87.5 million. The total actuarial accrued liability for these retiree benefits was approximately $1.0 billion at year end. The City funds these benefits on a pay-as-you-go basis.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

b -- Fund financial statements

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net assets

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

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets	$ 544,656	520,779	1,395,559	1,413,295	1,940,215	1,934,074
Capital assets	2,258,850	2,167,656	6,038,226	5,672,358	8,297,076	7,840,014
Other noncurrent assets	3,993	3,609	553,101	505,643	557,094	509,252
Total assets	2,807,499	2,692,044	7,986,886	7,591,296	10,794,385	10,283,340
Current liabilities	251,312	229,183	482,405	473,123	733,717	702,306
Noncurrent liabilities	951,675	834,640	4,622,330	4,414,160	5,574,005	5,248,800
Total liabilities	1,202,987	1,063,823	5,104,735	4,887,283	6,307,722	5,951,106
Net assets:						
Invested in capital assets, net of related debt	1,526,481	1,530,124	1,825,599	1,648,758	3,352,080	3,178,882
Restricted	76,478	69,982	497,927	492,356	574,405	562,338
Unrestricted	1,553	28,115	558,625	562,899	560,178	591,014
Total net assets	$ 1,604,512	1,628,221	2,882,151	2,704,013	4,486,663	4,332,234

Total assets of the City increased by $511 million in the current fiscal year. Total liabilities increased by $357 million. Governmental-type total assets increased by $115 million and business-type increased $396 million, while Governmental-type liabilities increased by $139 million and business-type increased $218 million.

Significant factors in the increase of governmental total assets include an increase in capital assets of $91.2 million and an increase in pooled investments and cash of $14.9 million. Factors in the increase of governmental-type liabilities include an increase in current liabilities of $22.1 million, consisting of increases to deferred credits and other liabilities of $16.7 million, accrued compensated absences of $5.4 million, accrued payroll of $4.7 million, claims payable of $1.6 million and decreases to accounts payable of $6.5 million. Noncurrent liabilities increased $117 million, consisting primarily of an increase to general obligation bonds payable of $43 million, pension obligation payable of $12.8 million, accrued compensated absences of $5 million and other post employment benefits of $54.9 million.

Significant factors in the increase of business-type total assets include an increase in capital assets of $365.9 million and an increase pooled investments and cash of $71 million. Total liabilities increased by $217.5 million; significant increases include revenue bonds payable of $215 million, other post employment benefits payable of $32.6 million, accounts payable of $17.1 million, deferred credits and other liabilities of $16.4 million and pension obligation of $9.6 million, significant decreases include commercial paper notes payable of $95.8 million, capital appreciation bond interest payable of $6.6 million, and general obligation bonds payable and other tax supported debt of $5.2 million.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.5 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $3.4 billion, or 75% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $574.4 million of the City's net assets, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, $560.2 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased $30.8 million in the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

b -- Changes in net assets

Total net assets of the City increased by $154.4 million in the current fiscal year. Governmental net assets decreased $23.7 million. The decrease is attributable to expenses exceeding revenues by $96.9 million net of transfers from other funds of $73.2 million. Business-type net assets increased by $178.1 million due to revenues exceeding expenses by $251.3 million, net of transfers to other funds of $73.2 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program revenues:						
Charges for services	$ 149,694	132,670	1,845,678	1,594,441	1,995,372	1,727,111
Operating grants and contributions	65,782	57,331	--	--	65,782	57,331
Capital grants and contributions	3,652	2,942	76,881	50,898	80,533	53,840
General revenues:						
Property tax	268,802	258,943	--	--	268,802	258,943
Sales tax	154,445	153,098	--	--	154,445	153,098
Franchise fees and gross receipts tax	93,236	87,180	--	--	93,236	87,180
Grants and contributions not restricted to specific programs	80,178	73,711	--	--	80,178	73,711
Interest and other	29,287	54,963	59,028	60,970	88,315	115,933
Total revenues	845,076	820,838	1,981,587	1,706,309	2,826,663	2,527,147
Program expenses:						
General government	97,945	76,136	--	--	97,945	76,136
Public safety	440,345	397,583	--	--	440,345	397,583
Transportation, planning and sustainability	49,426	48,758	--	--	49,426	48,758
Public health	102,188	94,158	--	--	102,188	94,158
Public recreation and culture	87,975	72,082	--	--	87,975	72,082
Urban growth management	123,115	93,185	--	--	123,115	93,185
Interest on debt	40,954	39,166	--	--	40,954	39,166
Electric	--	--	1,070,999	929,057	1,070,999	929,057
Water	--	--	202,900	162,158	202,900	162,158
Wastewater	--	--	147,059	144,573	147,059	144,573
Airport	--	--	91,557	80,368	91,557	80,368
Convention	--	--	52,911	43,956	52,911	43,956
Environmental and health services	--	--	69,805	55,386	69,805	55,386
Public recreation	--	--	10,169	9,800	10,169	9,800
Urban growth management	--	--	84,886	69,293	84,886	69,293
Total expenses	941,948	821,068	1,730,286	1,494,591	2,672,234	2,315,659
Excess (deficiency) before special items and transfers	(96,872)	(230)	251,301	211,718	154,429	211,488
Transfers	73,163	67,353	(73,163)	(67,353)	--	--
Increase (decrease) in net assets	(23,709)	67,123	178,138	144,365	154,429	211,488
Beginning net assets	1,628,221	1,561,098	2,704,013	2,559,648	4,332,234	4,120,746
Ending net assets	$ 1,604,512	1,628,221	2,882,151	2,704,013	4,486,663	4,332,234

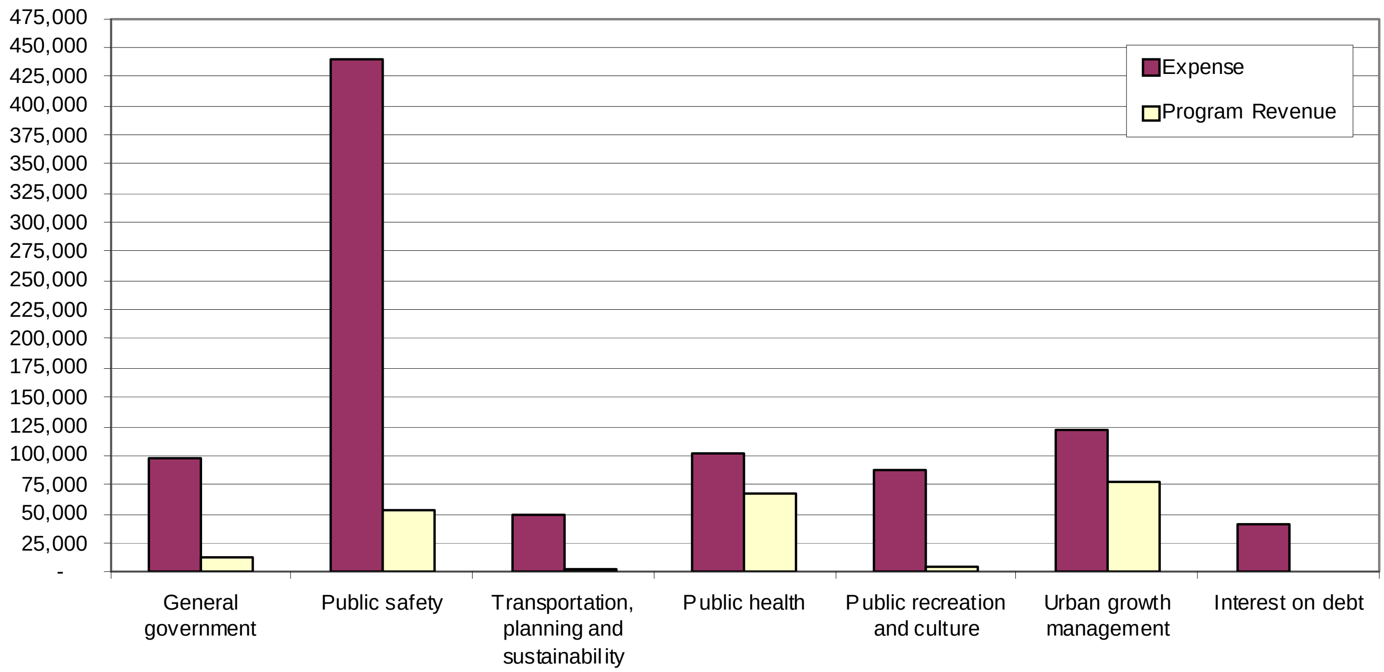
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

c -- Program revenues and expenses -- governmental activities
Governmental activities decreased the City's net assets by $23.7 million in fiscal year 2008, a 1.5% decrease of governmental net assets from the previous year. Key factors for the change from fiscal year 2007 to 2008 are as follows:

- The City's property tax revenue increased by $9.9 million from the previous year, despite a decrease in the City's tax rate from 41.3 cents to 40.3 per $100 valuation, as a result of an increase in assessed property values.
- Franchise fees and gross receipts taxes increased $6.1 million, largely due to a $1.9 million increase in hotel occupancy tax collections, while sales tax collections increased $1.3 million.
- Grants and contributions not restricted to specific programs increased $6.5 million, primarily due to an increase in property owner's participation and contributions. Grants and contributions restricted to specific programs increased $8.5 million, primarily as a result of higher intergovernmental grant revenues.
- Public safety expenses increased $42.8 million and Urban growth management expenses increased $29.9 million.

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

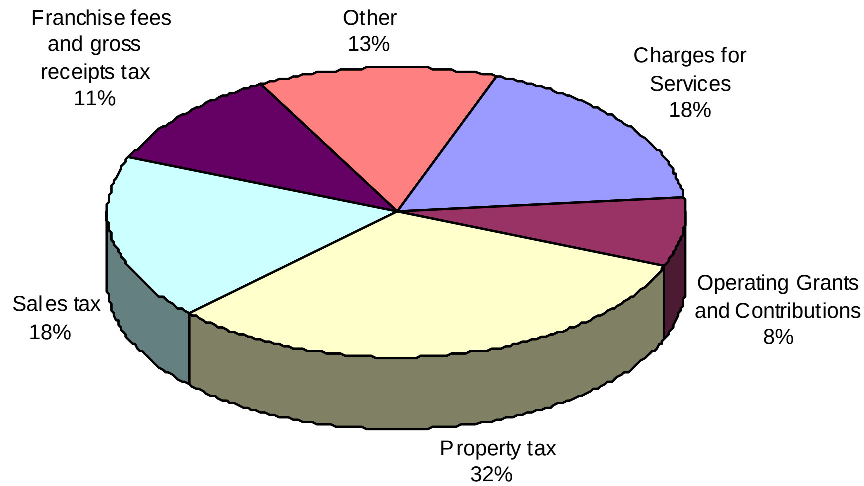
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



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

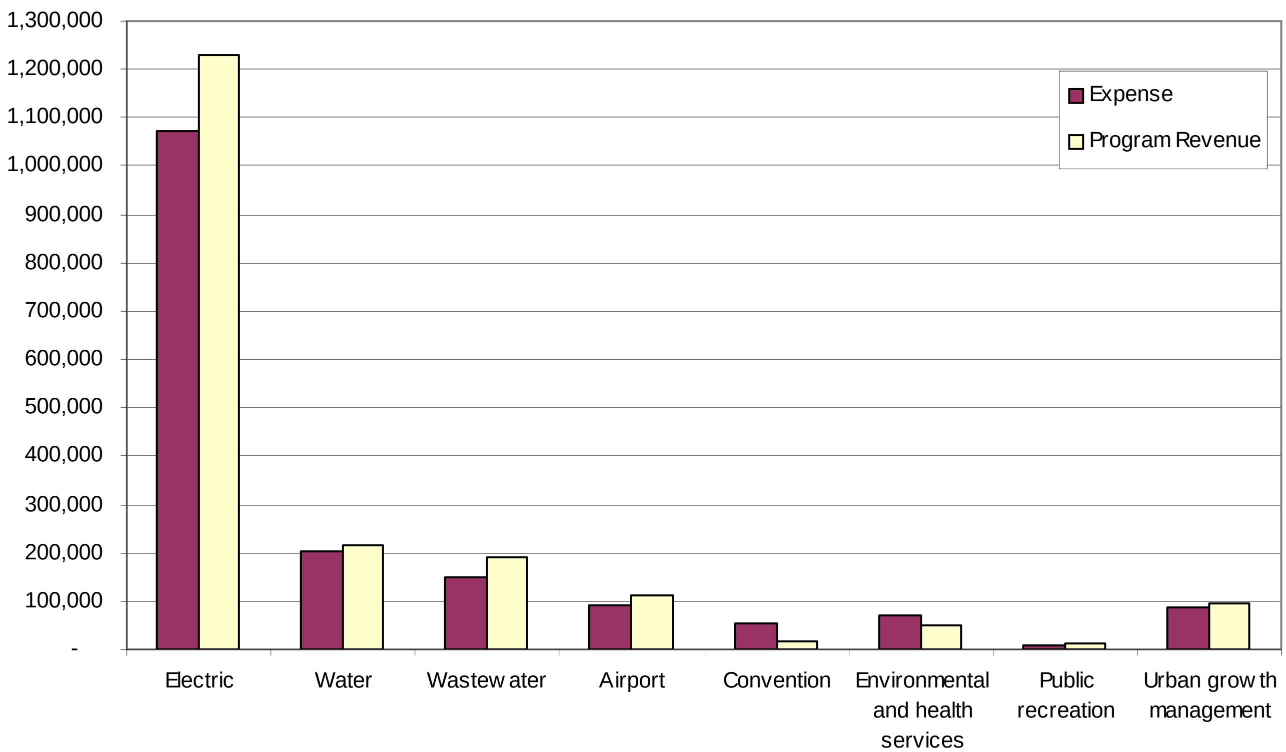
Business-type activities increased the City's net assets by approximately $178 million, accounting for a 4.1% increase in the City's total net assets. Key factors include:

- Electric net assets increased approximately $109.6 million. This increase is due primarily to an increase in electric consumption due to weather conditions. Revenues increased 15% while expenses increased 17% due to increased operating costs.
- Water and Wastewater net assets increased approximately $30.2 million. This increase is due primarily to increased water consumption due to weather conditions. Water revenue for 2008 increased by approximately 31.2% and Wastewater revenue increased 19.1% from the prior year.
- Airport net assets increased approximately $28.3 million. Revenues increased 6.2% due primarily to increases in parking and terminal lease revenue. Expenses increased due to an increase in operations costs and interest on debt.
- Convention net assets increased approximately $6.9 million. Revenue was 20.5% more than the prior year due to increased demand for convention space and events. Expenses increased due to increases in operations and maintenance costs and interest on debt.
- 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 $18.3 million. This decrease is primarily attributed to inadequate revenues needed to cover expenses in solid waste services operations.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Recreation Program Fund. Net assets increased by $1.3 million primarily due to the reopening of Jimmy Clay Golf Course, which was closed for renovations for nine months during fiscal year 2007.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately $21.9 million. Transportation revenues increased 14% primarily due to an increase in the Transportation User Fee rate, while Transportation expenses increased 19.3% largely due to increased street maintenance costs.

As shown in the following chart, the electric utility, with expenses of $1.07 billion, is the City's largest business-type activity, followed by water ($203 million), wastewater ($147 million), airport ($92 million), urban growth management ($85 million), environmental and health services ($70 million), convention ($53 million), and public recreation ($10 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention and environmental and health services.

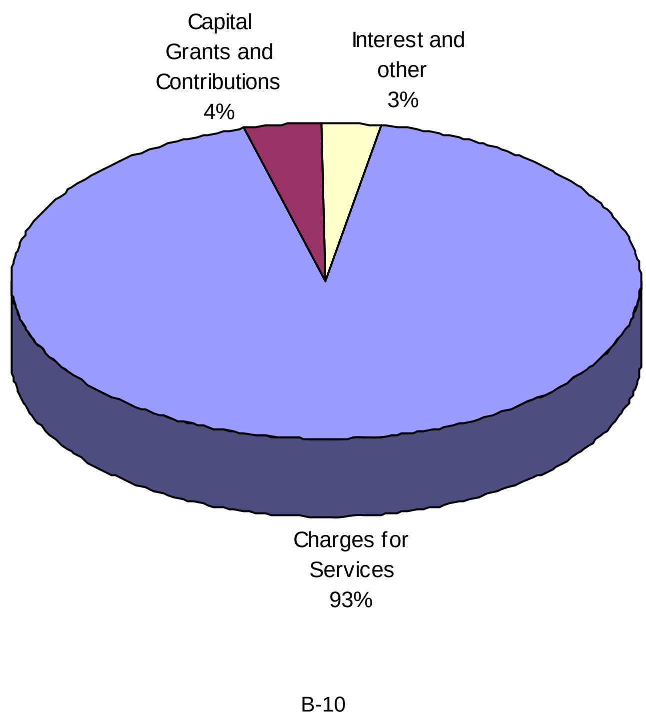
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



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

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

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

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $329.4 million, an increase of $18.6 million from the previous year. Approximately $219.4 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale, legally restricted permanent fund resources, and certain debt service amounts. Reserved fund balance decreased $7.9 million in comparison to the prior year, due to a decrease in the reservation for encumbrances of $7.7 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $85.1 million, while total fund balance was $88.7 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 14.8% of total General Fund expenditures of $575.6 million, and total fund balance represents 15.4% of expenditures. The City's financial policies provide that surplus fund balance be designated for budget stabilization. This amount is a component of unreserved fund balance. The fund balance designated for budget stabilization was $38.5 million. The balance designated for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total designated amount, with the other two-thirds designated for budget stabilization in future years.

The General Fund fund balance decreased $18.1 million during the fiscal year, while unreserved fund balance decreased $12.2 million. Significant differences from the previous year include:

- Property tax revenues increased $19.7 million due to an increase in assessed property values. The City's property tax rate decreased from 41.3 cents to 40.3 cents per $100 valuation.
- Sales tax revenues increased $1.3 million, while franchise fees and other taxes increased $3.7 million.
- Fines, forfeitures and penalties increased $2.9 million largely due to traffic fines and other city ordinance fines.
- General fund expenditures increased $39.7 million, due primarily to an increase in public safety expenditures of $24.8 million, an increase in general government expenditures of $4.3 million and an increase in public recreation and culture expenditures of $5.9 million.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, increased by $178 million.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

The original expenditure budget of the General Fund was amended during fiscal year 2008 for increased public safety and urban growth management costs. The final expenditure budget was $351 thousand higher than the original budget.

During the year, revenues were $4.4 million less than budgeted. Sales tax collections were $10.3 million less than budgeted, while franchise fee revenue was $3.4 million more than budgeted.

Actual General Fund budget-basis expenditures were $11.9 million less than budgeted. Transportation, planning and sustainability expenditures exceeded budget by $15,000; while all other General Fund departments were under budget. The total budget-basis fund balance at year-end was $81.2 million.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2008, total $8.3 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, nuclear fuel, plant held for future use, and intangible assets. The total increase in the City's capital assets for the current fiscal year was $457 million (5.8%), with an increase of 4.2% for governmental activities and an increase of 6.5% 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	
	2008	2007	2008	2007	2008	2007
Land and improvements	$ 302	261	442	365	744	626
Other assets not depreciated	19	19	1	1	20	20
Building and improvements	426	425	1,419	1,367	1,845	1,792
Equipment	79	81	3,367	3,071	3,446	3,152
Vehicles	36	32	58	52	94	84
Infrastructure	1,194	1,167	--	--	1,194	1,167
Construction in progress	203	183	612	680	815	863
Nuclear fuel, net of amortization	--	--	33	28	33	28
Plant held for future use	--	--	28	28	28	28
Intangible assets, net of amortization	--	--	78	80	78	80
Total net capital assets	$ 2,259	2,168	6,038	5,672	8,297	7,840

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

- Governmental capital assets increased $91 million primarily due to infrastructure additions, land acquisitions, and facility and system improvements.
- Business-type activities purchased or completed construction on capital assets of $366 million. The increase was largely due to Water and Wastewater Fund land acquisition, facility improvements, and wastewater projects associated with the Austin Clean Water Program, as well as for Electric Fund expenditures for general infrastructure improvements and Drainage Fund land acquisitions.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported $4.58 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	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
General obligation bonds and other tax supported debt, net	$ 830	787	96	101	926	888
Commercial paper notes, net	--	--	213	309	213	309
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,409	3,194	3,409	3,194
Capital lease obligations	--	--	2	4	2	4
Total	$ 830	787	3,748	3,636	4,578	4,423

During fiscal year 2008, the City's total outstanding debt increased by $155 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased $43 million. Issuance of new debt will be used primarily for street improvements, public safety facilities, fire trucks, parks and recreation facilities and affordable housing projects.
- Outstanding debt for business-type functions increased $112 million. The City issued Electric Fund and Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper and existing debt.

During the current year the City's general obligation bonds received a favorable bond rating upgrade from Standard & Poor's while all other bond ratings were unchanged. Ratings at September 30, 2008 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
General obligation bonds and other tax supported debt	Aa1	Aa1	AAA	AA+	AA+	AA+
Commercial paper notes	P-1	P-1	A-1+	A-1+	F1+	F1+
Commercial paper notes - taxable	P-1	P-1	A-1+	A-1+	F1+	F1+
Utility revenue bonds - prior lien	A1	A1	AA-	AA-	AA-	AA-
Utility revenue bonds - subordinate lien	A1	A1	A+	A+	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa3	Aa3	A+	A+	AA-	AA-
Airport system revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Airport variable rate bonds	P-1	P-1	NUR(1)	NUR(1)	NUR(1)	NUR(1)
Convention Center revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

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

The local economy continued to grow in 2008, with sales tax revenues increasing by 1% and property tax collections increasing by 11% as compared to 2007. Job growth for the area continues to increase, with low growth forecasted in 2009. The local economy is expected to encounter weak economic growth in 2009, but is expected to perform better than the national economy. Nationally, the U.S. economy continues to be impacted by the housing, auto industry, and financial crisis. These issues are expected to impact the local economy as well.

For the upcoming 2009 budget, focus will be on a multi-year budget horizon designed to incorporate national economic conditions and how they are expected to influence the City of Austin and the region over the relative short term. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the City Council's priority of budget stability while at the same time maintaining affordability, investment in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management will continue to monitor the economy and take corrective actions to help mitigate any unfavorable economic events.

The assessed taxable property values within the City increased by 10.95% for 2008. The property tax rate for fiscal year 2009 is 40.12 cents per $100 valuation. The tax rate consists of 27.49 cents for the General Fund and 12.63 cents for debt service. Each 1 cent of the property tax rate is equivalent to $7,626,638 of tax levy, as compared to $6,873.679 in the previous year. Rate increases for the Water and Wastewater Fund are: 9.7% for Water and 4.5% for Wastewater for a combined increase of 7.0%.

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	2008 Total (†)
ASSETS			
Current assets:			
Cash	$ 88	65	153
Pooled investments and cash	391,595	329,471	721,066
Pooled investments and cash - restricted	--	365,713	365,713
Total pooled investments and cash	391,595	695,184	1,086,779
Investments, at fair value	18,489	3,863	22,352
Investments, at fair value - restricted	--	333,144	333,144
Cash held by trustee	3,880	--	3,880
Cash held by trustee - restricted	--	31,472	31,472
Working capital advances	--	7,711	7,711
Property taxes receivable	11,787	--	11,787
Less allowance for uncollectible taxes	(3,592)	--	(3,592)
Net property taxes receivable	8,195	--	8,195
Accounts and other receivables	163,577	209,052	372,629
Less allowance for doubtful accounts	(83,600)	(3,660)	(87,260)
Net accounts receivable	79,977	205,392	285,369
Receivables from other governments	18,142	--	18,142
Notes receivable, net of allowance of $19,042	10,883	--	10,883
Internal balances	(939)	939	--
Internal balances - restricted	(342)	342	--
Inventories, at cost	2,323	86,379	88,702
Real property held for resale	11,291	--	11,291
Prepaid items	232	2,901	3,133
Other assets	842	22,969	23,811
Other receivables - restricted	--	5,198	5,198
Total current assets	544,656	1,395,559	1,940,215
Noncurrent assets:			
Investments held by trustee - restricted	--	114,992	114,992
Interest receivable - restricted	--	1,471	1,471
Capital assets			
Land and other nondepreciable assets	321,637	443,448	765,085
Property, plant, and equipment in service	2,657,966	7,821,069	10,479,035
Less accumulated depreciation	(924,081)	(2,976,053)	(3,900,134)
Net property, plant, and equipment in service	1,733,885	4,845,016	6,578,901
Construction in progress	203,328	611,647	814,975
Nuclear fuel, net of amortization	--	32,730	32,730
Plant held for future use	--	27,783	27,783
Intangible assets, net of amortization	--	77,602	77,602
Total capital assets	2,258,850	6,038,226	8,297,076
Other long-term assets	--	71	71
Deferred costs and expenses, net of amortization	3,993	436,567	440,560
Total noncurrent assets	2,262,843	6,591,327	8,854,170
Total assets	$ 2,807,499	7,986,886	10,794,385

(†) 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	2008 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 29,280	94,383	123,663
Accounts and retainage payable from restricted assets	--	41,749	41,749
Accrued payroll	27,197	14,679	41,876
Accrued compensated absences	44,841	20,884	65,725
Claims payable	13,600	--	13,600
Accrued interest payable from restricted assets	--	75,801	75,801
Interest payable on other debt	3,459	645	4,104
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	57,297	9,310	66,607
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	1,489	1,489
Revenue bonds payable	--	780	780
Revenue bonds payable payable from restricted assets	--	154,836	154,836
Capital lease obligations payable	166	505	671
Customer and escrow deposits payable from restricted assets	--	30,254	30,254
Nuclear fuel expense payable from restricted assets	--	18,606	18,606
Accrued landfill closure and postclosure costs	--	800	800
Deferred credits and other liabilities	75,472	17,684	93,156
Total current liabilities	251,312	482,405	733,717
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	57,714	3,904	61,618
Claims payable	12,862	--	12,862
Capital appreciation bond interest payable	--	225,615	225,615
Commercial paper notes payable, net of discount	--	213,200	213,200
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	772,719	84,931	857,650
Revenue bonds payable, net of discount and inclusive of premium	--	3,252,964	3,252,964
Pension obligation payable	36,812	30,637	67,449
Other post employment benefits payable	54,882	32,625	87,507
Capital lease obligations payable	316	2,277	2,593
Accrued landfill closure and postclosure costs	--	14,988	14,988
Decommissioning expense payable from restricted assets	--	158,996	158,996
Deferred credits and other liabilities	16,370	571,706	588,076
Other liabilities payable from restricted assets	--	2,487	2,487
Total noncurrent liabilities	951,675	4,622,330	5,574,005
Total liabilities	1,202,987	5,104,735	6,307,722
NET ASSETS			
Invested in capital assets, net of related debt	1,526,481	1,825,599	3,352,080
Restricted for:			
Debt service	14,620	98,113	112,733
Strategic reserve	--	162,151	162,151
Capital projects	43,145	164,593	207,738
Renewal and replacement	--	43,284	43,284
Passenger facility charges	--	19,446	19,446
Operating reserve	--	10,340	10,340
Perpetual Care:			
Expendable	844	--	844
Nonexpendable	1,040	--	1,040
Other purposes	16,829	--	16,829
Unrestricted	1,553	558,625	560,178
Total net assets	$ 1,604,512	2,882,151	4,486,663

(†) 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, 2008
(In thousands)

City of Austin, Texas
Exhibit A-2

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	Net (Expense) Revenue and Changes in Net Assets: 2008 Total
Governmental activities							
General government	$ 97,945	9,572	114	3,652	(84,607)	--	(84,607)
Public safety	440,345	45,880	7,685	--	(386,780)	--	(386,780)
Transportation, planning, and sustainability	49,426	3,531	--	--	(45,895)	--	(45,895)
Public health	102,188	43,122	23,558	--	(35,508)	--	(35,508)
Public recreation and culture	87,975	3,749	1,504	--	(82,722)	--	(82,722)
Urban growth management	123,115	43,840	32,921	--	(46,354)	--	(46,354)
Interest on debt	40,954	--	--	--	(40,954)	--	(40,954)
Total governmental activities	941,948	149,694	65,782	3,652	(722,820)	--	(722,820)
Business-type activities							
Electric	1,070,999	1,217,735	--	10,807	--	157,543	157,543
Water	202,900	181,515	--	35,139	--	13,754	13,754
Wastewater	147,059	183,608	--	6,215	--	42,764	42,764
Airport	91,557	102,519	--	10,849	--	21,811	21,811
Convention	52,911	17,572	--	--	--	(35,339)	(35,339)
Environmental and health services	69,805	49,190	--	1,121	--	(19,494)	(19,494)
Public recreation	10,169	9,760	--	1,374	--	965	965
Urban growth management	84,886	83,779	--	11,376	--	10,269	10,269
Total business-type activities	1,730,286	1,845,678	--	76,881	--	192,273	192,273
Total	$ 2,672,234	1,995,372	65,782	80,533	(722,820)	192,273	(530,547)
General revenues:							
Property tax					268,802	--	268,802
Sales tax					154,445	--	154,445
Franchise fees and gross receipts tax					93,236	--	93,236
Grants and contributions not restricted to specific programs					80,178	--	80,178
Interest and other					29,287	59,028	88,315
Transfers-internal activities					73,163	(73,163)	--
Total general revenues and transfers					699,111	(14,135)	684,976
Change in net assets					(23,709)	178,138	154,429
Beginning net assets					1,628,221	2,704,013	4,332,234
Ending net assets					$ 1,604,512	2,882,151	4,486,663

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

(In thousands)

	2008		
	General Fund	**Nonmajor Governmental Funds**	**Total Governmental Funds**
ASSETS			
Cash	$ 68	5	73
Pooled investments and cash	74,422	220,366	294,788
Investments, at fair value	--	18,489	18,489
Cash held by trustee	--	3,223	3,223
Property taxes receivable	7,255	4,532	11,787
Less allowance for uncollectible taxes	(2,277)	(1,315)	(3,592)
Net property taxes receivable	4,978	3,217	8,195
Accounts and other receivables	136,913	23,689	160,602
Less allowance for doubtful accounts	(82,605)	(773)	(83,378)
Net accounts receivable	54,308	22,916	77,224
Receivables from other governments	--	18,142	18,142
Notes receivable, net of allowance	--	10,883	10,883
Due from other funds	227	39,629	39,856
Advances to other funds	--	6,414	6,414
Inventories, at cost	877	--	877
Real property held for resale	--	11,291	11,291
Prepaid items	112	87	199
Other assets	60	782	842
Total assets	135,052	355,444	490,496
LIABILITIES AND FUND BALANCES			
Accounts payable	5,040	12,740	17,780
Accrued payroll	21,068	1,263	22,331
Accrued compensated absences	567	--	567
Due to other funds	--	39,867	39,867
Deferred revenue	16,546	9,813	26,359
Advances from other funds	--	402	402
Deposits and other liabilities	3,141	50,639	53,780
Total liabilities	46,362	114,724	161,086
Fund balances			
Reserved:			
Encumbrances	2,577	58,605	61,182
Inventories and prepaid items	989	87	1,076
Notes receivable	--	10,883	10,883
Advances receivable	--	6,414	6,414
Real property held for resale	--	11,291	11,291
Debt service	--	18,079	18,079
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	40,000	--	40,000
Contingencies	5,737	--	5,737
Future use	845	--	845
Budget stabilization	38,542	--	38,542
Unreserved, undesignated:			
Special revenue	--	56,008	56,008
Capital projects	--	77,469	77,469
Permanent funds	--	844	844
Total fund balances	88,690	240,720	329,410
Total liabilities and fund balances	$ 135,052	355,444	490,496

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

to the Statement of Net Assets
September 30, 2008
(In thousands)

Total fund balances - Governmental funds	$ 329,410
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.	2,204,728
Other long-term assets are not available as current-period resources and are not reported in the funds.	38,409
Long-term liabilities are not payable in the current period and are not reported in the funds.	(1,045,231)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	77,196
Total net assets - Governmental activities	$ 1,604,512

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

For the year ended September 30, 2008
(In thousands)

	2008		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 187,975	89,911	277,886
Sales taxes	154,445	--	154,445
Franchise fees and other taxes	41,118	52,118	93,236
Fines, forfeitures and penalties	18,946	5,628	24,574
Licenses, permits and inspections	24,268	--	24,268
Charges for services/goods	29,175	66,901	96,076
Intergovernmental	--	91,765	91,765
Property owners' participation and contributions	--	7,065	7,065
Interest and other	12,639	19,191	31,830
Total revenues	468,566	332,579	801,145
EXPENDITURES			
Current:			
General government	61,935	5,662	67,597
Public safety	394,323	4,737	399,060
Transportation, planning and sustainability	1,112	8,258	9,370
Public health	35,188	56,675	91,863
Public recreation and culture	60,751	12,009	72,760
Urban growth management	22,250	79,242	101,492
Debt service:			
Principal	--	61,800	61,800
Interest	--	40,954	40,954
Capital outlay-capital project funds	--	119,290	119,290
Total expenditures	575,559	388,627	964,186
Excess (deficiency) of revenues over expenditures	(106,993)	(56,048)	(163,041)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	104,060	104,060
Issuance of refunding bonds	--	156,038	156,038
Bond premiums	--	15,090	15,090
Payment to refunding bond escrow agent	--	(171,128)	(171,128)
Transfers in	116,311	57,316	173,627
Transfers out	(27,438)	(68,576)	(96,014)
Total other financing sources (uses)	88,873	92,800	181,673
Net change in fund balances	(18,120)	36,752	18,632
Fund balances at beginning of year	106,810	203,968	310,778
Fund balances at end of year	$ 88,690	240,720	329,410

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

Net change in fund balances - Governmental funds	$	18,632
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.		43,222
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		34,859
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.		(42,260)
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.		(76,225)
The net revenue of certain activities of internal service funds is reported with governmental activities.		(1,937)
Change in net assets - Governmental activities	$	(23,709)

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

Proprietary Funds
Statement of Net Assets
September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
ASSETS			
Current assets:			
Cash	$ 18	9	8
Pooled investments and cash	213,733	7,843	1,263
Pooled investments and cash - restricted	152,759	9,218	152,307
Total pooled investments and cash	366,492	17,061	153,570
Investments, at fair value	--	--	--
Investments, at fair value - restricted	238,405	69,658	14,419
Cash held by trustee	--	--	--
Cash held by trustee - restricted	26,936	4,536	--
Working capital advances	7,711	--	--
Accounts receivable	137,573	55,758	4,299
Less allowance for doubtful accounts	(2,141)	(620)	(673)
Net accounts receivable	135,432	55,138	3,626
Due from other funds	200	--	--
Due from other funds - restricted	--	27	--
Inventories, at cost	83,184	1,266	1,565
Prepaid expenses	2,362	453	11
Other assets	22,969	--	--
Other receivables - restricted	870	457	2,252
Total current assets	884,579	148,605	175,451
Noncurrent assets:			
Advances to other funds	2,364	--	--
Advances to other funds - restricted	--	54	124
Investments held by trustee - restricted	114,992	--	--
Interest receivable - restricted	1,471	--	--
Capital assets			
Land and other nondepreciable assets	62,395	204,908	92,770
Property, plant, and equipment in service	3,686,508	2,984,005	679,045
Less accumulated depreciation	(1,705,518)	(964,603)	(169,146)
Net property, plant, and equipment in service	1,980,990	2,019,402	509,899
Construction in progress	275,143	279,536	15,008
Nuclear fuel, net of amortization	32,730	--	--
Plant held for future use	27,783	--	--
Intangible assets, net of amortization	--	77,602	--
Total capital assets	2,379,041	2,581,448	617,677
Other long-term assets	71	--	--
Deferred costs and expenses, net of amortization	247,269	181,400	3,388
Total noncurrent assets	2,745,208	2,762,902	621,189
Total assets	$ 3,629,787	2,911,507	796,640

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2008 Total	Activities- Internal Service Funds
ASSETS			
Current assets:			
Cash	30	65	15
Pooled investments and cash	106,632	329,471	96,807
Pooled investments and cash - restricted	51,429	365,713	--
Total pooled investments and cash	158,061	695,184	96,807
Investments, at fair value	3,863	3,863	--
Investments, at fair value - restricted	10,662	333,144	--
Cash held by trustee	--	--	657
Cash held by trustee - restricted	--	31,472	--
Working capital advances	--	7,711	--
Accounts receivable	11,422	209,052	2,285
Less allowance for doubtful accounts	(226)	(3,660)	(222)
Net accounts receivable	11,196	205,392	2,063
Due from other funds	900	1,100	11
Due from other funds - restricted	--	27	--
Inventories, at cost	364	86,379	1,446
Prepaid expenses	75	2,901	33
Other assets	--	22,969	--
Other receivables - restricted	1,619	5,198	--
Total current assets	186,770	1,395,405	101,032
Noncurrent assets:			
Advances to other funds	12	2,376	56
Advances to other funds - restricted	137	315	--
Investments held by trustee - restricted	--	114,992	--
Interest receivable - restricted	--	1,471	--
Capital assets			
Land and other nondepreciable assets	83,375	443,448	713
Property, plant, and equipment in service	471,511	7,821,069	94,508
Less accumulated depreciation	(136,786)	(2,976,053)	(44,725)
Net property, plant, and equipment in service	334,725	4,845,016	49,783
Construction in progress	41,960	611,647	3,626
Nuclear fuel, net of amortization	--	32,730	--
Plant held for future use	--	27,783	--
Intangible assets, net of amortization	--	77,602	--
Total capital assets	460,060	6,038,226	54,122
Other long-term assets	--	71	--
Deferred costs and expenses, net of amortization	4,510	436,567	5
Total noncurrent assets	464,719	6,594,018	54,183
Total assets	651,489	7,989,423	155,215

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

Proprietary Funds
Statement of Net Assets
September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
LIABILITIES			
Current liabilities:			
Accounts payable	$ 81,996	4,270	2,377
Accounts and retainage payable from restricted assets	12,664	22,446	1,619
Accrued payroll	6,349	3,214	959
Accrued compensated absences	9,521	4,905	1,261
Claims payable	--	--	--
Due to other funds	--	--	--
Accrued interest payable from restricted assets	40,382	30,750	2,417
Interest payable on other debt	54	174	1
General obligation bonds payable and other tax supported debt	--	3,180	16
General obligation bonds payable and other tax supported debt payable from restricted assets	160	--	--
Revenue bonds payable	--	780	--
Revenue bonds payable from restricted assets	78,773	59,018	12,325
Capital lease obligations payable	31	4	466
Customer and escrow deposits payable from restricted assets	20,100	6,688	549
Nuclear fuel expense payable from restricted assets	18,606	--	--
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	10,089	6,756	255
Total current liabilities	278,725	142,185	22,245
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,582	600	236
Claims payable	--	--	--
Advances from other funds	--	4,334	--
Capital appreciation bond interest payable	102,448	123,167	--
Commercial paper notes payable, net of discount	35,148	178,052	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	1,427	17,342	291
Revenue bonds payable, net of discount and inclusive of premium	1,229,369	1,500,754	306,544
Pension obligation payable	13,640	6,895	2,121
Other post employment benefits payable	13,306	8,223	2,422
Capital lease obligations payable	1,181	--	1,096
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	158,996	--	--
Deferred credits and other liabilities	90,071	477,373	--
Other liabilities payable from restricted assets	--	2,382	105
Total noncurrent liabilities	1,647,168	2,319,122	340,815
Total liabilities	1,925,893	2,461,307	363,060
NET ASSETS			
Invested in capital assets, net of related debt	985,685	381,070	272,321
Restricted for:			
Debt service	48,203	33,402	14,344
Strategic reserve	149,822	5,505	--
Capital projects	42,288	--	106,880
Renewal and replacement	32,066	--	10,000
Passenger facility charges	--	--	19,446
Operating reserve	--	--	8,615
Unrestricted	445,830	30,223	1,974
Total net assets	$ 1,703,894	450,200	433,580
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	4,050	1,765	970
Total net assets - Business-type activities	$ 1,707,944	451,965	434,550

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	**2008 Total**	**Activities- Internal Service Funds**
LIABILITIES			
Current liabilities:			
Accounts payable	5,740	94,383	11,500
Accounts and retainage payable from restricted assets	5,020	41,749	--
Accrued payroll	4,157	14,679	4,866
Accrued compensated absences	5,197	20,884	6,638
Claims payable	--	--	13,600
Due to other funds	1,100	1,100	27
Accrued interest payable from restricted assets	2,252	75,801	--
Interest payable on other debt	416	645	60
General obligation bonds payable and other tax supported debt	6,114	9,310	3,685
General obligation bonds payable and other tax supported debt payable from restricted assets	1,329	1,489	--
Revenue bonds payable	--	780	--
Revenue bonds payable from restricted assets	4,720	154,836	--
Capital lease obligations payable	4	505	2
Customer and escrow deposits payable from restricted assets	2,917	30,254	--
Nuclear fuel expense payable from restricted assets	--	18,606	--
Accrued landfill closure and postclosure costs	800	800	--
Deferred credits and other liabilities	584	17,684	4,580
Total current liabilities	40,350	483,505	44,958
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,486	3,904	585
Claims payable	--	--	12,862
Advances from other funds	4,220	8,554	205
Capital appreciation bond interest payable	--	225,615	--
Commercial paper notes payable, net of discount	--	213,200	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	65,871	84,931	12,292
Revenue bonds payable, net of discount and inclusive of premium	216,297	3,252,964	--
Pension obligation payable	7,981	30,637	--
Other post employment benefits payable	8,674	32,625	--
Capital lease obligations payable	--	2,277	--
Accrued landfill closure and postclosure costs	14,988	14,988	--
Decommissioning expense payable from restricted assets	--	158,996	--
Deferred credits and other liabilities	4,262	571,706	--
Other liabilities payable from restricted assets	--	2,487	--
Total noncurrent liabilities	323,779	4,630,884	25,944
Total liabilities	364,129	5,114,389	70,902
NET ASSETS			
Invested in capital assets, net of related debt	186,523	1,825,599	36,849
Restricted for:			
Debt service	2,164	98,113	--
Strategic reserve	6,824	162,151	--
Capital projects	15,425	164,593	9,055
Renewal and replacement	1,218	43,284	--
Passenger facility charges	--	19,446	--
Operating reserve	1,725	10,340	--
Unrestricted	73,481	551,508	38,409
Total net assets	287,360	2,875,034	84,313
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	332	7,117	
Total net assets - Business-type activities	287,692	2,882,151	

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, 2008
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
OPERATING REVENUES			
Utility services	$ 1,217,735	365,123	--
User fees and rentals	--	--	84,807
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,217,735	365,123	84,807
OPERATING EXPENSES			
Operating expenses before depreciation	858,317	154,215	52,993
Depreciation and amortization	112,482	78,898	18,276
Total operating expenses	970,799	233,113	71,269
Operating income (loss)	246,936	132,010	13,538
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	43,082	2,321	6,464
Interest on revenue bonds and other debt	(85,775)	(89,526)	(20,921)
Interest capitalized during construction	--	--	900
Passenger facility charges	--	--	17,712
Amortization of bond issue cost	(668)	(678)	(229)
Cost (recovered) to be recovered in future years	(5,514)	(23,780)	--
Other nonoperating expense	(8,987)	(1,881)	(55)
Total nonoperating revenues (expenses)	(57,862)	(113,544)	3,871
Income (loss) before contributions and transfers	189,074	18,466	17,409
Capital contributions	10,807	41,354	10,849
Transfers in	--	--	--
Transfers out	(91,000)	(28,600)	--
Change in net assets	108,881	31,220	28,258
Total net assets - beginning	1,595,013	418,980	405,322
Total net assets - ending	$ 1,703,894	450,200	433,580
Reconciliation to government-wide Statement of Activities			
Change in net assets	108,881	31,220	28,258
Adjustment to consolidate internal service activities	744	(981)	17
Change in net assets - Business-type activities	$ 109,625	30,239	28,275

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2008 Total	Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,582,858	--
User fees and rentals	160,301	245,108	--
Billings to departments	--	--	274,215
Employee contributions	--	--	35,299
Operating revenues from other governments	--	--	3,088
Other operating revenues	--	--	3,587
Total operating revenues	160,301	1,827,966	316,189
OPERATING EXPENSES			
Operating expenses before depreciation	180,494	1,246,019	305,922
Depreciation and amortization	18,487	228,143	9,100
Total operating expenses	198,981	1,474,162	315,022
Operating income (loss)	(38,680)	353,804	1,167
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	7,161	59,028	689
Interest on revenue bonds and other debt	(16,083)	(212,305)	(663)
Interest capitalized during construction	1,932	2,832	--
Passenger facility charges	--	17,712	--
Amortization of bond issue cost	(182)	(1,757)	3
Cost (recovered) to be recovered in future years	--	(29,294)	--
Other nonoperating expense	(2,679)	(13,602)	(5,998)
Total nonoperating revenues (expenses)	(9,851)	(177,386)	(5,969)
Income (loss) before contributions and transfers	(48,531)	176,418	(4,802)
Capital contributions	13,871	76,881	5,316
Transfers in	49,260	49,260	--
Transfers out	(2,823)	(122,423)	(4,450)
Change in net assets	11,777	180,136	(3,936)
Total net assets - beginning	275,583	2,694,898	88,249
Total net assets - ending	287,360	2,875,034	84,313
Reconciliation to government-wide Statement of Activities			
Change in net assets	11,777	180,136	
Adjustment to consolidate internal service activities	(1,778)	(1,998)	
Change in net assets - Business-type activities	9,999	178,138	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,239,293	354,443	86,135
Cash payments to suppliers for goods and services	(752,785)	(82,872)	(32,166)
Cash payments to employees for services	(131,161)	(58,486)	(18,264)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(34,722)	--	--
Net cash provided (used) by operating activities	320,625	213,085	35,705
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(91,000)	(28,600)	--
Interest paid on revenue notes and other debt	(117)	(41)	--
Increase in deferred assets	(943)	--	--
Loans to other funds	--	--	--
Loan repayments to other funds	--	(172)	--
Loan repayments from other funds	70	27	15
Net cash provided (used) by noncapital financing activities	(91,990)	(28,786)	15
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	108,514	155,890	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	4,220	--
Principal paid on long-term debt	(89,438)	(65,449)	(12,267)
Purchased interest received	1,105	637	--
Interest paid on revenue bonds and other debt	(67,486)	(79,737)	(19,258)
Passenger facility charges	--	--	17,712
Acquisition and construction of capital assets	(251,292)	(253,480)	(14,200)
Contributions from municipality	--	--	--
Contributions from state and federal governments	--	--	8,948
Contributions in aid of construction	11,090	17,194	--
Bond issuance costs	(1,296)	(1,297)	--
Bond premiums	11	2,544	2
Bonds issued for advanced refundings of debt	115	305,605	20
Cash paid for bond refunding escrow	(119)	(295,705)	(21)
Cash paid for nuclear fuel inventory	(17,514)	--	--
Net cash provided (used) by capital and related financing activities	$ (306,522)	(210,090)	(19,064)

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2008 Total	Activities-Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	161,100	1,840,971	318,134
Cash payments to suppliers for goods and services	(81,440)	(949,263)	(113,353)
Cash payments to employees for services	(81,741)	(289,652)	(105,142)
Cash payments to claimants/beneficiaries	--	--	(78,004)
Taxes collected and remitted to other governments	--	(34,722)	--
Net cash provided (used) by operating activities	(2,081)	567,334	21,635
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	49,260	49,260	--
Transfers out	(2,823)	(122,423)	(4,450)
Interest paid on revenue notes and other debt	--	(158)	--
Increase in deferred assets	--	(943)	--
Loans to other funds	(11)	(11)	--
Loan repayments to other funds	(1,306)	(1,478)	(985)
Loan repayments from other funds	68	180	230
Net cash provided (used) by noncapital financing activities	45,188	(75,573)	(5,205)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	264,404	--
Proceeds from the sale of general obligation bonds and other tax supported debt	1,500	5,720	--
Principal paid on long-term debt	(10,258)	(177,412)	(3,243)
Purchased interest received	2	1,744	--
Interest paid on revenue bonds and other debt	(16,834)	(183,315)	(679)
Passenger facility charges	--	17,712	--
Acquisition and construction of capital assets	(39,538)	(558,510)	(8,679)
Contributions from municipality	--	--	(1,874)
Contributions from state and federal governments	--	8,948	--
Contributions in aid of construction	4,551	32,835	--
Bond issuance costs	(2,951)	(5,544)	--
Bond premiums	384	2,941	--
Bonds issued for advanced refundings of debt	140,766	446,506	2,280
Cash paid for bond refunding escrow	(134,704)	(430,549)	(2,364)
Cash paid for nuclear fuel inventory	--	(17,514)	--
Net cash provided (used) by capital and related financing activities	(57,281)	(592,957)	(14,559)

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (196,894)	(211,052)	(33,594)
Proceeds from sale and maturities of investment securities	192,637	201,250	32,173
Interest on investments	37,249	2,144	5,229
Net cash provided (used) by investing activities	32,992	(7,658)	3,808
Net increase in cash and cash equivalents	(44,895)	(33,449)	20,464
Cash and cash equivalents, October 1	438,341	55,055	133,114
Cash and cash equivalents, September 30	393,446	21,606	153,578
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	246,936	132,010	13,538
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	112,482	76,398	18,276
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	(2,611)	--	--
(Increase) decrease in accounts receivable	2,901	(11,108)	906
Increase (decrease) in allowance for doubtful accounts	137	(95)	508
Decrease in due from other funds	--	--	617
(Increase) decrease in inventory	(15,164)	731	(1,565)
Decrease in prepaid expenses and other assets	(21,716)	(328)	--
(Increase) decrease in deferred costs and other expenses	(31,006)	--	--
(Increase) decrease in other long-term assets	73	--	--
Increase (decrease) in accounts payable	15,522	1,420	335
Increase in accrued payroll and compensated absences	1,548	801	356
Decrease in claims payable	--	--	--
Increase in pension obligations payable	4,258	2,154	643
Increase in other post employment benefits payable	13,306	8,223	2,422
Increase (decrease) in deferred credits and other liabilities	(7,592)	(144)	(408)
Increase (decrease) in customer deposits	1,551	523	87
Total adjustments	73,689	81,075	22,167
Net cash provided (used) by operating activities	$ 320,625	213,085	35,705

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2008 Total	Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(38,433)	(479,973)	--
Proceeds from sale and maturities of investment securities	29,038	455,098	--
Interest on investments	7,161	51,783	689
Net cash provided (used) by investing activities	(2,234)	26,908	689
Net increase in cash and cash equivalents	(16,408)	(74,288)	2,560
Cash and cash equivalents, October 1	174,499	801,009	94,919
Cash and cash equivalents, September 30	158,091	726,721	97,479
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(38,680)	353,804	1,167
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	18,487	225,643	9,100
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	(2,611)	--
(Increase) decrease in accounts receivable	4,715	(2,586)	1,366
Increase (decrease) in allowance for doubtful accounts	(4,465)	(3,915)	--
Decrease in due from other funds	--	617	707
(Increase) decrease in inventory	176	(15,822)	(278)
Decrease in prepaid expenses and other assets	(75)	(22,119)	(10)
(Increase) decrease in deferred costs and other expenses	--	(31,006)	43
(Increase) decrease in other long-term assets	--	73	--
Increase (decrease) in accounts payable	(147)	17,130	917
Increase in accrued payroll and compensated absences	1,011	3,716	906
Decrease in claims payable	--	--	4,241
Increase in pension obligations payable	2,533	9,588	--
Increase in other post employment benefits payable	8,674	32,625	--
Increase (decrease) in deferred credits and other liabilities	5,934	(2,210)	3,476
Increase (decrease) in customer deposits	(244)	1,917	--
Total adjustments	36,599	213,530	20,468
Net cash provided (used) by operating activities	(2,081)	567,334	21,635

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2008
(In thousands)

	Business-Type Activities		
	Electric	**Water and Wastewater**	**Airport**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	$ 33,721	(2,654)	--
Increase (decrease) in capital appreciation bond interest payable	(10,058)	3,498	--
Capital assets contributed from (to) other funds	(9,883)	--	(93)
Increase in contributed facilities	--	24,253	--
Increase (decrease) in the fair value of investments	(8,359)	33	(110)
Amortization of bond issue costs	(634)	(678)	(229)
Amortization of bond discounts and premiums	(4,561)	(3,332)	(273)
Amortization of deferred loss on refundings	9,883	5,135	1,085
Loss on disposal of assets	(8,987)	(1,880)	(55)
Deferred gain (loss) on bond refunding	(7)	(6,153)	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	14,060	(1,023)	--
Deferred costs (recovered) to be recovered	(3,938)	(23,780)	--
Increase in deferred credits and other liabilities	943	21,135	--
Capital lease obligations	--	--	1,562

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2008 Total	Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	5	31,072	--
Increase (decrease) in capital appreciation bond interest payable	--	(6,560)	--
Capital assets contributed from (to) other funds	220	(9,756)	1,543
Increase in contributed facilities	--	24,253	--
Increase (decrease) in the fair value of investments	(172)	(8,608)	--
Amortization of bond issue costs	(182)	(1,723)	--
Amortization of bond discounts and premiums	(539)	(8,705)	--
Amortization of deferred loss on refundings	1,154	17,257	2
Loss on disposal of assets	(2,539)	(13,461)	(1,982)
Deferred gain (loss) on bond refunding	(455)	(6,615)	(154)
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	(2,415)	10,622	(29)
Deferred costs (recovered) to be recovered	--	(27,718)	--
Increase in deferred credits and other liabilities	--	22,078	(128)
Capital lease obligations	--	1,562	--

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

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 1,226	4,187
Other assets	121	--
Total assets	1,347	4,187
LIABILITIES		
Accounts payable	--	53
Due to other governments	--	3,319
Deposits and other liabilities	608	815
Total liabilities	608	4,187
NET ASSETS		
Held in trust	739	
Total net assets	$ 739	

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

		Private-purpose Trust
ADDITIONS		
Contributions	$	269
Interest and other		44
Total additions		313
DEDUCTIONS		
Benefit payments		312
Total deductions		312
Net additions (deductions) before transfers		1
Total net assets - beginning		738
Total net assets - ending	$	739

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with GAAP for local governments as prescribed by the GASB. The City has implemented GASB Statements No. 1 through No. 48 and No. 50. In fiscal year 2008, the City implemented GASB Statement No. 45 entitled "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*", GASB Statement No. 48 entitled "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*", and GASB Statement No. 50 entitled "*Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*". The more significant accounting and reporting policies and practices used by the City are described below.

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

a -- Reporting Entity

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

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

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

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

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

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

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

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

b -- Government-wide and Fund Financial Statements

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

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

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GASB Statement 34; the City has elected to present the Airport Fund as a major fund even though it does not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into 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, fiduciary fund assets are held for the benefit of a third party and cannot be used to address activities or obligations of the primary government; therefore, they are not included in the government-wide statements. Reconciliation of the fund financial statements to the government-wide financial statements is provided in the financial statements to explain the differences created by the integrated approach of GASB 34.

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

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

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

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

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

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

The City reports the following major governmental fund:

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

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

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

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

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

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

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

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

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. In accordance with GASB Statement No. 20, the City has elected to follow GASB for statements issued after November 30, 1989.

The City reports the following major enterprise funds:

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

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

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

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

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

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

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

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

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

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

d -- Budget

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

Annual budgets are legally adopted for the General Fund, certain special revenue funds, and debt service funds. Additional information related to special revenue funds with legally adopted budgets can be found in Exhibit E-13. Annual budgets are also adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain payroll accruals, employee training and other fund-level expenditures are budgeted as general city responsibilities.

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

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, 2008. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

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

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2008 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 77,776	26,201	33,626	--	--	137,603
Nonmajor governmental funds	926	20	12,274	6,223	4,246	23,689
Internal service funds	2,285	--	--	--	--	2,285
Allowance for doubtful accounts	(70,645)	(12,182)	--	(773)	--	(83,600)
Total	$ 10,342	14,039	45,900	5,450	4,246	79,977

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

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

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

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

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

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

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

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

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

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

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

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Strategic reserve	$ 149,822	--	--	--	149,822
Capital projects	60,971	5,074	109,042	38,282	213,369
Customer and escrow deposits	22,389	9,218	549	2,622	34,778
Debt service	88,585	69,658	14,344	10,661	183,248
Federal grants	--	--	2,252	--	2,252
Plant decommissioning	162,994	--	--	--	162,994
Nuclear fuel inventory replacement	18,606	--	--	--	18,606
Operating reserve account	--	--	8,615	8,910	17,525
Passenger facility charge account	--	--	24,300	--	24,300
Renewal and replacement account	32,066	--	10,000	3,372	45,438
	$ 535,433	83,950	169,102	63,847	852,332

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

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

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

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

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

		Business-type Activities			
Assets	Governmental Activities (1)	Electric	Water and Wastewater	Airport	Nonmajor Enterprise
Buildings	5-40	15-50	15-50	15-40	12-40
Equipment	5-50	6-40	5-60	4-50	5-40
Vehicles	3-20	3-40	3-20	3-20	3-30
Communication equipment	7-15	7-18	7	7	7
Furniture and fixtures	7-12	12-40	12	10-12	7-12
Computers and EDP equipment	3-7	3-7	3-7	3-7	3-7
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds

Depreciation of assets is classified by functional component. The City considers land, arts and treasures, and library collections to be inexhaustible; therefore, these assets are reported as nondepreciable. The true value of arts, treasures, and library collections is expected to be maintained over time and, thus, is not depreciated.

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

Intangible assets include the amortized cost of a $100 million contract, net of accumulated amortization of $22 million 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.

In addition the FASB 71 items above, deferred expenses include debt issuance costs net of amortization.

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

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

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

	Work-week	Non-Civil Service Employees (1)	Civil Service Police (2)	Civil Service Fire (3)
Vacation	0-40	240	240	240
	42	270	N/A	N/A
	48	309	N/A	N/A
	53	N/A	N/A	360
	56	360	N/A	N/A
Sick leave	0-40	720	1400	720
	42	756	N/A	N/A
	48	926	N/A	N/A
	53	N/A	N/A	1080
	56	1080	N/A	N/A

(1) Non-civil service employees are eligible for accumulated sick leave payout if hired before October 1, 1986.
(2) Civil service police employees with 10 years of actual service are eligible for accumulated sick leave payout.
(3) Civil service fire employees are eligible for accumulated sick leave payout regardless of hire date.

Other Post Employment Benefits – The City provides certain health care benefits for its retired employees and their families as more fully described in Note 15. In fiscal year 2008, the City implemented GASB Statement No. 45 and is now required to report the actuarially determined cost of these post-employment benefits, other than pensions. At September 30, 2008 the City's total actuarial accrued liability for these retiree benefits was approximately $1.0 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

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

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

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

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

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

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

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

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	$	2,093
Water and Wastewater		494
Airport		509
Nonmajor Enterprise		196

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred or in future months. The City reported fuel costs on the same basis as it recognized revenue in 2008 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, 2008. The amount of unbilled revenue recorded, as of September 30, 2008, for the Electric Fund was $40.3 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, 2008. The amount of unbilled revenue recorded as of September 30, 2008 was $13.9 million for water and $11.5 million for wastewater.

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

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

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

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

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

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

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

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

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

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

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

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

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 ($329.4 million) differs from the net assets reported in governmental activities within the government-wide financial statements ($1.6 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		$ 329,410
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	3,084,084	
Less: accumulated depreciation	(879,356)	
Total		2,204,728
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	34,421	
Deferred costs and expenses	3,988	
Total		38,409
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	(814,039)	
Pension obligation payable	(36,812)	
Other post employment benefits payable	(54,882)	
Capital lease obligations payable	(480)	
Compensated absences	(94,765)	
Interest payable	(3,399)	
Deferred credits and other liabilities	(40,854)	
Total		(1,045,231)
Internal service funds		77,196
Total net assets - Governmental activities		$ 1,604,512

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 of $18.6 million in fund balances of governmental funds differs from the change in net assets of ($23.7 million) for governmental activities as reported in the statement of activities. The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ 18,632
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	126,928	
Depreciation expense	(83,544)	
Loss on disposal of capital assets	(162)	
Total		43,222
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(9,084)	
Charges for services	731	
Interest and other	371	
Capital assets contribution	42,841	
Total		34,859
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	(104,060)	
Principal repayment on long-term debt	61,800	
Total		(42,260)
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	(10,225)	
Pension obligation	(12,791)	
Other post employment benefits	(54,882)	
Interest and other	1,673	
Total		(76,225)
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		(1,937)
Change in net assets - Governmental activities		$ (23,709)

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2008, the following funds reported deficits in fund balances (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

Nonmajor Governmental	Deficit
Special Revenue Funds:	
Municipal Court Traffic Safety Fund	$ 70
Medicaid Administrative Claims	696
Senior Nutrition	10
Performance Contracting Fund	240
Rutherford Lane Facility Fund	644
City Hall Fund	186
I-35 Parking Program	254
RMMA Reimbursement	18
Capital Projects Funds:	
Parks and recreation facilities	288
Libraries	17
Radio Trunking	2,464
Transportation	570
Drainage & Open Spaces	1,563
Parks	1,481
Cultural Facilities	1,714
Central Library	94
Build Austin	281
Build Central Texas	469
Capital reserve	3,813
Watershed Protection	768
City Hall, plaza, parking garage	7,090
Conservation Land	15

There were no deficits in net assets reported in the proprietary financial statements for the current fiscal year.

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2008 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	$ 74,422	--
Nonmajor governmental funds	220,366	--
Electric	213,733	152,759
Water and Wastewater	7,843	9,218
Airport	1,263	152,307
Nonmajor enterprise funds	106,632	51,429
Internal service funds	96,807	--
Fiduciary funds	5,413	--
Subtotal pooled investments and cash	726,479	365,713
Total pooled investments and cash	$ 1,092,192	

5 – INVESTMENTS AND DEPOSITS
a -- Investments

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

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

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

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

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

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

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

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, 2008, TexPool and TexasDAILY had a weighted average maturity of 42 days and 40.7 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2008.

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

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2008 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 18,489	208,455	--	226,944
Money Market Funds	--	26,936	--	26,936
US Treasury Notes	--	150,773	--	150,773
US Agency Bonds	--	92,770	--	92,770
Total non-pooled investments	18,489	478,934	--	497,423
Pooled investments:				
Local Government Investment Pools	109,418	194,236	1,497	305,151
US Treasury Notes	14,598	25,916	202	40,716
US Agency Bonds	268,722	477,050	3,714	749,486
Total pooled investments (1)	392,738	697,202	5,413	1,095,353
Total investments	$ 411,227	1,176,136	5,413	1,592,776

(1) A difference of $3.2 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

At September 30, 2008, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in millions): Federal Farm Credit Bank ($179.6 or 11%), Federal Home Loan Bank ($342.2 or 21%), Federal Home Loan Mortgage Corporation ($142.8 or 9%), and Federal National Mortgage Association ($162.5 or 10%).

b -- Investment categories

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

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

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

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

Operating Funds
As of September 30, 2008, the City operating funds had the following investments:

	Fair Value (in thousands)				
Investment Type	**Governmental Activities**	**Business-type Activities**	**Fiduciary Funds**	**Total**	**Weighted Average Maturity (days)**
Local Government Invest Pools (LGIPs)	$ 109,418	194,236	1,497	305,151	1
US Treasury Notes	14,598	25,916	202	40,716	409
US Agency Bonds	268,722	477,050	3,714	749,486	490
Total	$ 392,738	697,202	5,413	1,095,353	351

Credit Risk
Approximately 4% of the portfolio consists of direct obligations of the US government. As of September 30, 2008, Standard and Poor's issued the following ratings for other investments:

LGIPs	28%	AAAm
US Agencies - Rated	67%	AAA

The remaining 1% in portfolio securities were unrated, as follows:

Investment	Final Maturity	Fair Value in Thousands
Federal Agricultural Mortgage Corporation	2/15/2009	$15,252

At September 30, 2008, the operating funds held investments with more than 5 percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank ($156.0 or 14 percent), Federal Home Loan Bank ($297.6 or 27 percent), Federal National Mortgage Association ($145.4 or 13 percent), Federal Home Loan Mortgage Corporation ($135.3 or 12 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, 2008, slightly more than 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 351 days, which was less than the threshold of 365 days.

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

Debt Service Funds
As of September 30, 2008, 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)	$ 18,489	--	N/A
Enterprise-Utility (1)			
TexPool (LGIPs)	--	158,243	N/A
Enterprise-Airport			
TexPool (LGIPs)	--	14,344	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	14,525	N/A
Total	$ 18,489	187,112	

(1) Includes combined pledge debt service

Credit Risk
As of September 30, 2008, 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, 2008, portfolios in this category held investments in overnight securities (LGIPs).

Special Project Fund
As of September 30, 2008, the City's special project fund had the following investments:

	Fair Value (in thousands)	
	Business-type Activities	Final Maturity
Airport Construction		
TexPool (LGIPs)	$ 75	N/A
Total special projects fund	$ 75	

Credit Risk
As of September 30, 2008, Standard and Poor's rated TexPool AAAm.

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

At September 30, 2008, the portfolio in this category held investments in overnight securities (LGIPs).

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

Special Purpose Funds
Austin Energy Strategic Reserve Fund
As of September 30, 2008, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (days)
Local Government Investment Pools	$ 21,268	1
US Treasury Notes	72,660	889
US Agency Bonds	55,892	774
Total	$ 149,820	716

Credit Risk
At September 30, 2008, 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, 2008, the Austin Energy Strategic Reserve Fund held investments with more than 5 percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank ($35.7 or 24 percent), and Federal National Mortgage Association ($15.1 or 10%).

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, 2008, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 716 days (1.96 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2008, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasury Notes	$ 78,113	3.79
US Agency Bonds	36,879	5.21
Money Market fund	26,936	1 day
Total	$ 141,928	3.54

Credit Risk
As of September 30, 2008, Standard and Poor's rated the US Agency Bonds AAA and the money market fund AAAm. The remaining securities are direct obligations of the US government.

At September 30, 2008, the NDTF held investments with more than 5 percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank ($8.9 or 6 percent), Federal Home Loan Mortgage Corporation ($7.5 or 5 percent), and Federal Farm Credit Bank ($18.4 or 13 percent).

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

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, 2008, the dollar weighted average maturity was 3.54 years.

Investments and deposits portfolio balances at September 30, 2008, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 22,457	483,535	--	505,992
Pooled investments and cash	396,713	704,259	5,413	1,106,385
Total investments and cash	419,170	1,187,794	5,413	1,612,377
Unrestricted cash	3,968	65	--	4,033
Restricted cash	--	31,472	--	31,472
Pooled investments and cash	396,713	704,259	5,413	1,106,385
Investments	18,489	451,998	--	470,487
Total investments and cash	$ 419,170	1,187,794	5,413	1,612,377

A difference of $14.2 million exists between portolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits
The September 30, 2008, carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Total
Cash			
Unrestricted	$ 88	65	153
Cash held by trustee			
Unrestricted	3,880	--	3,880
Restricted	--	31,472	31,472
Pooled cash	3,975	7,057	11,032
Total deposits	$ 7,943	38,594	46,537

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, 2008.

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, 2007, upon which the 2008 levy was based, was $68,736,790,926.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2008, 99.14% of the current tax levy (October 1, 2007) was collected. The statutory lien date is January 1.

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

6 – PROPERTY TAXES, continued

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District 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, 2008, was $.2730 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7270 per $100 assessed valuation, and could levy approximately $499,716,470 in additional taxes from the assessed valuation of $68,736,790,926 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

The City has recorded capitalized interest for fiscal year 2008 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds		
Major fund:		
Airport	$	900
Nonmajor enterprise funds:		
Convention Center		556
Drainage		973
Golf		13
Solid Waste Services		390

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Capital asset balances as of September 30, 2008 (in thousands):

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 302,462	442,014	744,476
Arts and treasures	5,362	1,434	6,796
Library collections	13,813	--	13,813
Total	321,637	443,448	765,085
Depreciable property, plant, and equipment in service			
Building and improvements	588,894	2,146,212	2,735,106
Plant and equipment	164,461	5,549,991	5,714,452
Vehicles	91,112	124,866	215,978
Infrastructure	1,813,499	--	1,813,499
Total	2,657,966	7,821,069	10,479,035
Less accumulated depreciation for			
Building and improvements	(162,808)	(727,012)	(889,820)
Plant and equipment	(85,729)	(2,182,546)	(2,268,275)
Vehicles	(55,010)	(66,495)	(121,505)
Infrastructure	(620,534)	--	(620,534)
Total	(924,081)	(2,976,053)	(3,900,134)
Net property, plant, and equipment in service	1,733,885	4,845,016	6,578,901
Other capital assets not depreciated			
Construction in progress	203,328	611,647	814,975
Nuclear fuel, net of amortization	--	32,730	32,730
Plant held for future use	--	27,783	27,783
Intangible assets, net of amortization	--	77,602	77,602
Total capital assets	$ 2,258,850	6,038,226	8,297,076

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 261,328	44,817	(3,683)	302,462
Arts and treasures	5,153	209	--	5,362
Library collections	13,761	52	--	13,813
Total	280,242	45,078	(3,683)	321,637
Depreciable property, plant, and equipment in service				
Building and improvements	570,368	18,533	(7)	588,894
Plant and equipment	152,248	14,652	(2,439)	164,461
Vehicles	81,723	12,112	(2,723)	91,112
Infrastructure	1,736,284	77,215	--	1,813,499
Total	2,540,623	122,512	(5,169)	2,657,966
Less accumulated depreciation for				
Building and improvements	(145,571)	(17,238)	1	(162,808)
Plant and equipment	(70,835)	(17,317)	2,423	(85,729)
Vehicles	(50,221)	(7,366)	2,577	(55,010)
Infrastructure	(569,812)	(50,722)	--	(620,534)
Total	(836,439)	(92,643) (2)	5,001	(924,081)
Net property, plant, and equipment in service	1,704,184	29,869	(168)	1,733,885
Other capital assets not depreciated				
Construction in progress	183,230	127,017	(106,919)	203,328
Total capital assets	$ 2,167,656	201,964	(110,770)	2,258,850

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

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

Governmental activities:	
General government	$ 3,840
Public safety	12,041
Transportation, planning, and sustainability	42,849
Public health	1,594
Public recreation and culture	8,573
Urban growth management	14,646
Internal service funds	9,100
Total increases in accumulated depreciation	$ 92,643

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 59,662	2,733	--	62,395
Total	59,662	2,733	--	62,395
Depreciable property, plant, and equipment in service				
Building and improvements	652,080	2,499	(675)	653,904
Plant and equipment	2,859,225	155,751	(9,713)	3,005,263
Vehicles	25,320	2,881	(860)	27,341
Total	3,536,625	161,131	(11,248)	3,686,508
Less accumulated depreciation for				
Building and improvements	(310,904)	(16,923)	--	(327,827)
Plant and equipment	(1,287,337)	(93,711)	20,459 (2)	(1,360,589)
Vehicles	(16,080)	(1,848)	826	(17,102)
Total	(1,614,321)	(112,482) (1)	21,285	(1,705,518)
Net property, plant, and equipment in service	1,922,304	48,649	10,037	1,980,990
Other capital assets not depreciated				
Construction in progress	192,047	246,981	(163,885)	275,143
Nuclear fuel, net of amortization	27,622	5,108	--	32,730
Plant held for future use	27,783	--	--	27,783
Total capital assets	$ 2,229,418	303,471	(153,848)	2,379,041

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 112,482
Total increases in accumulated depreciation	$ 112,482

(2) Capital asset activity includes a decrease in accumulated depreciation of approximately $16 million to properly reflect retirements of certain assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 145,357	59,551	--	204,908
Total	145,357	59,551	--	204,908
Depreciable property, plant, and equipment in service				
Building and improvements	429,924	96,986	(183)	526,727
Plant and equipment	2,166,886	264,053	(3,715)	2,427,224
Vehicles	25,831	4,685	(462)	30,054
Total	2,622,641	365,724	(4,360)	2,984,005
Less accumulated depreciation for				
Building and improvements	(146,089)	(16,825)	--	(162,914)
Plant and equipment	(728,145)	(57,482)	958	(784,669)
Vehicles	(15,437)	(2,091)	508	(17,020)
Total	(889,671)	(76,398) (2)	1,466	(964,603)
Net property, plant, and equipment in service	1,732,970	289,326	(2,894)	2,019,402
Other capital assets not depreciated				
Construction in progress	435,118	242,924	(398,506)	279,536
Intangible assets, net of amortization	80,102	--	(2,500)	77,602
Total capital assets	$ 2,393,547	591,801	(403,900)	2,581,448

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 34,468
Wastewater	41,930
Total increases in accumulated depreciation	$ 76,398

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 87,650	4,298	--	91,948
Arts and treasures	778	44	--	822
Total	88,428	4,342	--	92,770
Depreciable property, plant, and equipment in service				
Building and improvements	641,436	10,133	--	651,569
Plant and equipment	19,901	2,016	(188)	21,729
Vehicles	5,518	426	(197)	5,747
Total	666,855	12,575	(385)	679,045
Less accumulated depreciation for				
Building and improvements	(141,023)	(16,472)	--	(157,495)
Plant and equipment	(7,379)	(1,426)	92	(8,713)
Vehicles	(2,743)	(378)	183	(2,938)
Total	(151,145)	(18,276) (1)	275	(169,146)
Net property, plant, and equipment in service	515,710	(5,701)	(110)	509,899
Other capital assets not depreciated				
Construction in progress	16,303	14,756	(16,051)	15,008
Total capital assets	$ 620,441	13,397	(16,161)	617,677

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 18,276
Total increases in accumulated depreciation	$ 18,276

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 72,142	10,621	--	82,763
Arts and treasures	612	--	--	612
Total	72,754	10,621	--	83,375
Depreciable property, plant, and equipment in service				
Building and improvements	311,959	2,462	(409)	314,012
Plant and equipment	74,234	22,772	(1,231)	95,775
Vehicles	57,646	10,717	(6,639)	61,724
Total	443,839	35,951	(8,279)	471,511
Less accumulated depreciation for				
Building and improvements	(70,023)	(9,120)	367	(78,776)
Plant and equipment	(25,970)	(3,601)	996	(28,575)
Vehicles	(28,341)	(5,766)	4,672	(29,435)
Total	(124,334)	(18,487) (2)	6,035	(136,786)
Net property, plant, and equipment in service	319,505	17,464	(2,244)	334,725
Other capital assets not depreciated				
Construction in progress	36,693	41,330	(36,063)	41,960
Total capital assets	$ 428,952	69,415	(38,307)	460,060

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	$ 7,886
Other nonmajor enterprise funds	10,601
Total increases in accumulated depreciation	$ 18,487

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2008, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 364,811	77,203	--	442,014
Arts and treasures	1,390	44	--	1,434
Total	366,201	77,247	--	443,448
Depreciable property, plant, and equipment in service				
Building and improvements	2,035,399	112,080	(1,267)	2,146,212
Plant and equipment	5,120,246	444,589	(14,844)	5,549,991
Vehicles	114,315	18,470	(7,919)	124,866
Total	7,269,960	575,139	(24,030)	7,821,069
Less accumulated depreciation for				
Building and improvements	(668,039)	(59,340)	367	(727,012)
Plant and equipment	(2,048,831)	(156,220)	22,505 (3)	(2,182,546)
Vehicles	(62,601)	(10,083)	6,189	(66,495)
Total	(2,779,471)	(225,643) (2)	29,061	(2,976,053)
Net property, plant, and equipment in service	4,490,489	349,496	5,031	4,845,016
Other capital assets not depreciated				
Construction in progress	680,161	545,991	(614,505)	611,647
Nuclear fuel, net of amortization	27,622	5,108	--	32,730
Plant held for future use	27,783	--	--	27,783
Intangible assets, net of amortization	80,102	--	(2,500)	77,602
Total capital assets	$ 5,672,358	977,842	(611,974)	6,038,226

(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	$ 112,482
Water	34,468
Wastewater	41,930
Airport	18,276
Convention Center	7,886
Other nonmajor enterprise funds	10,601
Total increases in accumulated depreciation	$ 225,643

(3) Capital asset activity for the Electric Fund includes a decrease in accumulated depreciation of approximately $16 million to properly reflect retirements of certain assets.

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are Citywide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2007. Membership in the plans at December 31, 2007, is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	4,461	454	475	5,390
Current employees	8,358	1,535	1,047	10,940
Total	12,819	1,989	1,522	16,330

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%	13.0%	15.7%
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2008, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	$ 34,229	19,872	13,552	67,653
Employees	34,093	14,343	11,788	60,224
Total contributions	$ 68,322	34,215	25,340	127,877

c -- Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost of $91,555,000 for fiscal year ended September 30, 2008, was $23,902,000 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):				
2006	$ 40,988	18,047	12,976	72,011
2007	49,818	18,047	11,737	79,602
2008	56,848	19,872	14,835	91,555
Percentage of APC contributed:				
2006	73%	100%	92%	N/A
2007	63%	100%	106%	N/A
2008	65%	100%	87%	N/A
Net Pension Obligation:				
2006	$ 24,061	--	1,609	25,670
2007	43,334	--	1,737	45,071
2008	63,740	--	3,709	67,449

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

The Net Pension Obligation associated with the City Employees Retirement and Pension Fund and the Fire Fighters' Relief and Retirement Fund for the fiscal year ended December 31, 2007 (in thousands):

	City Employees	Fire Fighters	Total
Annual required contribution	$ 56,080	14,788	70,868
Interest in net pension obligation	3,358	135	3,493
Adjustment to annual required contribution	(2,590)	(88)	(2,678)
Annual pension cost	56,848	14,835	71,683
Employer contributions	(36,442)	(12,863)	(49,305)
Change in net pension obligation	20,406	1,972	22,378
Beginning net pension obligation	43,334	1,737	45,071
Net pension obligation	$ 63,740	3,709	67,449

The latest actuarial valuations were completed as of December 31, 2007. 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	20% of market value plus 80% of expected actuarial value
Inflation Rate	3.25%	4%	3.5%
Projected Annual Salary Increases	5% to 6%	6.8% average	4.5% to 16.6%
Post retirement benefit increase	None	None	None
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	23.8 years	30 years

8 – RETIREMENT PLANS, continued
d -- Schedule of funding progress

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

Valuation Date, December 31, 2007		Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees	$	1,653,500	2,112,800	459,300	78.3%	417,451	110.0%
Police Officers		482,303	637,560	155,257	75.6%	111,809	138.9%
Fire Fighters (2)		584,420	586,802	2,382	99.6%	76,556	3.1%

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

9 – SELECTED REVENUES
a -- Major enterprise funds

Electric and Water and Wastewater
The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 9, 2006, the PUC approved the City's most recent wholesale transmission rate of $1.002466/kW. Transmission revenues totaled approximately $58 million in 2008. 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.

9 – SELECTED REVENUES, continued
a -- Major enterprise funds, continued

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 2008, the Airport Fund revenues included minimum concession guarantees of $8,441,659.

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, 2008 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2009	$ 5,435
2010	891
2011	646
2012	646
2013	646
2014-2018	721
2019-2023	366
Totals	$ 9,351

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

10 – DEBT AND NON-DEBT LIA0BILITIES
a -- Long-Term Liabilities

The following is a summary of long-term obligation balances at September 30, 2008 (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 726,678	24,370	751,048
Certificates of obligation	71,925	34,971	106,896
Contractual obligations	31,413	29,211	60,624
Other tax supported debt	--	7,178	7,178
General obligation bonds and other tax supported debt total	830,016	95,730	925,746
Commercial paper	--	213,200	213,200
Revenue notes	--	28,000	28,000
Revenue bonds	--	3,406,897	3,406,897
Contract revenue bonds	--	1,683	1,683
Capital lease obligations	482	2,782	3,264
Debt service requirements total	830,498	3,748,292	4,578,790
Other long-term obligations			
Accrued compensated absences	102,555	24,788	127,343
Claims payable	26,462	--	26,462
Accrued landfill closure and postclosure costs	--	15,788	15,788
Decommissioning expense payable	--	158,996	158,996
Pension obligation payable	36,812	30,637	67,449
Other post employment benefits	54,882	32,625	87,507
Other liabilities	91,842	622,131	713,973
	312,553	884,965	1,197,518
Total long-term obligations	$ 1,143,051	4,633,257	5,776,308

This schedule excludes select current liabilities of $59,936 for governmental activities and $245,863 for business-type activities and capital appreciation bond interest payable of $225,615 for business-type activities.

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

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

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

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

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2008 (in thousands):

Description	September 30, 2007	Increases	Decreases	September 30, 2008	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 659,761	270,301	(203,384)	726,678	45,289
Certificates of obligation, net	94,919	3,820	(26,814)	71,925	6,405
Contractual obligations, net	32,227	4,035	(4,849)	31,413	5,603
General obligation bonds and other tax supported debt total	786,907	278,156	(235,047)	830,016	57,297
Capital lease obligations	475	7	--	482	166
Debt service requirements total	787,382	278,163	(235,047)	830,498	57,463
Other long-term obligations					
Accrued compensated absences	92,102	10,890	(437)	102,555	44,841
Claims payable	22,221	13,688	(9,447)	26,462	13,600
Pension obligation payable	24,022	12,790	--	36,812	--
Other post employment benefits	--	68,095	(13,213)	54,882	--
Other liabilities	76,476	20,750	(5,384)	91,842	75,472
Governmental activities total	1,002,203	404,376	(263,528)	1,143,051	191,376
Business-type activities:					
Electric activities					
General obligation bonds, net	1,231	126	(147)	1,210	14
Contractual obligations	517	--	(140)	377	146
General obligation bonds and other tax supported debt total	1,748	126	(287)	1,587	160
Commercial paper notes, net	149,941	108,514	(223,307)	35,148	--
Revenue bonds, net	1,167,299	229,501	(88,658)	1,308,142	78,773
Capital lease obligations	1,242	--	(30)	1,212	31
Debt service requirements total	1,320,230	338,141	(312,282)	1,346,089	78,964
Other long-term obligations					
Accrued compensated absences	10,816	1,050	(763)	11,103	9,521
Decommissioning expense payable	148,763	159,665	(149,432)	158,996	--
Pension obligation payable	9,382	4,258	--	13,640	--
Other post employment benefits	--	13,306	--	13,306	--
Other liabilities	122,492	22,424	(24,656)	120,260	30,189
Electric activities total	1,611,683	538,844	(487,133)	1,663,394	118,674
Water and Wastewater activities					
General obligation bonds, net	2,734	--	(669)	2,065	469
Contractual obligations, net	8,974	4,220	(1,915)	11,279	2,179
Other tax supported debt, net	7,768	--	(590)	7,178	532
General obligation bonds and other tax supported debt total	19,476	4,220	(3,174)	20,522	3,180
Commercial paper notes, net	159,062	155,890	(136,900)	178,052	--
Revenue bonds, net	1,474,228	305,786	(221,145)	1,558,869	59,018
Contract revenue bonds, net	2,423	--	(740)	1,683	780
Capital lease obligations	1,327	2	(1,325)	4	4
Debt service requirements total	1,656,516	465,898	(363,284)	1,759,130	62,982
Other long-term obligations					
Accrued compensated absences	5,373	454	(322)	5,505	4,905
Pension obligation payable	4,741	2,154	--	6,895	--
Other post employment benefits	--	8,223	--	8,223	--
Other liabilities	471,919	41,864	(20,584)	493,199	13,444
Water and Wastewater activities total	2,138,549	518,593	(384,190)	2,272,952	81,331

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

a -- Long-Term Liabilities, continued

Business-type activities (continued):

Description	September 30, 2007	Increases	Decreases	September 30, 2008	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	334	20	(47)	307	16
General obligation bonds and other tax supported debt total	334	20	(47)	307	16
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	329,835	--	(10,966)	318,869	12,325
Capital lease obligations	2,001	--	(439)	1,562	466
Debt service requirements total	360,170	20	(11,452)	348,738	12,807
Other long-term obligations					
Accrued compensated absences	1,313	184	--	1,497	1,261
Pension obligation payable	1,478	643	--	2,121	-
Other post employment benefits	--	2,422	--	2,422	-
Other liabilities	1,846	204	(1,141)	909	804
Airport activities total	364,807	3,473	(12,593)	355,687	14,872
Nonmajor activities					
General obligation bonds, net	12,294	18,371	(9,877)	20,788	1,496
Certificates of obligation, net	47,413	2,202	(14,644)	34,971	2,095
Contractual obligations	19,663	4,000	(6,108)	17,555	3,852
General obligation bonds and other tax supported debt total	79,370	24,573	(30,629)	73,314	7,443
Revenue bonds, net	219,818	126,705	(125,506)	221,017	4,720
Capital lease obligations	2	2	--	4	4
Debt service requirements total	299,190	151,280	(156,135)	294,335	12,167
Other long-term obligations					
Accrued compensated absences	6,498	634	(449)	6,683	5,197
Accrued landfill closure and postclosure costs	10,075	5,713	--	15,788	800
Pension obligation payable	5,448	2,533	--	7,981	--
Other post employment benefits	--	8,674	--	8,674	--
Other liabilities	7,786	286	(309)	7,763	3,501
Nonmajor activities total	328,997	169,120	(156,893)	341,224	21,665
Total business-type activities					
General obligation bonds, net	16,593	18,517	(10,740)	24,370	1,995
Certificates of obligation, net	47,413	2,202	(14,644)	34,971	2,095
Contractual obligations, net	29,154	8,220	(8,163)	29,211	6,177
Other tax supported debt, net	7,768	--	(590)	7,178	532
General obligation bonds and other tax supported debt total	100,928	28,939	(34,137)	95,730	10,799
Commercial paper notes, net	309,003	264,404	(360,207)	213,200	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,191,180	661,992	(446,275)	3,406,897	154,836
Contract revenue bonds	2,423	--	(740)	1,683	780
Capital lease obligations	4,572	4	(1,794)	2,782	505
Debt service requirements total	3,636,106	955,339	(843,153)	3,748,292	166,920
Other long-term obligations					
Accrued compensated absences	24,000	2,322	(1,534)	24,788	20,884
Accrued landfill closure and postclosure costs	10,075	5,713	--	15,788	800
Decommissioning expense payable	148,763	159,665	(149,432)	158,996	--
Pension obligation payable	21,049	9,588	--	30,637	--
Other post employment benefits	--	32,625	--	32,625	--
Other liabilities	604,043	64,778	(46,690)	622,131	47,938
Business-type activities total	4,444,036	1,230,030	(1,040,809)	4,633,257	236,542
Total liabilities (1)	$ 5,446,239	1,634,406	(1,304,337)	5,776,308	427,918

(1) This schedule excludes select short-term liabilities of $59,936 for governmental activities and $245,863 for business-type activities and capital appreciation bond interest payable of $225,615 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, 2008, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	2,810	162	(1)	5.75%	9/1/2009
Series 1996	October 1996	30,550	2,360	142	(1)	6.00%	9/1/2009
Assumed MUD Debt	December 1997	33,680	7,975	2,422	(3)(4)	4.40 - 10.50%	11/15/2007-2017
Series 1999	October 1999	51,100	3,035	159	(1)	5.25%	9/1/2009
Series 1999	October 1999	5,590	260	13	(1)	5.00%	9/1/2009
Series 2000	October 2000	52,930	1,900	221	(1)	4.63 - 6.00%	9/1/2009-2010
Series 2000	October 2000	6,060	830	85	(1)	5.00 - 5.25%	9/1/2009-2011
Series 2001	June 2001	123,445	26,870	5,901	(1)	4.75 - 5.50%	9/1/2009-2022
Series 2001	October 2001	79,650	15,860	2,018	(1)	4.00 - 5.25%	9/1/2009-2012
Series 2001	October 2001	2,650	225	4	(2)	3.88%	11/1/2008
Series 2001	October 2001	65,335	27,805	6,927	(1)	4.38 - 5.25%	9/1/2009-2021
Series 2002	July 2002	12,190	11,175	2,502	(1)	3.75 - 5.00%	3/1/2009-2017
Series 2002	July 2002	2,495	475	12	(1)	5.00%	3/1/2009
Series 2002	September 2002	99,615	70,600	25,847	(1)	3.25 - 5.00%	9/1/2009-2022
Series 2002	September 2002	8,690	2,130	72	(2)	3.15 - 3.40%	11/1/2008-2009
Series 2002	September 2002	34,095	20,325	6,587	(1)	3.25 - 5.38%	9/1/2009-2022
Series 2003	June 2003	62,585	21,620	2,824	(1)	5.00%	9/1/2009-2013
Series 2003	September 2003	68,855	61,720	26,061	(1)	3.75 - 5.00%	9/1/2009-2023
Series 2003A	September 2003	2,530	1,570	236	(1)	4.10 - 5.00%	9/1/2009-2013
Series 2003	September 2003	4,450	3,690	1,474	(1)	4.00 - 4.80%	9/1/2009-2023
Series 2003	September 2003	8,610	3,380	165	(2)	2.75 - 3.38%	11/1/2008-2010
Series 2004	September 2004	67,835	62,625	26,182	(1)	3.00 - 5.00%	9/1/2009-2024
Series 2004A	September 2004	2,430	1,795	324	(1)	4.00 - 4.75%	9/1/2009-2014
Series 2004	September 2004	25,000	20,315	9,487	(1)	3.00 - 5.00%	9/1/2009-2024
Series 2004	September 2004	21,830	12,065	791	(2)	2.60 - 3.35%	11/1/2008-2011
Series 2005	March 2005	145,345	145,345	52,362	(1)	5.00%	9/1/2010-2020
Series 2005	September 2005	19,535	17,640	8,254	(1)	4.00 - 5.00%	9/1/2009-2025
Series 2005	September 2005	7,185	6,515	2,753	(1)	3.50 - 6.50%	9/1/2009-2025
Series 2005	September 2005	14,940	9,925	889	(2)	3.00 - 3.75%	11/1/2008-2012
Series 2006	September 2006	31,585	31,585	19,447	(1)	4.00 - 5.38%	9/1/2009-2026
Series 2006	September 2006	24,150	22,655	10,529	(1)	4.00 - 5.00%	9/1/2009-2026
Series 2006	September 2006	14,120	11,515	1,460	(2)	4.00 - 4.25%	11/1/2008-2013
Series 2006	September 2006	12,000	12,000	5,729	(1)(5)	4.00 - 6.00%	9/1/2009-2026
Series 2007	October 2007	97,525	93,525	67,480	(1)	4.64%	9/1/2010-2027
Series 2007	October 2007	3,820	3,705	2,073	(1)	4.88%	9/1/2009-2027
Series 2007	October 2007	9,755	9,300	1,476	(2)	3.66%	11/1/2008-2017
Series 2008	March 2008	172,505	163,380	52,865	(1)	5.00%	9/1/2009-2021
			$ 910,505				

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Includes Water and Wastewater Fund principal of $7,214 and interest of $2,206.
(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

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

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

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

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

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

General obligation bonds authorized and unissued amounted to $544,810,000 at September 30, 2008. Bond ratings at September 30, 2008, were Aa1 (Moody’s Investor Services, Inc.), AAA (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, 2008, exclusive of discounts, premiums, and loss on refundings consists of $278,369,299 prior lien bonds and $245,614,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $535,614,355 at September 30, 2008. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2008, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody’s Investor Services, Inc.), AA- and A+ (Standard & Poor’s), and AA- and AA- (Fitch).

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

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term 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, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	February 1990	$ 236,009	3,668	20,502 (1)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	30,116	78,049 (1)	6.80 - 6.85%	11/15/2009-2012
1992A Refunding	May 1992	351,706	48,511	110,464 (1)	6.70 - 12.50%	11/15/2008-2011
1993 Refunding	February 1993	203,166	51,310	28,967 (1)	6.20 - 6.30%	11/15/2008-2014
1993A Refunding	June 1993	263,410	9,345	14,890 (1)	5.60 - 5.95%	05/15/2008-2010
1994 Refunding	October 1994	142,559	26,894	96,961 (1)	6.60%	05/15/2017-2019
1996A Refunding	September 1996	198,260	22,520	858 (1)	5.00 - 5.13%	11/15/2008-2009
1998 Refunding	August 1998	180,000	86,005	15,286 (1)	6.63 -6.75%	11/15/2008-2012
1998 Refunding	November 1998	139,965	138,735	89,646 (1)	4.10 - 5.25%	05/15/2009-2025
1998A Refunding	November 1998	105,350	100,440	78,750 (1)	4.25 - 5.00%	05/15/2009-2028
1998B	November 1998	10,000	6,440	1,241 (1)	3.15 - 3.75%	11/15/2008-2017
			$ 523,984			

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

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2008, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2008, the Electric Fund had outstanding commercial paper notes of $28,597,000 and the Water and Wastewater Fund had $178,052,000 of commercial paper notes outstanding. Interest rates on the notes range from 1.45 % to 8%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2008, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

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

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

At September 30, 2008, the Electric Fund had outstanding taxable notes of $6,585,000 (net of discount of $20,285), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 5.05% to 5.6%. The City intends to refinance maturing commercial paper notes by issuing long-term debt.

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

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

In August 2008, the City issued $175,000,000 of Electric Utility System Revenue Refunding Bonds, Series 2008A. Proceeds from the bond refunding were used to refund $174,600,000 of the City's outstanding commercial paper issued for the electric utility system. The debt service requirements on the refunding bonds were $369,649,296, with interest rates ranging from 4% to 6%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

Bond ratings at September 30, 2008, were A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001 Refunding	February 2001	$ 126,700	75,700	66,185 (1)	5.00 - 7.25%	11/15/2008-2030
2002 Refunding	March 2002	74,750	61,535	14,058 (1)	3.75 - 5.50%	11/15/2008-2014
2002A Refunding	August 2002	172,880	103,870	31,743 (1)	4.00 - 5.50%	11/15/2008-2016
2003 Refunding	March 2003	182,100	154,100	94,672 (1)	4.00 - 5.25%	11/15/2008-2028
2006 Refunding	June 2006	150,000	150,000	125,361 (1)	4.00 - 5.00%	11/15/2008-2035
2006A Refunding	November 2006	137,800	137,800	48,798 (1)	5.00%	11/15/2009-2022
2007 Refunding	August 2007	146,635	144,515	47,211 (1)	5.00%	11/15/2008-2020
2008 Refunding	March 2008	50,000	50,000	48,308 (1)	3.08 - 6.26%	11/15/2009-2032
2008A Refunding	August 2008	175,000	175,000	194,649 (1)	4.00 - 6.00%	11/15/2010-2038
			$ 1,052,520			

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

Electric Utility System Revenue Debt – Pledged Revenues - The net revenue of the Electric Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2008 (in thousands):

Gross Revenue (1)	Operating Expense	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 1,260,817	858,317	402,500	143,200	281.1%

(1) Gross revenue includes revenues from operations and interest income.

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

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

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

In May 2008, the City issued Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008, in an aggregate principal amount of $170,605,000. Proceeds from the variable rate bond refunding were used to refund $158,805,000 of the City's outstanding combined utility system revenue refunding bonds, series 1997 and separate sub lien revenue refunding bonds, series 2001A and series 2001B issued for the water and wastewater system. During fiscal year 2008, interest rates on the bonds ranged from 1.30% to 2.35%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 12%. In connection with the issuance of the variable rate bonds, the City entered into an interest rate management agreement with Goldman Sachs. Under terms of the agreement, the City receives a variable rate option equal to SIFMA Municipal Swap Index and pays a fixed rate of 3.6%. The City realized an economic gain of $12,028,799 on this transaction. The change in net cash flows that resulted was a decrease of $20,817,440. An accounting loss of $6,153,453, which was deferred and will be amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

Bond ratings at September 30, 2008, were Aa3 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
North Austin MUD #1, 2003 RFD	August 2003	$ 4,510	1,695	56	(1)	3.00 - 3.25%	11/15/2008-2009
2000 Refunding	June 2000	100,000	4,300	422	(1)	6.50%	11/15/2008-2010
2001A Refunding	June 2001	152,180	20,015	9,687	(1)	4.38 - 6.00%	11/15/2008-2031
2001B Refunding	June 2001	73,200	12,895	8,037	(1)	5.13 - 6.00%	11/15/2008-2031
2001C Refunding	December 2001	95,380	27,515	4,476	(1)	4.10 - 5.38%	11/15/2008-2015
2002A Refunding	August 2002	139,695	85,980	26,637	(1)	4.00 - 5.50%	11/15/2008-2016
2003 Refunding	March 2003	121,500	86,100	56,829	(1)	4.00 - 5.00%	11/15/2008-2028
2004 Refunding	August 2004	132,475	115,375	85,448	(2)	8.37%	05/15/2011-2024
2004A Refunding	October 2004	165,145	161,160	104,165	(1)	5.00%	11/15/2008-2029
2005 Refunding	November 2005	198,485	198,485	116,733	(1)	4.00 - 5.00%	05/15/2012-2030
2005A Refunding	June 2005	142,335	136,575	105,568	(1)	4.00 - 5.00%	11/15/2008-2035
2006 Refunding	August 2006	63,100	58,855	28,397	(1)	5.00%	11/15/2008-2025
2006A Refunding	December 2006	135,000	135,000	105,982	(1)	3.50 - 5.00%	11/15/2008-2036
2007 Refunding	March 2008	135,000	135,000	125,039	(1)	4.00-5.25%	11/15/2009-2037
2008 Refunding	May 2008	170,605	170,605	179,105	(2)	8.00%	11/15/2008-2031
			$ 1,349,555				

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

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

Water and Wastewater System Revenue Debt – Pledged Revenues - The net revenue of the Water and Wastewater Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2008 (in thousands):

Gross Revenue (1)	Operating Expense	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 367,444	154,215	213,229	143,635	148.5%

(1) Gross revenue includes revenues from operations and interest income.

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, 2008, the total airport system obligation for prior lien bonds is $333,765,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $146,293,789 at September 30, 2008. Revenue bonds authorized and unissued amount to $735,795,000.

Bond ratings at September 30, 2008, 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, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2003 Refunding	December 2003	$ 54,250	52,465	19,653 (1)	4.00 - 5.25%	11/15/2008-2018
2008 Refunding	May 2008	281,300	281,300	126,641 (2)	7.51%	11/15/2008-2025
			$ 333,765			

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

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, 2008, 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 $11,060,171 including accrued interest, at September 30, 2008, and was restricted within the airport system. During fiscal year 2008, interest rates on the notes ranged from 1.26% to 3.95%, adjusted weekly at market rates, with the exception on one week when rates were 8.09%; subsequent rate changes cannot exceed the maximum rate of 15%. Subsequent to year-end, the rates have ranged from 5.89% on October 1, 2008 to .65% on March 4, 2009. Principal and interest on the notes are payable from the net revenues of the airport system.

In April 2008, the City's Airport Fund converted the Airport System Refunding Revenue Bonds, Series 2005 to variable rate demand bonds. These bonds separated into 4 subseries in the total principal amount $281,300,000. The proceeds of these bonds were used to refund outstanding bonds for debt service savings. The bonds have the following terms:

Variable Rate Demand Bonds

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding Variable Rate Demand Bonds	Expiration Date
2005-1	DEPFA	0.40%	Morgan Keegan	0.07%	$70,300,000	5/2/2011
2005-2	DEPFA	0.40%	Morgan Keegan	0.07%	$70,325,000	5/2/2011
2005-3	DEXIA	0.40%	Morgan Stanley	0.07%	$70,325,000	5/2/2011
2005-4	DEXIA	0.40%	Morgan Stanley	0.07%	$70,350,000	5/2/2011
					$281,300,000	

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

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

The bond rating at September 30, 2008, for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

Airport Revenue Debt – Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2008 (in thousands):

Gross Revenue (1)	Operating Expense	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 108,983	52,993	55,990	31,194	179.5%

(1) Gross revenue includes revenues from operations, passenger facility charges and interest income.

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, 2008, the total convention center obligation for prior and subordinate lien bonds is $236,950,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $233,677,738 at September 30, 2008. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2008.

Bond ratings at September 30, 2008, for the revenue bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2008 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1999A	June 1999	$ 25,000	22,600	16,079 (1)	5.00 - 5.50%	11/15/2008-2029
1999	November 1999	40,000	1,745	120 (1)	6.75%	11/15/2008-2009
2004 Refunding	February 2004	52,715	50,605	16,261 (1)	2.50 - 5.00%	11/15/2008-2019
2005 Refunding	May 2005	36,720	36,720	25,313 (1)	3.30 - 5.00%	11/15/2011-2029
2008AB Refunding	August 2008	125,280	125,280	247,930 (2)	7.88%	11/15/2009-2033
			$ 236,950			

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

Convention Center Revenue Debt – Pledged Revenues - The net revenue of the Convention Center Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2008 (in thousands):

Gross Revenue (1)	Operating Expense	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
$ 59,951	31,472	28,479	15,487	183.9%

(1) Gross revenue includes revenues from operations, interest income and hotel-motel occupancy and vehicle rental taxes reported through transfers in.

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
2009	$ 45,289	33,556	6,405	3,234	5,603	1,130
2010	46,922	31,381	6,625	2,926	5,312	955
2011	47,407	29,192	6,982	2,617	4,528	783
2012	46,499	26,939	7,030	2,290	3,014	634
2013	49,726	24,736	2,728	1,967	1,370	546
2014-2018	229,954	90,381	15,595	7,768	5,065	2,064
2019-2023	166,189	39,167	19,044	4,128	3,785	1,145
2024-2028	79,135	10,129	7,504	678	2,734	248
	711,121	285,481	71,913	25,608	31,411	7,505
Less: Unamortized bond discounts	(1,253)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(14,327)	--	--	--	--	--
Add: Unamortized bond premiums	31,137	--	12	--	2	--
Net debt service requirements	726,678	285,481	71,925	25,608	31,413	7,505

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
2009	166	12	57,463	37,932	95,395
2010	316	5	59,175	35,267	94,442
2011	--	--	58,917	32,592	91,509
2012	--	--	56,543	29,863	86,406
2013	--	--	53,824	27,249	81,073
2014-2018	--	--	250,614	100,213	350,827
2019-2023	--	--	189,018	44,440	233,458
2024-2028	--	--	89,373	11,055	100,428
	482	17	814,927	318,611	1,133,538
Less: Unamortized bond discounts	--	--	(1,253)	--	(1,253)
Unamortized gain(loss) on bond refundings	--	--	(14,327)	--	(14,327)
Add: Unamortized bond premiums	--	--	31,151	--	31,151
Net debt service requirements	$ 482	17	830,498	318,611	1,149,109

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
2009	$ 14	57	146	11	35,182	927
2010	62	56	152	6	--	--
2011	73	53	79	1	--	--
2012	78	49	--	--	--	--
2013	125	45	--	--	--	--
2014-2018	616	131	--	--	--	--
2019-2023	168	13	--	--	--	--
	1,136	404	377	18	35,182	927
Less: Unamortized bond discount	(3)	--	--	--	(34)	--
Add: Unamortized bond premium	77	--	--	--	--	--
Net debt service requirements	1,210	404	377	18	35,148	927

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Electric Debt Service Requirements Principal	Total Electric Debt Service Requirements Interest	Total Electric Debt Service Requirements Total
2009	78,773	93,273	31	60	114,146	94,328	208,474
2010	65,824	99,276	32	58	66,070	99,396	165,466
2011	75,085	91,680	34	57	75,271	91,791	167,062
2012	75,773	85,434	36	55	75,887	85,538	161,425
2013	100,286	61,516	207	245	100,618	61,806	162,424
2014-2018	331,550	204,448	266	187	332,432	204,766	537,198
2019-2023	198,127	135,186	341	111	198,636	135,310	333,946
2024-2028	190,903	82,695	265	22	191,168	82,717	273,885
2029-2033	134,795	38,818	--	--	134,795	38,818	173,613
2034-2038	79,225	12,081	--	--	79,225	12,081	91,306
2039-2043	12,270	307	--	--	12,270	307	12,577
	1,342,611	904,714	1,212	795	1,380,518	906,858	2,287,376
Less: Unamortized bond discounts	(4,196)	--	--	--	(4,233)	--	(4,233)
Unamortized gain(loss) on bond refundings	(71,940)	--	--	--	(71,940)	--	(71,940)
Add: Unamortized bond premiums	41,667	--	--	--	41,744	--	41,744
Net debt service requirements	$ 1,308,142	904,714	1,212	795	1,346,089	906,858	2,252,947

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

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

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt Principal	Tax Supported Debt Interest
2009	$ 469	194	2,179	390	532	374
2010	594	169	2,118	316	564	348
2011	569	138	2,147	241	596	319
2012	533	107	1,928	162	627	288
2013	593	79	1,496	95	674	256
2014-2018	710	156	1,382	46	4,221	621
2019-2023	232	22	--	--	--	--
2024-2028	--	--	--	--	--	--
	3,700	865	11,250	1,250	7,214	2,206
Less: Unamortized bond discounts	(17)	--	--	--	(36)	--
Unamortized gain(loss) on bond refundings	(1,962)	--	--	--	--	--
Add: Unamortized bond premiums	344	--	29	--	--	--
Net debt service requirements	2,065	865	11,279	1,250	7,178	2,206

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds (2) Principal	Revenue Bonds (2) Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest
2009	178,052	1,322	59,018	83,713	780	41
2010	--	--	54,413	90,867	915	15
2011	--	--	50,659	86,506	--	--
2012	--	--	57,990	83,267	--	--
2013	--	--	70,761	74,071	--	--
2014-2018	--	--	395,842	345,861	--	--
2019-2023	--	--	307,600	208,092	--	--
2024-2028	--	--	317,051	97,466	--	--
2029-2033	--	--	181,905	37,759	--	--
2034-2038	--	--	86,511	9,523	--	--
	178,052	1,322	1,581,750	1,117,125	1,695	56
Less: Unamortized bond discounts	--	--	(8,434)	--	(6)	--
Unamortized gain(loss) on bond refundings	--	--	(56,534)	--	(14)	--
Add: Unamortized bond premiums	--	--	42,087	--	8	--
Net debt service requirements	$ 178,052	1,322	1,558,869	1,117,125	1,683	56

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

(2) Portions of these bonds are variable rate bonds with an assumed rate of 8% and 8.37%.

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

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations		Total Water and Wastewater Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2009	$ 4	53	241,034	97,436	338,470
2010	–	--	58,604	102,934	161,538
2011	–	--	53,971	98,111	152,082
2012	–	--	61,078	94,311	155,389
2013	–	--	73,524	84,513	158,037
2014-2018	–	--	402,155	383,777	785,932
2019-2023	–	--	307,832	237,423	545,255
2024-2028	–	--	317,051	114,578	431,629
2029-2033	–	--	181,905	41,552	223,457
2034-2038	–	--	86,511	9,523	96,034
	4	53	1,783,665	1,264,158	3,047,823
Less: Unamortized bond discounts	–	--	(8,493)	--	(8,493)
Unamortized gain(loss) on bond refundings	–	--	(58,510)	--	(58,510)
Add: Unamortized bond premiums	–	--	42,468	--	42,468
Net debt service requirements	$ 4	53	1,759,130	1,264,158	3,023,288

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

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest	Revenue Bonds (2) Principal	Revenue Bonds (2) Interest
2009	$ 16	15	--	1,106	12,325	18,265
2010	25	14	--	1,106	12,910	17,566
2011	28	13	--	1,106	13,515	16,833
2012	30	11	--	1,106	14,165	16,056
2013	39	10	--	1,106	14,795	15,364
2014-2018	120	26	28,000	4,975	87,745	62,719
2019-2023	33	2	--	--	107,085	34,074
2024-2028	--	--	--	--	71,225	5,049
	291	91	28,000	10,505	333,765	185,926
Less: Unamortized bond discounts	(1)	--	--	--	(1,049)	--
Unamortized gain(loss) on bond refundings	1	--	--	--	(16,589)	--
Add: Unamortized bond premiums	16	--	--	--	2,742	--
Net debt service requirements	307	91	28,000	10,505	318,869	185,926

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Airport Debt Service Requirements Principal	Total Airport Debt Service Requirements Interest	Total Airport Debt Service Requirements Total
2009	466	48	12,807	19,434	32,241
2010	476	32	13,411	18,718	32,129
2011	493	14	14,036	17,966	32,002
2012	127	1	14,322	17,174	31,496
2013	--	--	14,834	16,480	31,314
2014-2018	--	--	115,865	67,720	183,585
2019-2023	--	--	107,118	34,076	141,194
2024-2028	--	--	71,225	5,049	76,274
	1,562	95	363,618	196,617	560,235
Less: Unamortized bond discounts	--	--	(1,050)	--	(1,050)
Unamortized gain(loss) on bond refundings	--	--	(16,588)	--	(16,588)
Add: Unamortized bond premiums	--	--	2,758	--	2,758
Net debt service requirements	$ 1,562	95	348,738	196,617	545,355

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

(2) Portions of these bonds are variable rate bonds with an assumed rate of 6.49% and 4.98%.

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
2009	$ 1,496	1,024	2,095	1,590	3,852	612
2010	1,943	949	2,050	1,510	3,613	477
2011	2,058	851	2,143	1,433	3,351	353
2012	1,842	747	2,250	1,333	3,183	228
2013	2,017	654	1,707	1,227	2,345	113
2014-2018	8,699	1,934	8,695	4,802	1,159	30
2019-2023	2,349	215	13,416	2,341	--	--
2024-2028	--	--	1,831	85	--	--
	20,404	6,374	34,187	14,321	17,503	1,813
Less: Unamortized bond discounts	(80)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,328)	--	--	--	--	--
Add: Unamortized bond premiums	1,792	--	784	--	52	--
Net debt service requirements	20,788	6,374	34,971	14,321	17,555	1,813

Fiscal Year Ended September 30	Revenue Bonds (1)		Capital Lease Obligations		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2009	4,720	7,970	4	--	12,167	11,196	23,363
2010	8,215	11,060	--	--	15,821	13,996	29,817
2011	8,545	11,910	--	--	16,097	14,547	30,644
2012	9,450	11,774	--	--	16,725	14,082	30,807
2013	10,555	11,570	--	--	16,624	13,564	30,188
2014-2018	59,855	53,842	--	--	78,408	60,608	139,016
2019-2023	55,735	47,063	--	--	71,500	49,619	121,119
2024-2028	54,740	44,093	--	--	56,571	44,178	100,749
2029-2033	25,135	16,868	--	--	25,135	16,868	42,003
	236,950	216,150	4	--	309,048	238,658	547,706
Less: Unamortized bond discounts	(824)	--	--	--	(904)	--	(904)
Unamortized gain(loss) on bond refundings	(19,242)	--	--	--	(20,570)	--	(20,570)
Add: Unamortized bond premiums	4,133	--	--	--	6,761	--	6,761
Net debt service requirements	$ 221,017	216,150	4	--	294,335	238,658	532,993

(1) A portion of these bonds are variable rate bonds with an assumed rate of 7.88%.

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

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2009	$ 1,995	1,290	2,095	1,590	6,177	1,013
2010	2,624	1,188	2,050	1,510	5,883	799
2011	2,728	1,055	2,143	1,433	5,577	595
2012	2,483	914	2,250	1,333	5,111	390
2013	2,774	788	1,707	1,227	3,841	208
2014-2018	10,145	2,247	8,695	4,802	2,541	76
2019-2023	2,782	252	13,416	2,341	--	--
2024-2028	--	--	1,831	85	--	--
	25,531	7,734	34,187	14,321	29,130	3,081
Less: Unamortized bond discounts	(101)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,289)	--	--	--	--	--
Add: Unamortized bond premiums	2,229	--	784	--	81	--
Net debt service requirements	24,370	7,734	34,971	14,321	29,211	3,081

Fiscal Year Ended September 30	Tax Supported Debt Principal	Tax Supported Debt Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Notes (2) Principal	Revenue Notes (2) Interest
2009	532	374	213,234	2,249	--	1,106
2010	564	348	--	--	--	1,106
2011	596	319	--	--	--	1,106
2012	627	288	--	--	--	1,106
2013	674	256	--	--	--	1,106
2014-2018	4,221	621	--	--	28,000	4,975
	7,214	2,206	213,234	2,249	28,000	10,505
Less: Unamortized bond discounts	(36)	--	(34)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premiums	--	--	--	--	--	--
Net debt service requirements	$ 7,178	2,206	213,200	2,249	28,000	10,505

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities (in thousands)

Fiscal Year Ended September 30	Revenue Bonds (3)		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 154,836	203,221	780	41	505	161
2010	141,362	218,769	915	15	508	90
2011	147,804	206,929	-	-	527	71
2012	157,378	196,531	--	--	163	56
2013	196,397	162,521	--	--	207	245
2014-2018	874,992	666,870	--	--	266	187
2019-2023	668,547	424,415	--	--	341	111
2024-2028	633,919	229,303	--	--	265	22
2029-2033	341,835	93,445	--	--	-	-
2034-2038	165,736	21,604	--	--	--	--
2039-2043	12,270	307	--	--	--	--
	3,495,076	2,423,915	1,695	56	2,782	943
Less: Unamortized bond discounts	(14,503)	--	(6)	--	--	--
Unamortized gain(loss) on bond refundings	(164,305)	--	(14)	--	--	--
Add: Unamortized bond premiums	90,629	--	8	--	--	--
Net debt service requirements	3,406,897	2,423,915	1,683	56	2,782	943

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2009	380,154	211,045	591,199
2010	153,906	223,825	377,731
2011	159,375	211,508	370,883
2012	168,012	200,618	368,630
2013	205,600	166,351	371,951
2014-2018	928,860	679,778	1,608,638
2019-2023	685,086	427,119	1,112,205
2024-2028	636,015	229,410	865,425
2029-2033	341,835	93,445	435,280
2034-2038	165,736	21,604	187,340
2039-2043	12,270	307	12,577
	3,836,849	2,465,010	6,301,859
Less: Unamortized bond discounts	(14,680)	--	(14,680)
Unamortized gain(loss) on bond refundings	(167,608)	--	(167,608)
Add: Unamortized bond premiums	93,731	--	93,731
Net debt service requirements	$ 3,748,292	2,465,010	6,213,302

(3) A portion of these bonds are variable rate bonds.

10 – DEBT AND NON-DEBT LIABILITIES, continued
e -- Defeased Debt

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

On September 30, 2008, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

Refunded Bonds	Escrow Maturity	Balance 9/30/2008
General Obligation		
Contractual Obligations, Series 1999	9/1/2009	$ 3,505
Public Improvement Bonds, Series 1999	9/1/2009	46,955
Contractual Obligations, Series 2000	9/1/2010	3,580
Public Improvement Bonds, Series 2000	9/1/2010	48,745
Contractual Obligations, Series 2001	9/1/2011	13,685
Public Improvement Bonds, Series 2001	9/1/2011	51,280
Contractual Obligations, Series 2002	9/1/2012	6,750
Public Improvement Bonds, Series 2002	9/1/2012	13,100
Contractual Obligations, Series 2004	9/1/2014	1,355
Austin Energy		
Series 2001	11/15/2010	48,500
Series 2003	5/15/2013	18,800
Water and Wastewater		
Series 2000	5/15/2010	87,200
Series 2001A	5/15/2011	118,265
Series 2001B	5/15/2011	53,605
Series 2003	5/15/2013	29,100
Convention Center		
Series 1999	11/15/2009	35,140
		$ 579,565

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. Subsequent to September 30, 1997, the City has issued $104.2 million in various series of housing revenue bonds that have an outstanding balance of $102.6 million as of September 30, 2008.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2008, $365.1 million in revenue and revenue refunding bonds was outstanding that had an original issue value of $383 million.

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2008, are as follows (in thousands):

Receivable Fund	Payable Fund	Amount Current	Amount Long-Term
Governmental funds:			
Nonmajor governmental funds	Nonmajor governmental funds	$ 39,629	--
	Water and Wastewater	--	4,334
	Nonmajor enterprise funds	--	1,929
	Internal service funds	--	151
General Fund	Nonmajor governmental funds	227	--
Internal Service funds:			
Support Services	Nonmajor governmental funds	11	56
Business-type funds:			
Electric	Nonmajor enterprise funds	200	2,291
	Nonmajor governmental funds	--	73
Water and Wastewater (restricted)	Internal service funds	27	54
Airport (restricted)	Nonmajor governmental funds	--	124
Nonmajor enterprise funds	Nonmajor governmental funds	--	149
	Nonmajor enterprise funds	900	--
		$ 40,994	9,161

Interfund receivables and payables reflect loans between funds. Of the above current amount, $15.8 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.

Interfund transfers during fiscal year 2008 were as follows (in thousands):

	Transfers In			
Transfers Out	General Fund	Nonmajor Governmental	Nonmajor Proprietary	Total
General Fund	$ --	17,045	10,393	27,438
Nonmajor governmental funds	282	29,427	38,867	68,576
Electric	91,000	--	--	91,000
Water and Wastewater	24,629	3,971	--	28,600
Nonmajor proprietary funds	400	2,423	--	2,823
Internal service funds	--	4,450	--	4,450
Total transfers out	$ 116,311	57,316	49,260	222,887

Interfund transfers are authorized through City Council approval. Significant transfers include the electric and water and wastewater transfers to the General Fund, which are comparable to a return on investment to owners, and the transfer of hotel occupancy and vehicle rental tax collections from the Hotel-Motel Occupancy Tax and the Vehicle Rental Tax funds to other nonmajor governmental funds and the Convention Center Fund.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2008. 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. 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.

The Clean Air Act and other regulations require all existing coal plants to reduce the levels of sulfur dioxide (SO2) and nitrogen oxide (NOx) by 2010. As a result, the Fayette Power Project is in the process of installing scrubbers on Units 1 and 2. It is estimated that the project cost will be in the range of $225 million for Austin Energy's share. The design phase was completed in February of 2006. Procurement of equipment and phase II engineering and construction are currently underway. Project completion is scheduled for late 2010.

Austin Energy's investment is financed with city funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was $134.1 million as of September 30, 2008. The increase in the pro-rata interest from 2007 is primarily due to the scrubbers. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies. 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.

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2008, Austin Energy's investment in the STP was approximately $505 million, net of accumulated depreciation.

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

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

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

14 – COMMITMENTS AND CONTINGENCIES, continued

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. At September 30, 2008, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2008	
Estimated cost to decommission STP	$ 220,733,000	Latest site specific study in 2007 dollars
Decommissioning trust assets	141,927,545	Market value of assets as of 9/30/2008

Austin Energy and other STP participants have provided the required information to the NRC and have collected decommissioning funds through rates since 1989. Austin Energy established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2008, Austin Energy collected $4,957,967 for decommissioning requirements.

d -- Energy Risk Management Program

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

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

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

The following information is provided regarding Austin Energy's outstanding financial hedge instruments as of September 30, 2008:

Fuel Derivative Transactions as of September 30, 2008

Type of Transaction	Maturity Dates	Volumes in MMBTU		Fair Market Value Gain/ (Loss)
OTC Call Options	Nov 2008 - Aug 2013	17,150,000	*	$ 26,512,699
OTC Put Options	Nov 2008 - Aug 2013	22,685,000	*	7,243,350
Futures	Dec 2008 - Oct 2013	1,382,500	*	(2,274,683)
OTC Swaps	Nov 2008 - Oct 2012	44,395,000	*	35,504,360
Basis Swaps	Nov 2008 - Dec 2011	16,337,500		(2,732,931)
OTC Swaptions	April 2011 - Dec 2011	3,210,000		(910,865)
				$ 63,341,930

*Volumes are presented net of long and short positions

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. Premiums paid for options are deferred until the contract is executed. As of September 30, 2008, $45,374,363 was deferred. As of September 30, 2008, Austin Energy's futures, options, swaptions, and swaps, valued at mark-to-market, net to a gain of $63,341,930.

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

The fair value of futures, swaps, and basis swap contracts is determined using the New York Mercantile Exchange (NYMEX) closing settlement prices as of the last day of the reporting period. The fair value is calculated by deriving the difference between the closing futures price on the last day of the reporting period and purchase price at the time the positions were established.

Futures contracts represent a firm obligation to buy, or sell, the underlying asset. If held to expiration, the contract holder must take delivery, or deliver, the underlying asset at the established contract price.

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

The fair value of the options are calculated using the Black/Scholes valuation method where the inputs are implied volatility based on the NYMEX closing settlement prices of the options as of the last day of the reporting period, risk free interest rate, time to maturity and the NYMEX closing settlement price of the underlier as of the last day of the reporting period.

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

e -- Purchased Power

Austin Energy has commitments totaling $3.3 billion to purchase energy and capacity through purchase power agreements. This amount includes provisions for wind power through 2027, landfill power through 2020, biomass through 2027, and capacity and other power through 2010.

f -- Derivative Instruments

Swap for the Water & Wastewater System

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

In connection with the issuance of $170,605,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds"), the City has entered into an interest rate swap transaction under an agreement to enable the City to substantially fix its interest obligation on the debt represented by the Series 2008 Bonds.

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

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2008, are included below. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued with an initial principal amount of $132,475,000. The Series 2008 Bonds were issued with an initial principal amount of $170,605,000. The swaps were structured to match the likely principal amortization structures and dates of the Series 2004 Bonds and Series 2008 Bonds, respectively. The counterparties to the swaps are JPMorgan Chase Bank (JPM) and Goldman Sachs Capital Markets, L.P. (GSCM). The table below contains a summary of the terms and fair value of the swaps.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Water & Wastewater Revenue Refunding Bonds, Series 2004	May 15, 2024	JPM	Aaa/AA/AA-	68% of 1-month LIBOR	3.657%	$ (5,913,047)
Water & Wastewater Revenue Refunding Bonds, Series 2008	May 15, 2031	GSCM	Aa3/AA-/AA-	SIFMA Swap Index	3.600%	1,351,849

The combination of variable rate bonds and floating-to-fixed swaps 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 with JPM had a negative fair value as of September 30, 2008 of $5,913,047. The swap with GSCM had a positive fair value as of September 30, 2008 of $1,351,849. 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. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2008, the City was not exposed to credit risk on its outstanding swap with JPM because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. If interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of JPM are Aaa/AA/AA- by Moody's/Standard & Poor's/Fitch respectively. 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 with JPM contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

As of September 30, 2008, the City was exposed to credit risk in the amount of the swap's fair value on its outstanding swap with GSCM because the swap had a positive fair value. However, should interest rates change and the fair value of the swap become negative, the City would not be exposed to credit risk. If interest rates rise and the fair value of the swap were to remain positive, the City would be exposed to credit risk in the amount of the swap's fair value. The current credit ratings of GSCM are Aa3/AA-/AA- by Moody's/Standard & Poor's/Fitch respectively. 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 with GSCM 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.

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 basis risk on its swap with JPM. 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 is exposed to basis risk should the floating rate that it receives on a swap be less

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

than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

The City does not bear basis risk on its swap with GSCM.

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.

The City does not bear tax risk on its swap with GSCM.

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

Swap payments and associated debt. As of September 30, 2008, 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	Net Interest
2009	$ 1,135	11,881	(1,554)	10,327
2010	2,595	11,823	(1,581)	10,242
2011	6,965	11,668	(1,636)	10,032
2012	13,285	11,241	(1,585)	9,656
2013	12,905	10,648	(1,465)	9,183
2014-2018	111,550	35,926	(3,139)	32,787
2019-2023	58,000	20,498	1,491	21,989
2024-2028	65,565	7,900	3,349	11,249
2029-2031	13,980	1,684	781	2,465
Total	$ 285,980	123,269	(5,339)	117,930

The variable interest component was calculated utilizing the rate in effect at the end of the fiscal year.

Swap for the Airport System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into an interest rate swap in connection with its Series 2005 Airport System Subordinate Lien Revenue Refunding Bonds (the "Series 2005 Bonds"). 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.

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

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2008, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued in August 2005 with a principal amount of $306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc ("Morgan Stanley") with a guarantee from Morgan Stanley. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	A1/A+/AA-	71% of 1-month LIBOR	4.051%	$(20,137,968)

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

Fair value. The swap had a negative fair value as of September 30, 2008 of $20,137,968. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2008, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the swap's fair value. If interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of Morgan Stanley are A1/A+/AA- by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

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

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

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.

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

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. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to non-issuance of the Series 2005 Bonds and credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance to further reduce the possibility of termination risk.

Swap payments and associated debt. As of September 30, 2008, 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	Net Interest
2009	$ 10,475	15,657	(4,597)	11,060
2010	10,975	15,034	(4,415)	10,619
2011	11,500	14,380	(4,222)	10,158
2012	12,050	13,696	(4,022)	9,674
2013	6,125	13,274	(3,898)	9,376
2014-2018	54,075	54,326	(15,357)	38,969
2019-2023	104,875	34,517	(10,490)	24,027
2024-2025	71,225	5,391	(1,824)	3,567
Total	$ 281,300	166,275	(48,825)	117,450

The variable interest component was calculated utilizing the rate in effect at the end of the fiscal year.

Swaps for the Hotel Occupancy Tax

Objective of the swap. In connection with the issuance of $125,280,000 Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 (the "Bonds"), the City has entered into an interest rate swap transaction under an agreement to enable the City to substantially fix its interest obligation on the debt represented by the Bonds.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swap, as of September 30, 2008, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The swap was structured to match the likely principal amortization structure and dates of the Bonds. The counterparty to the swap is Morgan Keegan Financial Products (MKFP).

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Nov 15, 2029	MKFP	Aa3/AA-/AA-	SIFMA to 11/15/09; 67% of 1-Mo USD-LIBOR thereafter	3.2505%	$(2,481,198)

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.

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

Fair value. The swap had a negative fair value as of September 30, 2008 of $2,481,198. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2008, the City was not exposed to credit risk on the swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of MKFP are Aa3/AA-/AA- by Moody's/Standard & Poor's/Fitch respectively. 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. The credit support provider of MKFP is Deutsche Bank AG, New York Branch ("DBAG"). The swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

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 is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

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 bears tax risk 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. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City.

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

Swap payments and associated debt. As of September 30, 2008, 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)		Interest Rate Swaps, Net	Net Interest
	Principal	Interest		
2009	$ --	2,662	1,410	4,072
2010	3,325	5,928	1,379	7,307
2011	4,425	6,938	1,331	8,269
2012	4,570	6,987	1,280	8,267
2013	4,720	7,037	1,227	8,264
2013-2017	25,915	35,888	5,283	41,171
2018-2022	30,360	37,320	3,686	41,006
2023-2027	35,800	39,218	1,810	41,028
2028-2030	16,165	16,397	123	16,520
Total	$ 125,280	158,375	17,529	175,904

The variable interest component was calculated utilizing the rate in effect at the end of the fiscal year.

g -- Federal and State Financial Assistance Programs

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

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate the excess amounts to the federal government. The estimated amounts payable at September 30, 2008, was $29 thousand for governmental activities. There is no estimated amount payable for business-type activities.

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 2008 Capital Budget includes new appropriations of $831.7 million for the City's enterprise funds and $142.3 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

14 – COMMITMENTS AND CONTINGENCIES, continued
i -- Capital Improvement Plan, continued

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

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
General government	$ 59,746	99,284
Public safety	9,579	35,266
Transportation	203,550	109,695
Public health	4,300	75,519
Public recreation and culture	165,331	213,932
Urban growth management	86,216	53,467
Business-type activities:		
Electric	3,748,267	470,316
Water	1,011,429	1,065,886
Wastewater	1,046,809	534,839
Airport	140,700	560,400
Convention	30,917	27,490
Environmental and health services	81,062	110,917
Urban growth management	246,472	258,242
Total	$ 6,834,378	3,615,253

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 $15.7 million reported as accrued landfill closure and postclosure costs at September 30, 2008, represents the cumulative amount reported to date based on the use of 99% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $153 thousand as the remaining estimated capacity is filled over the next year. Closure is estimated to be September 2009. The total estimated costs of $15.8 million include costs of closure of $7.9 million to be spent in the first year of closure and postclosure costs over the subsequent thirty years of $7.9 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

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

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

Fund name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO or an HMO for health coverage. Approximately 30% of city employees and 46% of retirees use the HMO option; approximately 70% of city employees and 54% of retirees use the PPO. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on historical costs.

The City purchases stop-loss insurance for the City's PPO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $1 million. In fiscal years 2008, 2007, and 2006, no claims exceeded the stop-loss limit of $500,000; during fiscal year 2005, two claims exceeded the stop-loss limit of $500,000. 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. Possible losses are estimated to range from $26.4 to $41.8 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**	
	2008	2007	2008	2007	2008	2007
Liability balances, beginning of year	$ 4,382	4,382	5,646	6,862	12,193	9,965
Claims and changes in estimates	4,658	4,024	3,727	882	5,303	4,899
Claim payments	(4,244)	(4,024)	(1,525)	(2,098)	(3,678)	(2,671)
Liability balances, end of year	$ 4,796	4,382	7,848	5,646	13,818	12,193

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $4.9 million discounted at 5.40% in 2008 and $2.8 million discounted at 4.63% in 2007.

14 – COMMITMENTS AND CONTINGENCIES, continued

l -- Decommissioning and Environmental Remediation Contingencies

Austin Energy may incur costs for decommissioning and environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of approximately $21 million at September 30, 2008. This amount includes the cost to decommission Holly as well as the remediation of the contaminated sites. Austin Energy anticipates payment of these costs in 2009 and future years.

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

Austin Water closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The estimated decommissioning cost to close the GWTP is $4.8 million. The financial statements include a liability of approximately $6.3 million at September 30, 2008. Plant decommissioning is estimated to be completed in July 2010.

The Airport Fund may also incur costs for environmental remediation of certain sites and has recorded an estimated liability of $105,000 as of September 30, 2008.

m -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Corporation (Catellus) to develop approximately 709 acres at the former site of the City's municipal airport near downtown Austin. Both the City and Catellus have numerous obligations under the agreement. Catellus will develop and market the property. The City will issue debt to fund infrastructure such as streets, drainage facilities, public parks, and greenways, which will be supported by taxes generated from this development. Additional water and wastewater infrastructure will also be constructed to enhance utility services to this site. To date, a portion of the property has been sold, and construction has been completed on a new children's hospital, the first phase of a regional retail shopping center, several office buildings, a visitor center, and a number of single family homes. Streets, greenways, and other infrastructure in the northwest quadrant of the property have also been constructed, and work is progressing on a major feature of the development, a lake park. With the signing of a 99-year ground lease with the University of Texas in October 2006, the project will also become home to the Dell Pediatric Research Institute. Construction of the first building associated with this institute has begun. The facility is scheduled to open in 2009.

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

n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2008, was $21.3 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

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

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

The following summarizes capital assets recorded at September 30, 2008, under capital lease obligations (in thousands):

		Business-type Activities		
Capital Assets	**Governmental Activities**	**Electric**	**Airport**	**Total**
Building and improvements	$ --	1,405	--	1,405
Equipment	1,013	--	2,320	2,320
Accumulated depreciation	(738)	(211)	(825)	(1,036)
Net capital assets	$ 275	1,194	1,495	2,689

15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

Years of Service	Retiree only	Dependent only
Less than 5 years	16% - 17%	10%
5 to 9 years	24% - 25%	15%
10 to 14 years	41% - 42%	25%
15 to 20 years	57% - 58%	35%
Greater than 20 years	81% - 83%	50%

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 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 pay-as-you-go cost of providing these benefits for 2,956 retirees was $21.0 million in 2008 and $16.9 million in 2007 for 2,800 retirees.

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

In fiscal year 2008, the City implemented GASB Statement No. 45 and recognized the following liability in the financial statements at September 30, 2008.

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

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2008, is as follows (in thousands):

	OPEB
Annual required contribution	$ 108,574
Interest on net OPEB obligation	--
Adjustment to annual required contribution	--
Annual OPEB cost	108,574
Contributions made	(21,067)
Change in net OPEB obligation	87,507
Beginning net OPEB obligation	--
Net OPEB obligation	$ 87,507

Schedule of Funding Progress (in thousands):

Year Ended September 30	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2008	$ --	1,035,766	1,035,766	0.0%	417,451	248.1%

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

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

	OPEB
Actuarial Valuation Date	October 1, 2006
Actuarial Cost Method	Projected Unit Credit
Amortization method	Level Percent Open
Remaining Amortization Period	30 years
Assumed Rate of Return on Investments	4.0%
Health Care Cost Trend Rate	10% in 2007, decreasing 1% per year for five years to an ultimate trend of 5% in 2012

16 – SUBSEQUENT EVENTS
a -- General Obligation Bonds Issues

In October 2008, the City delivered $76,045,000 of Public Improvement Bonds, Series 2008. The proceeds from the issue will be used as follows: streets and signals ($56,200,000), parks and recreation ($11,345,000), and affordable housing ($8,500,000). These bonds will be amortized serially on September 1 of each year from 2009 to 2028. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2009. Total interest requirements for these bonds, at rates ranging from 3.50% to 5.00%, are $46,511,759.

16 – SUBSEQUENT EVENTS, continued
a -- General Obligation Bonds Issues, continued

In October 2008, the City delivered $10,700,000 of Certificates of Obligation, Series 2008. The proceeds from the issue will be used as follows: Avery Ranch Fire Station ($4,500,000) and Barton Springs Pool ($6,200,000). These certificates of obligation will be amortized serially on September 1 of each year from 2009 to 2028. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2009. Total interest requirements for these bonds, at rates ranging from 3.00% to 5.00%, are $5,849,868.

In October 2008, the City delivered $26,715,000 of Public Property Finance Contractual Obligations, Series 2008. The proceeds from the issue will be used as follows: public works transportation equipment ($3,288,000), water utility capital equipment ($1,814,000), wastewater utility capital equipment ($1,503,000), communications and technology management capital equipment ($2,700,000), golf carts ($440,000), and solid waste services capital equipment ($16,970,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2009 to 2015. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2009. Total interest requirements for these obligations, at rates ranging from 3.00% to 4.00%, are $3,737,119.

b -- Water and Wastewater System Revenue Bond Refunding Issue

In February 2009, the City issued $175,000,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2009. Proceeds from the bond refunding were used to refund $172,610,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are $288,070,693, with interest rates ranging from 3% to 5.125%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

General Fund **City of Austin, Texas**
Schedule of Revenues, Expenditures, and Changes in **RSI**
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2008
(In thousands)

	2008					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 347,961	--	347,961	356,150	356,150	(8,189)
Franchise fees	35,577	--	35,577	32,189	32,189	3,388
Fines, forfeitures and penalties	18,946	--	18,946	17,452	17,452	1,494
Licenses, permits and inspections	24,268	7	24,275	24,431	24,431	(156)
Charges for services/goods	29,175	(12)	29,163	28,710	29,060	103
Interest and other	12,639	(1,097)	11,542	12,602	12,602	(1,060)
Total revenues	468,566	(1,102)	467,464	471,534	471,884	(4,420)
EXPENDITURES						
General government						
Municipal Court	11,592	(85)	11,507	11,745	11,757	250
Public safety						
Police	219,952	(2,721)	217,231	220,241	220,487	3,256
Fire	115,663	(858)	114,805	117,014	117,026	2,221
Emergency Medical Services	42,657	(295)	42,362	43,542	43,560	1,198
Public Safety & Emergency Mgmt	5,809	--	5,809	5,970	5,970	161
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	340	--	340	325	325	(15)
Public health:						
Health	34,823	119	34,942	36,128	36,290	1,348
Public recreation and culture						
Parks and Recreation	34,977	(417)	34,560	36,429	36,509	1,949
Austin Public Library	23,942	(75)	23,867	23,973	23,989	122
Urban growth management						
Neighborhood Planning and Zoning	5,017	(103)	4,914	5,386	5,392	478
Development Services and Watershed Protection	15,675	43	15,718	16,119	16,544	826
General city responsibilities (4)	65,112	(53,648)	11,464	12,193	11,567	103
Total expenditures	575,559	(58,040)	517,519	529,065	529,416	11,897
Excess (deficiency) of revenues over expenditures	(106,993)	56,938	(50,055)	(57,531)	(57,532)	7,477
OTHER FINANCING SOURCES (USES)						
Transfers in	116,311	6,201	122,512	121,480	121,480	1,032
Transfers out	(27,438)	(58,519)	(85,957)	(82,227)	(82,227)	(3,730)
Total other financing sources (uses)	88,873	(52,318)	36,555	39,253	39,253	(2,698)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(18,120)	4,620	(13,500)	(18,278)	(18,279)	4,779
Fund balance at beginning of year	106,810	(12,145)	94,665	78,681	75,728	18,937
Fund balance at end of year	$ 88,690	(7,525)	81,165	60,403	57,449	23,716

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.
(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
(3) Variance is actual-budget basis to final budget.
(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs, budgeted payroll accrual, and amounts budgeted as fund-level expenditures.

1 – BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement ($255,000), accrued payroll ($2,528,000), expenditures for workers' compensation ($2,211,703), liability reserve ($1,440,000), and public safety ($2,472,208).

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	$ (18,120)
Adjustments - increases (decreases) due to:	
Net compensated absences accrual	156
Outstanding encumbrances established in current year	(2,892)
Payments against prior year encumbrances	3,091
Transfer to Airport Fund	(700)
Transfer from Budget Stabilization reserve	5,000
Other	(35)
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ (13,500)

c -- Budget Amendments

The original budget of the General Fund was amended during fiscal year 2008 primarily for increased public safety and urban growth management costs. The original and final budget is presented in the accompanying financial statements.

2 – 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						
2005	$ 1,398,800	1,794,200	395,400	78.0%	348,600	113.4%
2006	1,497,800	1,974,000	476,200	75.9%	391,000	121.8%
2007	1,653,500	2,112,800	459,300	78.3%	417,451	110.0%
Police Officers						
2005	371,505	494,641	123,136	75.1%	93,429	131.8%
2006	417,284	576,125	158,841	72.4%	100,090	158.7%
2007	482,303	637,560	155,257	75.6%	111,809	138.9%
Fire Fighters (2)						
2003	421,136	452,669	31,533	93.0%	55,939	56.4%
2005	493,567	580,054	86,487	85.1%	65,885	131.3%
2007	584,420	586,802	2,382	99.6%	76,556	3.1%

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

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

3 – OTHER POST EMPLOYMENT BENEFITS-TREND INFORMATION

The City implemented GASB Statement No 45 in fiscal year 2008. Under this statement, the City is required to have an actuarial valuation of its other post employment benefits program every other year. The Schedule of Funding Progress for other post employment benefits is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
October 1, 2006	$ --	1,035,766	1,035,766	0.0%	417,451	248.1%

APPENDIX C

BOND RESOLUTION

RESOLUTION AUTHORIZING THE ISSUANCE OF MUELLER LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE BONDS, SERIES 2009, IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $15,000,000; APPROVING CONTRACT DOCUMENTS RELATING TO THE SERIES 2009 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 Tri-Party Agreement among the City, TIRZ Sixteen and the Corporation (the "Tri-Party Agreement") the City and TIRZ Sixteen have agreed to transfer tax increment revenues generated within TIRZ Sixteen to the Corporation to provide funds that may be used by the Corporation for the payment of debt service on Tax Increment 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, pursuant to the action taken by the City Council to establish the Chapter 380 Program, the City has agreed to consider, subject to annual appropriation, making an economic development grant to the Corporation to assist the Corporation in the payment of debt service on the bonds authorized to be issued by this Resolution; 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 2009 Bonds, October 1, 2009.

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 Summit, New Jersey.

The term "Grant Agreement" shall have the meaning given said term in the preamble to this Resolution.

The term "Indenture" shall mean the Indenture of Trust dated as of September 1, 2009 between the Corporation and the trustee named therein, 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 Underwriters.

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 terms "Paying Agent", "Paying Agent/Registrar" and "Registrar" shall mean the Trustee, acting in such capacity, and its successors in that capacity.

The term "Pricing Officer" shall mean the Chief Financial Officer of the City.

The term "Project" shall mean the following public infrastructure improvements within the meaning of the term "Project Costs" as defined in the Indenture.

The term "Purchase Agreement" shall mean the bond purchase agreement between the Corporation and the Underwriters.

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 2009 Bonds" or "Bonds" shall mean the Corporation's Contract Revenue Bonds, Series 2009, authorized by this Resolution.

The term "Tri-Party Agreement" shall mean the agreement between the Corporation, the City and TIRZ Sixteen.

The term "Underwriters" means the investment banking firms so identified in the Purchase Agreement.

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 2009 Bonds shall be issued in fully registered form, without coupons, in the aggregate principal amount not to exceed $15,000,000 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: Parameters for Sale of Bonds. (a) The Pricing Officer is hereby authorized to effect the sale of the Series 2009 Bonds. The Series 2009 Bonds shall be in any Authorized Denomination, shall be numbered consecutively from R-1 upward, shall be dated the date described in the Purchase Agreement, and shall be in substantially the form attached hereto as **Exhibit "A"**. Interest on the Series 2009 Bonds shall be payable on the date or dates described in the Purchase Agreement. The Series 2009 Bonds shall bear interest at the fixed rate or rates per annum calculated on the basis of a 360-day year of twelve 30-day months, as set forth in the Purchase Agreement; *provided, however*, that (i) the interest rate or rates for the Series 2009 Bonds must be in a multiple of 1/8 of 1% or 1/20 of 1% or 1/100 of 1%, (ii) the "true interest cost" borne by the Series 2009 Bonds must not exceed 6%, and (iii) the final maturity date of the Series 2009 Bonds shall not extend beyond September 1, 2029. Interest shall be payable in the manner and on the terms provided in the FORM OF BOND. The FORM OF BOND shall be completed upon the execution of the Purchase Agreement to reflect the aggregate principal amount of the Series 2009 Bonds sold to the Underwriters in accordance with the terms of the Purchase Agreement.

(b)(i) The Bonds shall be subject to redemption by the Corporation prior to maturity in the manner and at the redemption price provided in the Purchase Agreement and further described in the FORM OF BOND. The FORM OF BOND shall be completed upon the execution of the Purchase Agreement to reflect the redemption provisions, if any, applicable to the Bonds as provided for in the Purchase Agreement. The Series 2009 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 2009 Bonds, if fewer than all of the Series 2009 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2009 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) 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 2009 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 2009 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 2009 Bonds or any portion thereof. If a portion of any Series 2009 Bond shall be redeemed a substitute Series 2009 Bond or Series 2009 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 2009 Bonds. The Series 2009 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 2009 Bonds shall have the same effect as if each of the Series 2009 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 2009 Bonds shall cease to be such officer before the authentication of such Series 2009 Bonds or before the delivery of such Series 2009 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 2009 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 2009 Bonds to be initially issued and delivered to the Underwriters.

Section 3.5: Authentication. Except for the Series 2009 Bonds to be initially issued, which need not be authenticated by an authorized representative of the Registrar, only such Series 2009 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 2009 Bond so authenticated was delivered by the Registrar hereunder.

The Registrar, when it authenticates a Series 2009 Bond, shall cause the Dated Date to be stamped, typed or imprinted on such Series 2009 Bond. Series 2009 Bonds issued on transfer of or in exchange for other Series 2009 Bonds shall bear the same Dated Date as the Series 2009 Bond or Series 2009 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 2009 Bonds. The principal of the Series 2009 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 2009 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 2009 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 2009 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 2009 Bonds. The Corporation reserves the right to change the Registrar for the Series 2009 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 2009 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 2009 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 2009 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 2009 Bond is registered as the absolute Owner of such Series 2009 Bond for the purpose of making and receiving payment of the principal of or interest on such Series 2009 Bond, and for all other purposes, whether or not such Series 2009 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 2009 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 2009 Bond to the extent of the sums paid.

Amounts held by the Registrar which represent principal of and interest on the Series 2009 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 2009 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 2009 Bonds in accordance with the terms of this Resolution.

Each Series 2009 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 2009 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 2009 Bond or Series 2009 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 2009 Bond or Series 2009 Bonds so presented.

All Series 2009 Bonds shall be exchangeable upon presentation and surrender thereof at the Designated Payment/Transfer Office of the Registrar for a Series 2009 Bond or Series 2009 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 2009 Bond or Series 2009 Bonds presented for exchange. The Registrar shall be and is hereby authorized to authenticate and deliver exchange Series 2009 Bonds in accordance with the provisions of this Section 3.10. Each Series 2009 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 2009 Bond or Series 2009 Bonds in lieu of which such Series 2009 Bond is delivered.

The Corporation or the Registrar may require the Owner of any Series 2009 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 2009 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 2009 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 2009 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 2009 Bond called for redemption in part.

Section 3.11. Cancellation of Series 2009 Bonds. All Series 2009 Bonds paid or redeemed in accordance with this Resolution, and all Series 2009 Bonds in lieu of which exchange Series 2009 Bonds or replacement Series 2009 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 2009 Bonds. Upon the presentation and surrender to the Registrar of a mutilated Series 2009 Bond, the Registrar shall authenticate and deliver in exchange therefor a replacement Series 2009 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 2009 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 2009 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 2009 Bond has been acquired by a bona fide purchaser, shall execute and the Registrar shall authenticate and deliver a replacement Series 2009 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 2009 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 2009 Bond, a bona fide purchaser of the original Series 2009 Bond in lieu of which such replacement Series 2009 Bond was issued presents for payment such original Series 2009 Bond, the Corporation and the Registrar shall be entitled to recover such replacement Series 2009 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 2009 Bond has become or is about to become due and payable, the Corporation in its discretion may, instead of issuing a replacement Series 2009 Bond, authorize the Registrar to pay such Series 2009 Bond.

Each replacement Series 2009 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 2009 Bond or Series 2009 Bonds in lieu of which such replacement Series 2009 Bond is delivered.

Section 3.13: Limited Obligations. THE SERIES 2009 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 2009 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 2009 BONDS, OTHER THAN AS OTHERWISE PROVIDED FOR IN THE INDENTURE.

ARTICLE IV

FORM OF SERIES 2009 BONDS AND CERTIFICATES

Section 4.1: Forms. The form of the Series 2009 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 2009 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 2009 Bonds, but errors or omissions in the printing of such opinion or such numbers shall have no effect on the validity of the Series 2009 Bonds. If bond insurance is obtained by the Underwriters, the Series 2009 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 2009 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 City 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. 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.

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 2009 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 2009 Bonds.

ARTICLE VII

PROVISIONS CONCERNING SALE AND
APPLICATION OF PROCEEDS OF SERIES 2009 BONDS

Section 7.1: Sale of Bonds. The Pricing Officer is hereby authorized to act for and on behalf of the Corporation in connection with the issuance and sale of the Series 2009 Bonds. In that capacity, the Pricing Officer, acting for and on behalf of the Corporation, shall determine the date for issuance and sale of the Series 2009 Bonds and shall approve, execute and deliver the Purchase Agreement with the Underwriters and therein set forth the name and series designation for the Series 2009 Bonds, the principal amount of the Series 2009 Bonds to be sold (subject to the limitations set forth in Section 2.01 hereof), the principal amortization schedule for the Series 2009 Bonds (including, without limitation, the designation of any of the maturities of the Series 2009 Bonds as Term Bonds), the redemption features of the Series 2009 Bonds, the rate or rates of interest to be borne by the Series 2009 Bonds, and other matters relating to the issuance, sale and delivery of the Series 2009 Bonds, including, without limitation, the acquisition of a municipal bond insurance policy, if any, in support of all or any portion of the Series 2009 Bonds. Siebert Brandford Shank & Co., LLC, is hereby designated as the senior managing underwriter for the Underwriters. 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 2009 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 2009 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 2009 Bonds.

Section 7.3: Application of Proceeds. Proceeds from the sale of the Series 2009 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 2009 Bonds shall be deposited to the Debt Service Fund, and any premium received in connection with the sale of the Series 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 Bonds, other than investment property acquired with --

(1) proceeds of the Series 2009 Bonds invested for a reasonable temporary period of three years or less until such proceeds are needed for the purpose for which the Series 2009 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 2009 Bonds;

(g) to otherwise restrict the use of the proceeds of the Series 2009 Bonds or amounts treated as proceeds of the Series 2009 Bonds, as may be necessary, so that the Series 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 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 2009 Bonds or (b) the date the Series 2009 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 2009 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 2009 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 2009 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 2009, 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 the MSRB, when and if the audit report on such statements become available.

(b) If the Corporation changes its fiscal year, it will notify the MSRB 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 MSRB or filed with the SEC. Filings shall be made electronically, in such format as is prescribed by the MSRB.

Section 9.2: Material Event Notices. The Corporation shall notify 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 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.

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 2009 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) Should the Rule be amended to obligate the City to make filings with or provide notices to entities other than the MSRB, the City agrees to undertake such obligation in accordance with the Rule as amended.

(f) 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 2009 Bonds and all agreements determined by the Board to be necessary in connection with the issuance of the Series 2009 Bonds, including without limitation the following: the Indenture of Trust by and between the Corporation and the trustee named therein (the "Trustee"), in substantially the form attached hereto as Exhibit B; the Paying Agent/Registrar Agreement by and between the Corporation and the Trustee, in substantially the form attached hereto as Exhibit C; the Tri-Party Agreement, in substantially the form attached hereto as Exhibit D; the Grant Agreement, in substantially the form attached hereto as Exhibit E; the Purchase Agreement, in substantially the form attached hereto as Exhibit F and any and all other documents and agreements reasonable and necessary to issue the Series 2009 Bonds, including, without limitation, any documents and agreements necessary to obtain municipal bond insurance in support of the debt service on the Series 2009 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 2009 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 2009 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 27th day of August, 2009.

By: ______________________________
Name: ____________________________
Title: President

ATTEST:

By: ____________________________
Name: __________________________
Title: Secretary

EXHIBIT A:
FORM OF BOND
United States of America
State of Texas

Registered	Registered

MUELLER LOCAL GOVERNMENT CORPORATION
TAX INCREMENT CONTRACT REVENUE BOND
SERIES 2009

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)________, _____ (the "Designated Payment/Transfer Office") of ____________, 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 March 1 and September 1, beginning on March 1, 2010, 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 $__,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 September 1, 2009 (the "Indenture"), between the Issuer and ________, as trustee (the "Trustee"), and a resolution adopted by the Issuer on August 27, 2009 (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, 20__, or on any date thereafter, the Bonds of this Series maturing on September 1, 20__ 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 City prior to stated maturity shall be selected by the City. 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.

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.

____________________________, 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: Signature must be guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program ("STAMP") or similar program.	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.

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.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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 Tax Increment 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 Tax Increment Contract Revenue Bonds.

"Bonds" or "Tax Increment 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.

"Captured Appraised Value" shall mean the total appraised value of all real property taxable by a Taxing Unit and located in TIRZ Sixteen less the Tax Increment Base of the Taxing Unit.

"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.

"Contract Tax Increments" shall mean Tax Increments from time to time required to be deposited by the Participants into the Tax Increment Fund pursuant to the TIRZ Act and the Participant Contracts and payable to the Corporation pursuant to the Tri-Party Agreement.

"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 Tax Increment 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.

"Creation Ordinance" shall mean the ordinance adopted by the City creating TIRZ Sixteen.

"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 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 including, without limitation, any Grant Payments.

"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.

"Participant Agreements" shall mean, collectively, the Tri-Party Agreement, and any other contracts from time to time hereafter entered into between the Corporation or the City and the Participants, containing provisions with respect to the payment by the Participants of their respective Tax Increments.

"Participants" shall mean, initially, the City, and shall include any other Taxing Unit which may hereafter execute a Participant Agreement, pursuant to which the Participant is obligated to pay all or part of its Tax Increments to the Tax Increment Fund.

"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 Revenue Fund Balance" shall mean, as of any Transfer Date, $100,000.

"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 and Financing Plan" shall mean the final Project Plan and Financing Plan of TIRZ Sixteen adopted by the Board and approved by the City, and as amended from time to time.

"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 Improvements 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 Tax Increment Contract Revenue Bonds.

"Tax Increment Base" shall mean the total appraised value of property in TIRZ Sixteen as of January 1, 2004 plus the total appraised value of real property taxable by a Taxing Unit and annexed into TIRZ Sixteen as determined in the year in which such property was annexed into TIRZ Sixteen.

"Tax Increment Fund" shall mean the City's TIRZ Sixteen Tax Increment Fund created and maintained in accordance with the Creation Ordinance and the TIRZ Act.

"Taxing Unit" shall mean, in addition to the City, Travis County, a special district or authority (including a junior college district, a hospital district, a navigation district, or other district created by or pursuant to the V.T.C.A., Water Code), or any other political subdivision of the State, whether created by or pursuant to the Texas Constitution or a local, special or general law, that is authorized to impose and is imposing ad valorem taxes on real property in TIRZ Sixteen, even if the governing body of another political unit determines the tax rate for the unit or otherwise governs its affairs.

"TIRZ Act" shall mean Chapter 311, Texas Tax Code, as amended.

"TIRZ Sixteen" shall mean Tax Increment Financing Reinvestment Zone Number Sixteen, City of Austin, Texas.

"Transfer Date" shall mean February 15, 2010, and each August 15 and February 15 thereafter for so long as the Indenture is in effect.

"Tri-Party Agreement" shall mean that certain Agreement by and among the City, TIRZ Sixteen and the Corporation, effective as of August 27, 2009.

"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 Tax Increment 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 Tax Increment 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 Participant Agreements and the Tri-Party Agreement, including the right, title and interest of the Corporation to the Contract Tax Increments 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 Improvements 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 Tax Increment Contract Revenue Bonds. (a) The Tax Increment 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 Tax Increment Contract Revenue Bonds not otherwise provided herein.

(b) At or prior to the issuance of each series of Tax Increment 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 Tax Increment 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 Tax Increment Contract Revenue Bonds are being issued to refund any previously issued Tax Increment Contract Revenue Bonds, the identity, redemption date and redemption price of the Tax Increment Contract Revenue Bonds to be refunded; and

(4) a Debt Service schedule with regard to such Series of Tax Increment Contract Revenue Bonds and all Tax Increment Contract Revenue Bonds that will then be Outstanding after the issuance of such series of Tax Increment Contract Revenue Bonds and refunding of any Tax Increment 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 Tax Increment 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 Tax Increment Contract Revenue Bonds that may be issued that are secured by a first lien on and pledge of the Trust Estate shall not exceed $50,000,000.

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 Tax Increment 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 Improvements 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 Improvements Fund shall constitute trust funds which shall be held in trust by the Trustee solely for the benefit of the Owners of the Tax Increment 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 Tax Increment 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. The foregoing notwithstanding, after the deposits required by Sections 4.02(A) through (D) above have been made or provided for, the Trustee may make deposits as permitted by Section 4.02(E) in accordance with written directions executed by an Authorized Representative and approved by the City, provided that after such deposits and transfers required by Sections 4.02(A) through (D) above have been made, upon transferring funds as permitted by Section 4.02(E) above, there shall be on deposit in the Pledged Revenue Fund moneys not less than the Pledged Revenue Fund Balance.

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 Tax Increment Contract Revenue Bonds, moneys designated by the Corporation as capitalized interest on the Tax Increment 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 Tax Increment 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 Tax Increment 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 Improvements Fund. There is hereby created and established with the Trustee a fund to be designated the "Public Improvements Fund". The Trustee, at the direction of the Corporation, may establish and create within the Public Improvements Fund such number of accounts and subaccounts as the Corporation deems appropriate.

The Public Improvements Fund and any accounts or subaccounts thereof shall initially be funded as provided in the Bond Resolutions. The money and securities in the Public Improvements 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 Improvements 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 Improvements Fund and all disbursements therefrom.

(B) The Trustee shall use money in the Public Improvements 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 Improvements 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 Improvements Fund in accordance with such requisition.

Section 4.07. Investments; Earnings. Monies deposited into the Pledged Revenue Fund, the Debt Service Fund, and the Public Improvements 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 4.06 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 Tax Increment 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 Tax Increment 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 Tax Increment Contract Revenue Bonds as the same become due and payable, whether at maturity or by prior redemption, in accordance with the terms of the Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment Contract Revenue Bonds.

Section 5.05. Collection of Contract Tax Increments. Subject to the provisions of applicable law and the Tri-Party Agreement, the Corporation covenants and agrees to use its best efforts to cause the City to contribute, and for the City to cause each Participant to pay to the City, when due, all Contract Tax Increments to provide for the payment of the principal of and interest on the Tax Increment Contract Revenue Bonds.

Section 5.06. Amendment of Grant Agreement or Tri-Party Agreement. The Corporation covenants not to cause any amendment of the Grant Agreement or the Tri-Party Agreement that will in any manner impair the rights of the Owners of the Tax Increment 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 Tax Increment 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 Tax Increment Contract Revenue Bonds by no later than the date when such Principal Installment or interest becomes due and payable; or

(C) 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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, the Tri-Party Agreement 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 Tax Increment Contract Revenue Bonds. All rights of action under the Indenture or under any Tax Increment Contract Revenue Bonds may be enforced by the Trustee without possession of any of the Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment

Contract Revenue Bonds.

Section 6.10. Right of Owners of the Tax Increment 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 Tax Increment 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 Tax Increment 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 7.01. Discharge and Release of Lien. When all Tax Increment Contract Revenue Bonds have been paid in full as to principal and as to interest and premium, if any, or when all Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment Contract Revenue Bonds. The Corporation and the Trustee may, without the consent of the Owners of any of the Tax Increment 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 Tax Increment Contract Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 Tax Increment 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 the Indenture relating to the acceptance of the trusts under the Indenture, 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 Tax Increment Contract Revenue Bonds.

APPENDIX E

FORM OF BOND COUNSEL'S OPINION

Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel,
upon the delivery of the Bonds, assuming no material changes in facts or law.

MUELLER LOCAL GOVERNMENT CORPORATION
TAX INCREMENT CONTRACT REVENUE BONDS, SERIES 2009,
IN THE PRINCIPAL AMOUNT OF $15,000,000

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 September 1, 2009 (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 and the Public Improvements 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.

REINVESTMENT ZONE SIXTEEN has contracted to pay the collected Contract Tax Increments to the Issuer, in accordance with the terms of the Tri-Party Agreement, effective as of August 27, 2009, by and among the Issuer, the City and Reinvestment Zone Sixteen. We express no opinion as to the Participant Agreements or the Tri-Party Agreement, or as to the validity or enforceability thereof.

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, 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 obligations described in section 1503 of The American Recovery and Reinvestment Act of 2009 and that, accordingly, interest on the Bonds will not be included an owner's alternative minimum taxable income under section 55 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 Issuer 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 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,