OFFICIAL STATEMENT
Dated November 16, 2011

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA"
Fitch: "AA-"
(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

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

$237,530,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Water and Wastewater System Revenue Refunding Bonds, Series 2011

Dated Date: November 1, 2011 | Due: As shown on the inside cover page

The Bonds offered hereby are the $237,530,000 City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2011 (the "Bonds"). The Bonds represent the twentieth encumbrance to be issued or incurred as "Parity Water/Wastewater Obligations" pursuant to an ordinance (the "Master Ordinance") adopted by the City Council of the City of Austin, Texas (the "City") on June 8, 2000, and are authorized and being issued in accordance with a supplemental ordinance adopted by the City Council of the City (the "Twentieth Supplement"). In the Twentieth Supplement, the City delegated the pricing of the Bonds and certain other matters to a "Pricing Officer" who is authorized to act on behalf of the City in selling and delivering the Bonds in a "Pricing Certificate." The Master Ordinance, the Twentieth Supplement and the Pricing Certificate are collectively referred to herein as the "Bond Ordinance." The Master Ordinance contains the terms for the issuance of Parity Water/Wastewater Obligations and the covenants and security provisions related thereto. The City, also has outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, which are secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System. The City must comply with the covenants and security provisions related to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while such obligations remain outstanding. The Master Ordinance prohibits the issuance of additional revenue obligations secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System such as Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations having a combined pledge of Electric Utility System and Water and Wastewater System revenues may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from and, together with the other outstanding Parity Water/Wastewater Obligations, Previously Issued Prior Subordinate Lien Obligations and Previously Issued Separate Lien Obligations, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Water and Wastewater System (subject to the prior claim and lien on the Net Revenues of the Water and Wastewater System to the payment and security of the Outstanding Prior First Lien Obligations), as provided in the Master Ordinance and the Twentieth Supplement. Additionally, the Bonds and Previously Issued Parity Water/Wastewater Obligations referenced above are equally and ratably secured by a parity lien on the funds, if any, deposited to the credit of the Debt Service Fund (excluding any funds on deposit in the BAB Subsidy Subaccount, which was established for the exclusive benefit of the owners of the Series 2010B Bonds issued by the City) and the Reserve Fund in accordance with the terms of the ordinances authorizing the issuance of Parity Water/Wastewater Obligations. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the Water/Wastewater System, except with respect to the Net Revenues. **Neither the taxing power of the City nor the State of Texas (the "State") is pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" herein.

Maturity Schedule on Inside Cover Page

The Bonds are issuable only in fully registered form in the denomination of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds shall accrue from the dated date of the Bonds and shall be payable on May 15, 2012 and each November 15 and May 15 thereafter until maturity or prior redemption. Interest to be paid on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act initially as securities depository of the Bonds, and individual purchases of the Bonds will be made in book-entry form only. See "DESCRIPTION OF THE BONDS" herein.

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

The Bonds are expected to be available for delivery on or about December 7, 2011.

FirstSouthwest

BofA Merrill Lynch	**Estrada Hinojosa & Co., Inc.**	**Goldman, Sachs & Co.**
J.P. Morgan	**Ramirez & Co., Inc.**	**RBC Capital Markets**

$237,530,000 Water and Wastewater System Revenue Refunding Bonds, Series 2011

MATURITY SCHEDULE
Base CUSIP No. 052476 (1)
Serial Maturities

Maturity Date	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix	Maturity Date	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix
11/15/2014	$500,000	2.000%	0.940%	XJ2	11/15/2024	$3,100,000	4.000%	3.450%*	YG7
11/15/2015	500,000	2.000%	1.270%	XK9	11/15/2024	9,960,000	5.000%	3.280%*	XU7
11/15/2016	500,000	2.000%	1.530%	XL7	11/15/2025	3,500,000	3.500%	3.590%*	YH5
11/15/2017	1,360,000	2.000%	1.810%	XM5	11/15/2025	14,045,000	5.000%	3.410%*	XV5
11/15/2018	655,000	2.250%	2.040%	XN3	11/15/2026	3,250,000	4.000%	3.710%*	YJ1
11/15/2019	4,095,000	5.000%	2.300%	XP8	11/15/2026	23,575,000	5.000%	3.550%*	XW3
11/15/2020	5,000,000	3.500%	2.630%	YM4	11/15/2027	5,875,000	5.000%	3.670%*	XX1
11/15/2020	5,510,000	5.000%	2.630%	XQ6	11/15/2028	6,175,000	5.000%	3.770%*	XY9
11/15/2021	5,000,000	3.000%	2.780%	YN2	11/15/2029	6,490,000	5.000%	3.890%*	XZ6
11/15/2021	5,985,000	5.000%	2.780%	XR4	11/15/2030	6,825,000	5.000%	3.950%*	YA0
11/15/2022	6,915,000	4.000%	3.010%*	YE2	11/15/2031	3,155,000	4.000%	4.170%	YP7
11/15/2022	4,575,000	5.000%	2.940%*	XS2	11/15/2031	4,000,000	5.000%	4.020%*	YB8
11/15/2023	7,235,000	3.125%	3.260%	YF9	11/15/2032	7,510,000	5.000%	4.100%*	YK8
11/15/2023	4,810,000	5.000%	3.080%*	XT0	11/15/2033	7,895,000	5.000%	4.190%*	YL6

$26,195,000 5.000% Series 2011 Term Bond due November 15, 2036, Initial Yield 4.300%*, CUSIP 052476YC6

$5,000,000 4.375% Series 2011 Term Bond due November 15, 2041, Initial Yield 4.480%, CUSIP 052476YQ5

$48,340,000 5.000% Series 2011 Term Bond due November 15, 2041, Initial Yield 4.350%*, CUSIP 052476YD4

*Priced to the optional redemption date.

Optional Redemption of the Bonds

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

Mandatory Sinking Fund Redemption of the Bonds

The Bonds having stated maturities of November 15, 2036 and November 15, 2041, respectively, (the "Series 2011 Term Bonds") are subject to mandatory redemption prior to maturity in part, in the manner described herein under the subcaption "DESCRIPTION OF THE BONDS—Mandatory Sinking Fund Redemption" herein.

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

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

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

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

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

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

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

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

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

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CITY OF AUSTIN

Elected Officials

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

Appointed Officials

Marc A. Ott	City Manager
Robert Goode	Assistant City Manager
Sue Edwards	Assistant City Manager
Rudy Garza	Assistant City Manager
Mike McDonald	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
Karen Kennard	City Attorney
Shirley A. Gentry	City Clerk

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

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

FINANCIAL ADVISOR
Public Financial Management, Inc.
Austin, Texas

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Austin, Texas

For additional information regarding the City, please contact:

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SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

The selected financial information below presents selected historical information related to the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the years ended September 30, 2007 through 2010 is derived from the City's audited financial statements. This information should be read in conjunction with the information included in APPENDIX B – "AUDITED FINANCIAL STATEMENTS".

Operating Summary

		(000's) Fiscal Year Ended September 30 (3)			
	12 Months Ended 6-30-11 (2)	2010	2009	2008	2007
Combined Gross Revenues	$ 1,600,655	$1,518,352	$1,573,459	$1,628,262	$1,393,344
Combined Maintenance and Operating Expenses	1,030,220	1,026,315	1,041,684	1,012,535	846,005
Combined Net Revenues	$ 570,435	$ 492,037	$ 531,775	$ 615,727	$ 547,339
Principal and Interest on Revenue Bonds (1)	$ 122,169	$ 125,671	$ 125,936	$ 112,932	$ 137,553
Debt Service Coverage on Revenue Bonds (1)	4.67x	3.92x	4.22x	5.45x	3.98x

(1) Prior First Lien Obligations and Prior Subordinate Lien Obligations only.
(2) Unaudited. See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.
(3) See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.

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Water and Wastewater System Only

The selected financial information below presents selected historical information related to the Water and Wastewater System of the City. The financial information for the years ended September 30, 2007 through 2010 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "AUDITED FINANCIAL STATEMENTS".

Operating Summary

		(000's) Fiscal Year Ended September 30 (5)			
	12 Months Ended 6-30-11 (4)	2010	2009	2008	2007
Gross Revenues	$403,802	$360,936	$393,771	$367,443	$296,475
Maintenance and Operating Expenditures	157,701	159,401	172,438	154,216	134,824
Net Revenues	$246,101	$201,535	$221,333	213,227	$161,651
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Obligations (1)	$ 46,016	$ 46,160	$ 33,215	$ 25,205	$ 19,602
Net Revenues Available for Water and Wastewater System Separate Lien Obligations	$200,085	$155,375	$188,118	$188,022	$142,049
Principal and Interest on Water and Wastewater System Separate Lien Obligations (2)	$109,933	$110,227	$114,625	$110,462	$ 91,304
Debt Service Coverage (Separate Lien Obligations) (3)	1.82x	1.41x	1.64x	1.70x	1.56x

(1) Represents only the portion of Prior First Lien Obligations and Prior Subordinate Lien Obligations allocated to the Water and Wastewater System.
(2) Includes principal and interest on North Austin MUD No. 1.
(3) The Bonds will be on a parity with the Previously Issued Separate Lien Obligations and the Previously Issued Parity Water/Wastewater Obligations. The Bonds, the Previously Issued Parity Water/Wastewater Obligations, the Previously Issued Separate Lien Obligations and any additional Parity Water/Wastewater Obligations issued under the Master Ordinance are (a) "Separate Lien Obligations" under the ordinances authorizing the Prior First Lien Obligations and the Prior Subordinate Lien Obligations and (b) equally and ratably secured, together with the Prior Subordinate Lien Obligations, by the Net Revenues of the City's Water and Wastewater System.
(4) Unaudited. See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.
(5) See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.

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OFFICIAL STATEMENT

$237,530,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Water and Wastewater System Revenue
Refunding Bonds, Series 2011

INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto, is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City"), of its $237,530,000 City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2011 (the "Bonds"). The Bonds are authorized to be issued pursuant to the authority conferred by the laws of the State of Texas (the "State"), an ordinance adopted by the City Council on June 8, 2000 (the "Master Ordinance") providing the terms upon which Parity Water/Wastewater Obligations are to be issued and the covenant and security provisions related thereto, and a supplemental ordinance adopted by the City Council on November 3, 2011 (the "Twentieth Supplement"). The Twentieth Supplement authorized one or more officers and employees of the City to act as a "Pricing Officer" to effect the sale of the Bonds. The terms of the sale of the Bonds are set forth in a "Pricing Certificate", and the Pricing Certificate, together with the Master Ordinance and Twentieth Supplement, is sometimes herein referred to collectively as the "Bond Ordinance". **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance, the Twentieth Supplement, the Pricing Certificate or the Prior Lien Ordinance (hereinafter defined), as applicable (see APPENDICES C and D)**. As noted under "PLAN OF FINANCING" below, the City is not permitted to issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations, but must comply with the covenants contained in the bond ordinances authorizing the issuance of such obligations (collectively, the "Prior Lien Ordinance") while such obligations are outstanding. A summary of certain provisions of the Master Ordinance is attached hereto as APPENDIX C, and a summary of certain provisions of the Prior Lien Ordinance is attached hereto as APPENDIX D. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. The authority delegated to the Pricing Officer permitted the issuance of up to $240,000,000 in aggregate principal amount of refunding bonds under the Bond Ordinance.

The Bonds represent the twentieth encumbrance to be issued or incurred as Parity Water/Wastewater Obligations under the Master Ordinance. The City has issued certain Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City's Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance, no additional Prior First Lien Obligations or Prior Subordinate Lien Obligations may be issued. Commercial Paper Obligations having a combined pledge of Electric Utility System and Water and Wastewater System revenues may continue to be issued on a subordinate basis to the Parity Water/Wastewater Obligations. At such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all Water and Wastewater System revenue obligations then outstanding shall be Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations or obligations subordinate to the Parity Water/Wastewater Obligations then outstanding, and shall be payable only from and secured only by a lien on and pledge of the Net Revenues of the Water and Wastewater System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Water/Wastewater Obligations and contains covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations while any such obligations remain outstanding. See "SECURITY FOR THE BONDS – Credit Agreements" for a discussion of the treatment of the City's obligations under interest rate swap agreements as a Parity Water/Wastewater Obligation.

The City has also issued revenue obligations secured solely by the net revenues of the Electric Utility System pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance. As noted under "OBLIGATIONS PAYABLE FROM SYSTEMS REVENUES" herein, approximately $294,627,358 of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of September 30, 2011, and no assurances can be given as to when or if such obligations will be defeased or paid so as to allow the Parity Water/Wastewater Obligations (including the Bonds) to be first lien obligations of the Net Revenues of the Water and Wastewater System.

PLAN OF FINANCING

The Bonds are being issued to refund $175,000,000 of the City's outstanding Tax-Exempt Commercial Paper Obligations issued for the Water and Wastewater System (the "Refunded Notes"), thereby restoring the City's available capacity under its commercial paper note program, which will enable the City to issue commercial paper notes pursuant to its current program in the principal amount of the Refunded Notes. Proceeds from the Bonds in an amount equal to the principal amount of the Refunded Notes will be deposited with U.S. Bank National Association, New York, New York the issuing and paying agent for the Refunded Notes. Any interest due upon the maturity of the Refunded Notes is expected to be paid from available Water and Wastewater System Revenues. Additionally, Bonds are being issued to refund $72,605,000 of the City's currently outstanding bond indebtedness described in APPENDIX F attached hereto (the "Refunded Obligations"). The purpose of refunding the Refunded Obligations is to effect debt service savings. Proceeds from the Bonds will also be used to fund the Reserve Fund established for the benefit of the Bonds and to pay costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS."

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Refunded Obligations from funds to be deposited pursuant to that certain Escrow Agreement (the "Escrow Agreement") between the City and U.S. Bank National Association, Houston, Texas (the "Escrow Agent"). The Twentieth Supplement provides that the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and will be used to fully fund the defeasance of the Refunded Obligations, without investment. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

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

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

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

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SOURCES AND USES OF FUNDS

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

Sources	
Par Amount	$237,530,000.00
Accrued Interest	1,121,408.13
Net Premium	19,548,187.30
Transfer from Debt Service Fund	196,297.83
Total	$258,395,893.26
Uses:	
Refunded Notes Redemption Account	$175,000,000.00
Refunded Obligations Redemption Account	73,060,054.05
Debt Service Reserve Fund	7,494,378.85
Accrued Interest	1,121,408.13
Cost of Issuance	654,249.94
Underwriter's Discount	1,065,802.29
Total	$258,395,893.26

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OBLIGATIONS PAYABLE FROM SYSTEMS REVENUES
(As of September 30, 2011)

Combined Utility Systems Obligations	
Prior First Lien Obligations	$ 119,597,846
Prior Subordinate Lien Obligations (a)	175,029,512
Sub-Total	294,627,358
Parity Electric Utility Obligations	1,103,605,000
Water and Wastewater System Separate Lien Obligations	
Parity Water and Wastewater Obligations (b)	2,004,355,000
Sub-Total	
Commercial Paper (c)	184,819,000
General Obligation Bonds (d)	18,652,031
Assumed Bonds and Obligations	
Assumed District Bonds (e)	7,218,251
TOTAL	$3,613,276,640

See "SECURITY FOR THE BONDS".

(a) Excludes the Refunded Obligations.

(b) Excludes the Refunded Obligations, includes the Bonds.

(c) The City has a Tax-Exempt Commercial Paper Program in place for the Combined Utility Systems in an amount not to exceed $350,000,000 and a Taxable Commercial Paper Program for the Combined Utility Systems in an amount not to exceed $50,000,000. The outstanding amount shown above excludes the Refunded Notes. The Commercial Paper Notes and the reimbursement obligations to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Notes are payable from the Net Revenues of both the Electric Utility System and the Water and Wastewater System after providing for the payment of the Prior First Lien Obligations, the Prior Subordinate Lien Obligations and the Separate Lien Obligations. The City's current Financial Policy provides that Commercial Paper Note proceeds can only be utilized (i) for voter authorized projects (although such voter authorization is not required by State law), or (ii) to finance routine capital improvements required for normal business operation or improvements to comply with local, state and federal mandates without prior voter authorization. The Electric Utility System may utilize commercial paper for all improvements, excluding major nuclear and coal needs.

(d) Contractual Obligations and Public Improvement Refunding Bonds that are secured by and payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System.

(e) Such bonds are secured by and payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

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DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds	Outstanding Subordinate Lien Bond (a)	Total Prior & Subordinate Lien Bond Requirements	The Bonds		Electric Utility System Obligations	Water & WW Separate Lien Obligation Bonds (a)	Assumed MUD Obligations (b)	Total Separate Lien and Combined Utility Systems Requirements
				Principal	Interest				
2012	$ 100,945,594	$ 15,684,751	$116,630,345	$ -	$ 6,043,144	$ 96,343,501	$ 128,480,979	$ 719,268	$ 348,217,237
2013	61,293,113	14,774,875	76,067,988	-	11,214,081	128,753,914	145,115,911	715,334	361,867,228
2014	504,700	15,587,313	16,092,013	-	11,214,081	169,255,236	175,461,541	717,086	372,739,957
2015	6,045,000	27,480,075	33,525,075	500,000	11,209,081	119,972,599	157,225,514	714,462	323,146,731
2016	6,045,000	28,236,025	34,281,025	500,000	11,199,081	81,033,368	164,435,349	727,005	292,175,828
2017	42,150,000	18,561,750	60,711,750	500,000	11,189,081	83,123,880	139,008,196	645,526	295,178,433
2018	62,050,000	18,796,325	80,846,325	1,360,000	11,170,481	69,234,185	117,402,474	648,483	280,661,947
2019	31,735,000	18,905,150	50,640,150	655,000	11,149,513	69,014,736	117,842,243	659,459	249,961,101
2020	-	21,503,738	21,503,738	4,095,000	11,039,769	68,692,932	124,693,758	661,645	230,686,841
2021	-	15,376,663	15,376,663	10,510,000	10,712,144	65,907,361	123,705,970	669,724	226,881,861
2022	-	21,377,563	21,377,563	10,985,000	10,262,269	59,775,979	120,376,761	663,681	223,441,252
2023	-	20,363,538	20,363,538	11,490,000	9,784,969	59,410,915	121,553,171	666,568	223,269,160
2024	-	20,079,763	20,079,763	12,045,000	9,298,997	59,251,176	121,605,157	664,896	222,944,988
2025	-	16,248,175	16,248,175	13,060,000	8,754,700	59,343,159	108,329,801	668,673	206,404,508
2026	-	413,313	413,313	17,545,000	8,031,325	59,178,628	104,840,142	604,005	190,612,412
2027	-	413,313	413,313	26,825,000	6,964,575	59,116,104	94,973,042	-	188,292,034
2028	-	10,138,313	10,138,313	5,875,000	6,163,325	59,002,154	107,364,434	-	188,543,226
2029	-	-	-	6,175,000	5,862,075	58,721,636	106,880,424	-	177,639,135
2030	-	-	-	6,490,000	5,545,450	45,407,604	98,738,705	-	156,181,759
2031	-	-	-	6,825,000	5,212,575	45,371,077	58,464,162	-	115,872,814
2032	-	-	-	7,155,000	4,878,850	35,828,283	44,119,471	-	91,981,604
2033	-	-	-	7,510,000	4,528,000	35,600,747	44,114,970	-	91,753,717
2034	-	-	-	7,895,000	4,142,875	31,511,780	44,053,688	-	87,603,343
2035	-	-	-	8,300,000	3,738,000	31,339,349	43,917,231	-	87,294,579
2036	-	-	-	8,725,000	3,312,375	31,141,925	44,178,165	-	87,357,465
2037	-	-	-	9,170,000	2,865,000	21,673,948	44,008,472	-	77,717,420
2038	-	-	-	9,640,000	2,397,828	21,539,120	34,997,939	-	68,574,887
2039	-	-	-	10,125,000	1,909,891	21,399,762	26,026,544	-	59,461,196
2040	-	-	-	10,650,000	1,396,781	8,690,945	25,768,673	-	46,506,399
2041	-	-	-	11,180,000	857,344	8,556,597	12,322,333	-	32,916,274
2042	-	-	-	11,745,000	290,500	-	1,065,000	-	13,100,500

(a) Excludes the Refunded Obligations.

(b) Assumed MUD obligations are secured by and payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

SECURITY FOR THE BONDS

Pledges of Net Revenues

Prior First Lien Obligations/Prior Subordinate Lien Obligations . . . The Net Revenues of both the City's Electric Utility System and Water and Wastewater System have been pledged, jointly and severally, (i) on a first lien basis to the payment and security of the Prior First Lien Obligations and (ii) on a second lien basis to the payment and security of the Prior Subordinate Lien Obligations. The outstanding Prior Lien Obligations have maturities which extend through May 15, 2019. The outstanding Prior Subordinate Lien Obligations have maturities which extend through May 15, 2028. In the Prior Lien Ordinance authorizing the issuance of the Prior First Lien Obligations and the Prior Subordinate Lien Obligations, the City retained the right to issue "Separate Lien Obligations," which are defined as obligations payable solely from the net revenues of either the Electric Utility System or the Water and Wastewater System, but not both, and such payments for their retirement by the terms of the ordinance authorizing their issuance are secured solely by a lien on and pledge of the net revenues of the Electric Utility System or the net revenues of the Water and Wastewater System, but not both, of equal dignity with the lien on and pledge of said net revenues securing the payment of the Prior Subordinate Lien Obligations.

Previously Issued Separate Lien Obligations and Parity Water/Wastewater Obligations . . . The Bonds are "Separate Lien Obligations" under the terms of the Prior Lien Ordinance, and represent the twentieth encumbrance issued or incurred as Parity Water/Wastewater Obligations for the benefit of the City's Water and Wastewater System. The encumbrances treated as Parity Water/Wastewater Obligations include the obligations incurred by the City under credit agreements executed in support of bonds issued as Parity Water/Wastewater Obligations. See "SECURITY FOR THE BONDS-Credit Agreements" below. The Master Ordinance and the Twentieth Supplement pledge the Net Revenues of the Water and Wastewater System to the payment of the "Parity Water/Wastewater Obligations" (which consist of the Previously Issued Parity Water/Wastewater Obligations, the Bonds, and additional parity obligations issued and to be issued under the Master Ordinance). The Parity Water/Wastewater Obligations, together with the Previously Issued Separate Lien Obligations (as defined in the Master Ordinance) and Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water and Wastewater System, subject to the prior claim on and lien on the Net Revenues of the Water and Wastewater System to the payment and security of the Outstanding Prior First Lien Obligations, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

Additionally, the Bonds and certain other Parity Water/Wastewater Obligations are, and future Parity Water/Wastewater Obligations may be, equally and ratably secured by a parity lien on the funds, if any, deposited to the credit of the Debt Service Fund, the Reserve Fund and any special fund or funds created and maintained for the payment and security of the Parity Water/Wastewater Obligations (excluding any funds on deposit in the "BAB Subsidy Subaccount", which was established for the exclusive benefit of the owners of the Series 2010B Bonds issued by the City as Parity Water/Wastewater Obligations); pursuant to a Supplemental Ordinance and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Water/Wastewater Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance. See "Reserve Fund for Parity Water/Wastewater Obligations" below.

Rate Covenant Required By Prior First Lien Bonds and Prior Subordinate Lien Bonds

In the Prior Lien Ordinance, the City has agreed to establish rates and charges for the facilities and services of the Electric Utility System and the Water and Wastewater System to provide Gross Revenues in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses, (ii) to fund the reserves required for Prior First Lien Obligations, Prior Subordinate Lien Obligations, Separate Lien Obligations and other obligations or evidences of indebtedness payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and (iii) to produce Net Revenues (after satisfaction of the amount required in (ii) above) equal to at least (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior First Lien Obligations and Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Prior Subordinate Lien Obligations and all other indebtedness, except Prior First Lien Obligations and Separate Lien Obligations, payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Utility System or the Water and Wastewater System, or both.

Rate Covenant Required by Master Ordinance

In the Master Ordinance, the City has agreed to fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues in each Fiscal Year sufficient: (i) to pay all current Operating Expenses, (ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Water and Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Separate Lien Obligations or (y) an amount, when added to Other Available Water and Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Separate Lien Obligations, and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water and Wastewater System reasonably anticipated to be paid from Gross Revenues. See "Surplus Revenue Account" below.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above, the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates and charges to be revised and adjusted to comply with this covenant or obtain a written report from a Utility System Consultant after a review and study of the operations of the Water and Wastewater System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with such rate covenant and such adjustments and revisions to water and wastewater rates and charges are promptly implemented and enacted in accordance with such Utility System Consultant's report. Notwithstanding anything herein to the contrary, the City shall be deemed to be in compliance herewith if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Reserve Fund for Parity Water/Wastewater Obligations

The Master Ordinance creates and establishes the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). Except as provided below with respect to Commercial Paper Obligations and obligations of the City incurred under certain Credit Agreements, the Reserve Fund shall be maintained for the benefit of the owners of the Parity Water/Wastewater Obligations. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. The Reserve Fund is not pledged or available for the Previously Issued Separate Lien Obligations. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the related Parity Water/Wastewater Obligations as they become due or paying principal of and interest on the applicable Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund is required to be an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations (the "Required Reserve Amount"). The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. If the City is required to make a withdrawal from the Reserve Fund, the City shall promptly notify the issuer of a Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues; however, such reimbursement from Net Revenues shall be subject to the following paragraph and, dependent on the terms of the Credit Facility, may be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

In accordance with the provisions of the Master Ordinance and supplemental ordinances authorizing the issuance of the Previously Issued Parity Water/Wastewater Obligations, the Required Reserve Amount currently on deposit in the Reserve Fund is funded with a combination of cash and surety bonds issued by MBIA Insurance Corporation, Financial Security Assurance Inc. ("FSA"), Ambac Assurance Corporation and XL Capital Assurance Inc. in an amount equal to 50% of the average Annual Debt Service Requirement of the Parity Water/Wastewater Obligations. See "SECURITY FOR THE BONDS – Financial Guaranty Disclosure" herein. The obligations of FSA have been assumed by its successor, Assured Guaranty Municipal Corp. ("AGM"). The City will fund the Required Reserve Amount allocable to the Bonds with proceeds thereof. See "SOURCES AND USES OF FUNDS".

In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of the Master Ordinance and any Supplemental Ordinance, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or a Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

As Parity Water/Wastewater Obligations secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Master Ordinance or a Supplemental Ordinance, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

The Reserve Fund shall not secure Parity Water/Wastewater Obligations issued in the form of commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplemental Ordinance.

Reserve Fund for Prior First Lien Bonds and Prior Subordinate Lien Bonds

A separate reserve fund has been established under the Prior Lien Ordinance for the benefit of the Prior First Lien Bonds and Prior Subordinate Lien Bonds. In 2002, the City obtained the consent of the holders of at least 51% of the principal amount and Maturity Amount of the outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations to amend the provisions of the Prior Lien Ordinance relating to the Reserve Fund to allow for the funding of all or a part of the amount required to be maintained in the Reserve Fund (the "Required Reserve") with Financial Commitments (defined below) and change the Required Reserve to an amount equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, as determined on (i) the date of the initial deposit of a Financial Commitment to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement, whichever date is the last to occur. The term "Financial Commitments" means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength rated in the highest rating category by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings ("Fitch", and together with Moody's and S&P, the "Rating Agencies") and by A.M. Best, if rated by A. M. Best, on the date the Financial Commitment is deposited to the credit of the Reserve Fund.

The amount on deposit to the credit of the Reserve Fund under the Prior Lien Ordinance is $44,539,597 and is funded with Financial Commitments issued by FSA. AGM has assumed the obligations of FSA under the Financial Commitments. The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior First Lien Obligations and Prior Subordinate Lien Obligations in a manner that reduces the principal amount and Maturity Amount of outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations.

Issuance of Additional Prior Lien Bonds and Subordinate Lien Bonds Precluded

The Master Ordinance provides that no additional revenue obligations issued will be on parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations.

Separate Lien Obligations

In the Prior Lien Ordinance, the City has reserved the right to issue or incur, by contract or otherwise, Separate Lien Obligations payable solely from the Net Revenues of either the Electric Utility System or the Water and Wastewater System, but not both, on a parity with the lien and pledge securing the payment of the Prior Subordinate Lien Bonds as to the appropriate utility system. In the case of such obligations secured by Net Revenues of the Water and Wastewater System, such obligations are to be issued on parity with the Parity Water/Wastewater Obligations.

Issuance of Parity Water/Wastewater Obligations

Under the Master Ordinance, the City reserves the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if: (i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in the Master Ordinance and any Supplemental Ordinance, is not in default in the performance and observance of any of the terms, provisions and conditions contained in the Master Ordinance and any Supplemental Ordinance, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of the Master Ordinance and any Supplemental Ordinance contain the amount then required to be therein or the proceeds of sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts; and (ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water and Wastewater System, after deducting amounts expended from the Water and Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water and Wastewater Revenues, are equal to 1.25 times the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations to be Outstanding, after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations. The Bonds are being issued in satisfaction of the requirements described in this paragraph.

For purposes of the Accountant's certification or opinion noted in (ii) above, if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the aforesaid certificate, report or opinion of the Accountant shall give effect to the issuance of the proposed refunding Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded).

In making a determination of Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water and Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water and Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion. In connection with the adoption of the Fiscal Year 2011-2012 operating budget, the City Council adopted a rate increase, which became effective November 1, 2011 and which is applicable to the Bonds. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates".

Short-term Parity Water/Wastewater Obligations

Pursuant to the Master Ordinance the City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of satisfying the Net Revenues coverage test for additional Parity Water/Wastewater Obligations, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the

City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, are to be contained in a Supplemental Ordinance relating to their issuance.

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

Credit Agreements

Under the Master Ordinance, payments made under a Credit Agreement may be treated as Parity Water/Wastewater Obligations payable solely from and equally and ratably secured by a lien on the Net Revenues of the Water and Wastewater System of equal rank and dignity with the lien and pledge securing the payment of Parity Water/Wastewater Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Water and Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water/Wastewater Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

The City has outstanding two series of Parity Water/Wastewater Obligations in which the City has executed a Credit Agreement and treated its obligations thereunder as a Parity Water/Wastewater Obligation. The first issue is the City of Austin, Texas Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004, issued in the aggregate principal amount of $132,475,000 (the "2004 Variable Rate Bonds") and delivered on August 27, 2004. In conjunction with the delivery of the 2004 Variable Rate Bonds, and pursuant to a sixth supplemental ordinance to the Master Ordinance, the City entered into an Interest Rate Swap Agreement (the "2004 Swap Agreement") with JPMorgan Chase Bank ("JPM"), pursuant to which the City is obligated to make payments to JPM calculated on a notional amount equal to the scheduled outstanding principal amount of the 2004 Variable Rate Bonds and a fixed interest rate of 3.657% per annum, and JPM is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the 2004 Variable Rate Bonds and a variable rate equal to 68% of the one-month London Interbank Borrowing Rate ("LIBOR") for U.S. deposits. Payments under the 2004 Swap Agreement will be made on a net basis on the fifteenth day of each month, commencing in September 2004 and ending in May 2024. Interest on the 2004 Variable Rate Bonds is calculated on the basis of an index that differs from the LIBOR index used to calculate amounts payable to the City under the terms of the 2004 Swap Agreement. The City entered into the 2004 Swap Agreement in conjunction with the issuance of the 2004 Variable Rate Bonds in order to effect and quantify a debt service savings on outstanding bonds that were refunded with the proceeds of the Variable Rate Bonds. On the effective date of the 2004 Swap Agreement, JPM was rated "Aa2" by Moody's, "AA-" by S&P and "AA-" by Fitch. Payments to be made by the City, if any, under the terms of the 2004 Swap Agreement (other than a "termination payment" as discussed below) are payable solely from and equally and ratably secured by a lien on the Net Revenues of the Water/Wastewater System of equal rank and dignity with the lien and pledge securing the payment of Parity Water/Wastewater Obligations. See APPENDIX B–"Annual Financial Report–Note 14b–Variable Rate Debt Management Program" for a discussion relating to the valuation of and risks associated with the 2004 Swap Agreement. As of the date of this Official Statement, the net aggregate monthly payments the City has made under the 2004 Swap Agreement equal $16,104,715.

If either party to the 2004 Swap Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the 2004 Swap Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the 2004 Swap Agreement will continue in existence until May 2024. If the 2004 Swap Agreement is terminated, then current market conditions will determine whether the City will owe a termination payment to JPM or be entitled to receive a termination payment from JPM. Such termination payment generally would be based on the market value of the 2004 Swap Agreement on the date of termination and could be substantial. In addition, a partial termination of the 2004 Swap Agreement could occur to the extent any 2004 Variable Rate Bonds are redeemed pursuant to the City exercising its right to effect an optional redemption of 2004 Variable Rate Bonds. If such optional redemption were to occur, termination payments related to the portion of the 2004 Swap Agreement to be terminated will be owed by either the City or JPM, depending on then existing market conditions. The obligation to pay a termination payment to JPM could result in the City issuing Parity Water/Wastewater Obligations or Subordinated Debt to enable the City to make such a termination payment.

The debt service payments on the 2004 Variable Rate Bonds and the scheduled monthly payments to be made by the City under the terms of the 2004 Swap Agreement were insured by policies issued by FSA; however, any termination payment the City may become obligated to pay under the terms of the 2004 Swap Agreement is not covered by any policy issued by FSA. AGM has assumed the obligations of FSA under the polices issued by FSA.

The second issue is the City of Austin, Texas Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008, issued in the aggregate principal amount of $170,605,000 (the "2008 Variable Rate Bonds") and delivered on May 15, 2008. In conjunction with the delivery of the 2008 Variable Rate Bonds, and pursuant to a fifteenth supplemental ordinance to the Master Ordinance, the City entered into an Interest Rate Management Agreement (the "2008 Swap Agreement") with Goldman Sachs Capital Markets, L.P. ("Goldman"), pursuant to which the City is obligated to make payments to Goldman calculated on a notional amount equal to the scheduled outstanding principal amount of the 2008 Variable Rate Bonds and a fixed interest rate of 3.60% per annum, and Goldman is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the 2008 Variable Rate Bonds and a variable rate equal to the SIFMA index for obligations having a maturity of 2031. Payments under the 2008 Swap Agreement will be made on a net basis on the fifteenth day of each month, commencing in May 2008 and ending in May 2031. Interest on the 2008 Variable Rate Bonds is determined in a manner that differs from the SIFMA index used to calculate amounts payable to the City under the terms of the 2008 Swap Agreement. The City entered into the 2008 Swap Agreement in conjunction with the issuance of the 2008 Variable Rate Bonds in order to effect and quantify a debt service savings on outstanding bonds that were refunded with the proceeds of the 2008 Variable Rate Bonds. On the effective date of the 2008 Swap Agreement, Goldman was rated "Aa3" by Moody's, "AA-" by S&P and "AA-" by Fitch. Payments to be made by the City, if any, under the terms of the 2008 Swap Agreement (other than a "termination payment" as discussed below) are payable solely from and equally and ratably secured by a lien on the Net Revenues of the Water/Wastewater System of equal rank and dignity with the lien and pledge securing the payment of Parity Water/Wastewater Obligations. See APPENDIX B–"Annual Financial Report–Note 14b–Variable Rate Debt Management Program" for a discussion relating to the valuation of and risks associated with the 2008 Swap Agreement. As of the date of this Official Statement, the net aggregate monthly payments the City has made under the 2008 Swap Agreement equal $16,798,746.

If either party to the 2008 Swap Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the 2008 Swap Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the 2008 Swap Agreement will continue in existence until May 2031. If the 2008 Swap Agreement is terminated, then current market conditions will determine whether the City will owe a termination payment to Goldman or be entitled to receive a termination payment from Goldman. Such termination payment generally would be based on the market value of the 2008 Swap Agreement on the date of termination and could be substantial. In addition, a partial termination of the 2008 Swap Agreement could occur to the extent any 2008 Variable Rate Bonds are redeemed pursuant to the City exercising its right to effect an optional redemption of 2008 Variable Rate Bonds. If such optional redemption were to occur, termination payments related to the portion of the 2008 Swap Agreement to be terminated will be owed by either the City or Goldman, depending on the existing market conditions. The obligation of the City to pay a termination payment to Goldman could result in the City issuing Parity Water/Wastewater Obligations or Subordinated Debt to enable the City to make such a termination payment.

System Fund

Under the Master Ordinance and in accordance with the provisions of the Prior Lien Ordinance authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Water/Wastewater Obligations are Outstanding a separate fund or account known and designated as the "Water and Wastewater System Fund" (the "Water and Wastewater System Fund" or the "System Fund"). All funds deposited to the credit of the System Fund and disbursements from the System Fund shall be recorded in the books and records of the City and moneys deposited to the credit of the System Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of the Water and Wastewater System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding and (iii) the special Funds and Accounts for the payment of the Parity Water/Wastewater Obligations.

FOURTH: To pay Subordinated Debt, including amounts for the payment of the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

FIFTH: To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water and Wastewater System Surplus Revenue Account.

Any Net Revenues remaining in the Water and Wastewater System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

Surplus Revenue Account

At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water and Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water and Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water and Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water and Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water and Wastewater Funds." The amount so designated as "Other Available Water and Wastewater Funds" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

Financial Guaranty Disclosure

The Rating Agencies have each released statements on the health of the financial guaranty industry that cite financial guarantors' exposure to subprime mortgage risk, among other things, as an area of stress for the financial guaranty industry. In various releases, the Ratings Agencies have each outlined the processes they are implementing in evaluating the effect of this risk on their respective ratings of financial guarantors and have issued reports stating the results of the evaluations. As of the date of this Official Statement the ratings for XL, MBIA, FSA/AGM and Ambac, the issuers of the surety bonds presently deposited to the credit of the Reserve Fund, are as follows:

	Ambac	FSA/AGM	MBIA	XL
Moody's Investors Services	WD	Aa3	B3	Ca
Standard & Poor's Rating Services	WD	AA+	B	WD
Fitch Rating Services	WD	WD	WD	WD

Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors and the ratings issued or withdrawn, as described above.

DESCRIPTION OF THE BONDS

The Bonds will be dated November 1, 2011, and interest will accrue from their dated date. Interest will be payable on May 15, 2012, and on each November 15 and May 15 thereafter until maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and bear interest at per annum rates set forth on the inside cover page hereof. Accrued interest to be paid on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal of the Bonds is payable at maturity, subject only to prior redemption as is hereinafter described.

Optional Redemption

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

Mandatory Sinking Fund Redemption

The Bonds having stated maturities of November 15, 2036 and November 15, 2041, respectively (the "Term Bonds"), shall be subject to mandatory redemption in part prior to maturity at the redemption price of par and accrued interest to the date of redemption on November 15 in each of the years and in principal amounts as follows:

Term Bond due November 15, 2036	
Year	Principal Amount
2034	$ 8,300,000
2035	8,725,000
2036*	9,170,000

4.375% Term Bond due November 15, 2041	
Year	Principal Amount
2037	$ 985,000
2038	995,000
2039	1,010,000
2040	1,010,000
2041*	1,000,000

5.000% Term Bond due November 15, 2041	
Year	Principal Amount
2037	$8,655,000
2038	9,130,000
2039	9,640,000
2040	10,170,000
2041*	10,745,000

*Stated maturity.

Approximately 45 days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund. Any Term Bond not selected for prior redemption shall be paid on the date of their Stated Maturity.

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

Notice of Redemption

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

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

Defeasance

The City may defease and discharge its obligation to the holders of any or all of the Bonds to pay the principal of, redemption premium, and interest thereon by depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust: (a) cash in an amount equal to the principal amount of, redemption premium, and interest to become due on the Bonds to the date of maturity or prior redemption, or (b) Government Obligations, consisting of (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent; or (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. Government Obligations deposited in trust to defease the Bonds are required to be affirmed by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to pay the principal of, redemption premium, and interest on such Bonds.

Paying Agent/Registrar

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

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

Record Date for Interest Payment

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

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated payment/transfer office of the Paying Agent/Registrar, or sent by United States mail, first-class postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Bondholders Remedies

Neither the Master Ordinance nor the Twentieth Supplement specify events of default with respect to the Bonds. If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in either the Master Ordinance or the Twentieth Supplement, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance or the Twentieth Supplement and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rest with the discretion of the courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Neither the Master Ordinance nor the Twentieth Supplement provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Twentieth Supplement, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the State legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in either the Master Ordinance or the Twentieth Supplement. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

The City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenue, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, with Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

BOOK-ENTRY-ONLY SYSTEM

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal

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

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

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

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

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

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

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

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

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

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

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THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") and a Water and Wastewater System (also referred to herein as the "Water and Wastewater Utility") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The Electric Utility System had approximately 1,622 full-time regular employees as of June 30, 2011. The Water and Wastewater System had approximately 1,069 full-time regular employees as of the same date.

THE WATER AND WASTEWATER SYSTEM

Management

Name	Title	Length of Service with City*
Greg Meszaros	Director	4 Years
David Anders	Assistant Director, Finance and Business Services	23 Years
Jane Burazer	Assistant Director, Treatment	18 Years
George Calhoun	Assistant Director, Pipeline Operations	22 Years
Gopal Guthikonda, P.E.	Assistant Director, Engineering	24 Years
David Juarez, P.E.	Assistant Director, Water Resource Management	20 Years**
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	15 Years**

* As of September 30, 2011.
**Length of service not continuous.

WATER SYSTEM

Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 538 square miles. The City also has contracted to supply treated water on a wholesale basis to five municipal utility districts ("MUDs"), one water control and improvement district ("WCID"), six water supply corporations, one private utility, the Cities of Manor, Rollingwood and Sunset Valley, and the Village of San Leanna. In addition, the City has had a Water Reclamation Initiative for nearly twenty years to develop facilities and processes to make treated wastewater effluent available for irrigation and cooling processes. The City is currently in the process of establishing operating and capital funds for a Reclaimed Water Utility in addition to the Water and Wastewater operating and capital funds (see "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities").

The City has previously acquired the systems and assets of eleven WCIDs. The City has paid off and canceled the bonded indebtedness of all of these WCIDs. The Texas Commission on Environmental Quality (the "TCEQ") is empowered to grant the City a certificate of convenience and necessity to provide water and wastewater service to retail customers outside the City's boundaries. The City is not required to obtain such a certificate. References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

Water Supply

In 1888, City leaders campaigned successfully for the first Austin Dam across the Colorado River, which was completed early in 1893. In 1934, a $4,500,000 loan and grant was obtained from the Public Works Administration to complete the Buchanan Dam. The Lower Colorado River Authority ("LCRA") finished the dam (which is 150 feet high, 11,200 feet long), and the lake it forms is thirty-two miles long and two miles wide, covering 23,000 surface acres.

Since that time, a stairway of lakes was created by building five additional dams, giving the area 150 miles of lakes. The Tom Miller Dam is within the City limits, and forms Lake Austin, which covers 3,000 surface acres; Mansfield Dam, the fifth largest masonry dam in the world, impounds Lake Travis, which covers 42,000 acres; Marble Falls Dam creates Lake Marble Falls, which spreads over 900 acres; Lake Lyndon B. Johnson, held by Alvin Wirtz Dam, has an area of 6,300 acres; and Roy Inks Dam forms Inks Lake, with a surface of 900 acres. The City owns Tom Miller Dam and has leased it to LCRA through December 31, 2020. The other dams are owned by LCRA.

The combined storage capacity of the six lakes is around 3,300,000 acre-feet of water, or more than a trillion gallons. Approximately 800,000 acre feet of this capacity are reserved for flood control. Of the six dams on the Colorado River, two form major impounding reservoirs for the control of flood water; however, Mansfield Dam is the only designated flood control structure.

The City has also constructed Longhorn Dam on the Colorado River just downstream of Lake Austin, and Decker Dam on Decker Creek, a tributary of the Colorado River that joins the river downstream of Longhorn Dam. Lady Bird Lake, which has a capacity of approximately 3,500 acre-feet, is created by Longhorn Dam. Decker Dam creates Lake Walter E. Long, which has a capacity of approximately 34,000 acre-feet.

United States Geological Survey records at Austin gauging station No. 08158000 show the following flows for the water year (October 1 through September 30).

1986 – 886,500 Acre Feet	1995 – 896,700 Acre Feet	2004 – 928,065 Acre Feet
1987 – 3,399,000 Acre Feet	1996 – 758,300 Acre Feet	2005 – 1,077,031 Acre Feet
1988 – 834,000 Acre Feet	1997 – 3,013,512 Acre Feet	2006 – 528,785 Acre Feet
1989 – 667,900 Acre Feet	1998 – 1,313,831 Acre Feet	2007 – 2,155,974 Acre Feet
1990 – 692,300 Acre Feet	1999 – 803,240 Acre Feet	2008 – 621,526 Acre Feet
1991 – 829,700 Acre Feet	2000 – 627,370 Acre Feet	2009 – 584,735 Acre Feet
1992 – 5,419,000 Acre Feet	2001 – 1,371,435 Acre Feet	2010 – 798,517 Acre Feet
1993 – 978,000 Acre Feet	2002 – 1,674,985 Acre Feet	
1994 – 708,200 Acre Feet	2003 – 1,017,294 Acre Feet	

Using the last twenty-five years from 1986-2010, the average flow was 1,337,340 acre feet per year. Using the lowest year, 2006, the flow for the Colorado River at Austin was 528,785 acre feet, or 172 billion gallons, which is nearly 4 times the amount of water treated for distribution (44 billion gallons) by the City for the fiscal year ended September 30, 2010.

<u>Water Rights</u>. The City holds independent rights to impound, divert and use the waters of the Colorado River and its tributaries, and additional rights to such water pursuant to agreements with LCRA.

The City's independent water rights have been adjudicated before the TCEQ in accordance with the Water Rights Adjudication Act, Texas Water Code, Section 11.301, et seq. The City's rights, as determined by the TCEQ, are set forth in the Final Determination of all claims of Water Rights in the Lower Colorado River Segment of the Colorado River Basin issued by the TCEQ on July 29, 1985. Both the City and LCRA appealed the Final Determination, seeking additional rights and contesting the rights awarded to each other, in a proceeding styled *In Re: The Exceptions of the Lower Colorado River Authority and the City of Austin to the Adjudication of Water Rights in the Lower Colorado River Segment of the Colorado River Basin*, Cause No. 115,414-A-1 in the District Court of Bell County, Texas, 264th Judicial District ("Cause No. 115,414-A-l").

The City and LCRA entered into a Comprehensive Water Settlement Agreement (the "Settlement Agreement") in settlement of Cause No. 115,414-A-1 on December 10, 1987. The Settlement Agreement generally improves the independent water rights of both the City and LCRA. Such rights for the City include: the rights to maintain Tom Miller Dam and Lake Austin, Longhorn Dam and Lady Bird Lake, and Decker Dam and Lake Walter E. Long; the right to divert and use 271,403 run of the river acre-feet of water per year from Lake Austin and Lady Bird Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Lady Bird Lake for industrial purposes so as to consumptively use not to exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial purposes so as to consumptively use not to exceed 16,156 acre-feet per year; and the right to divert and use water through Tom Miller Dam for the generation of hydroelectric power. LCRA's independent water rights, as determined by the TCEQ, include the rights to maintain Lakes Travis and Buchanan and to divert and use water therefrom. Pursuant to the Settlement Agreement and the final judgment in Cause No. 115,414-A-1, certain other pending water related disputes between the City and LCRA were settled. LCRA was granted an option to acquire up to a 50% undivided interest in the City's proposed Water Treatment Plant No. 4 (discussed under "Water Treatment Plants," below and hereinafter referred to as "WTP No. 4"). The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication have been issued by the TCEQ.

Pursuant to previous agreements between the City and LCRA, LCRA has agreed to supply the City additional water from storage in Lakes Travis and Buchanan. The City also has leased Tom Miller Dam, and the City's right to divert and use water for the generation of hydroelectric power through Tom Miller Dam, to LCRA. The Settlement Agreement provided for the City to receive water from Lake Travis for the proposed WTP No. 4, and for additional water for municipal and other purposes of use downstream of Lake Travis.

The City and LCRA executed the First Amendment to the Settlement Agreement (the "First Amendment") on October 7, 1999. This First Amendment extends the existing Settlement Agreement through the year 2050, and gives the City a 50-year assured water supply by providing additional water that the City can take from the Highland Lakes, a chain of lakes formed on the Colorado River that includes Lake Travis, Lake Austin and Lady Bird Lake. Additionally, the First Amendment includes an option for the City to renew the Settlement Agreement through the year 2100. The City paid a discounted amount of $100.0 million to the LCRA as part of the First Amendment contract provisions. The $100.0 million payment to LCRA included compensation for the following terms:

– Pre-paid reservation fee for an additional 75,000 firm acre-feet of water supply, which increased the City's total water supply from 250,000 firm acre-feet to 325,000 firm acre-feet for the additional 50-year period with an option to renew for another additional 50-year period.
– Pre-paid water use charges that would be paid by the City for water use above 150,000 firm acre-feet up to 201,000 firm acre-feet.

As a result of this amendment, the City will not have to pay any additional raw water costs to the LCRA until such time as the City begins diverting over 201,000 firm acre-feet per year. The City projects that water usage above 201,000 firm acre-feet will not occur until approximately the year 2021. The amendment also had numerous provisions that benefited the City. Also, a legal issue regarding the building of WTP No. 4 was settled. LCRA's option to acquire up to 50% of the WTP No. 4 lapsed on January 1, 2000. All sections of the 1987 Settlement Agreement related to WTP No. 4 were deleted as part of the 1999 First Amendment. The First Amendment provides for mutual release of the City and LCRA from any claims or causes of action relating to the delayed construction of WTP No. 4.

Water Treatment Plants

The City's Water and Wastewater Utility has two primary water treatment plants (Davis and Ullrich) which have a combined rated capacity of 285 million gallons per day ("mgd"). These water treatment plants have a combined clear well storage capacity of 35 million gallons on site. In September 2008, the City decommissioned a third water treatment plant, the 80-year old Green Water Treatment Plant, which had reached the end of its functional life.

The City's Water and Wastewater Utility includes a water distribution system having approximately 3,646 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 167 million gallons, 32,977 fire hydrants and 46 booster pump stations.

The City receives its water supply from the Colorado River through the two water treatment plants. The Davis Plant and the Ullrich Plant both take water from Lake Austin.

The Davis Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 118 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, raw water and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963, 1975 and 1986.

The Ullrich Plant, located on a site south of Red Bud Trail and Forest View Drive, has a new rated capacity of 167 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, seven upflow-solids contact clarifiers, eighteen filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. A 67 mgd upgrade to the Ullrich Plant was completed in 2006. This expansion increased the rated capacity of the plant from 100 mgd to 167 mgd.

The City is building a new water treatment plant. WTP No. 4 is estimated to be completed by the spring of 2014. Located in northwest Austin, WTP No. 4 will draw its water from Lake Travis. To meet projected needs, the construction will add incremental initial capacity of up to 50-75 mgd with an intake structure rated at 100 to 300 mgd. Funding for the construction of WTP No. 4, comes from a combination of cash transferred from the operation fund and commercial paper which will be refunded by long-term debt.

Water Conservation Plan

The Water and Wastewater Utility developed a water conservation plan for emergency purposes in the early 1980's after experiencing an equipment failure in the distribution system during a high summer demand period. Although the problems were short lived, they had sufficient impact to cause the development of a plan for any potential future problems. The plan is designed to educate customers to use water effectively and to reduce the peak demands on the Water and Wastewater Utility. The contingency plan, which is in effect from May 1 to September 30 of each year, has three stages with progressively more restrictive water use provisions. The plan sets out a mandatory twice a week watering schedule, with properties with odd numbered addresses watering on Wednesdays and Saturdays, and even addresses watering on Thursdays and Sundays. In addition, watering must be done before 10 AM or after 7 PM on the designated watering day. If daily pumpage exceeds a specific limit established by the City Manager which relates to treatment capacity, the plan would move to one of the more restrictive levels. Inclining block rates, implemented April 1, 1994, are designed to promote water conservation by single family residential customers. Seasonal rates implemented in 2000 are also designed to promote water conservation.

Water Storage and Pumping Facilities

In addition to the water treatment plants, the Water and Wastewater Utility owns and operates the following storage facilities and major water pump stations.

	Total Storage Capacity (Millions of Gallons)	Firm Pumping Capacity (Gallons per Minute)
North System		
Anderson Mill (1)	3	n/a
East Austin	12	33,300
Forest Ridge	3	5,000
Four Points (1) (ground)	7	n/a
Four Points (elevated)	1	3,600
Guilford Cove	0.275	600
Highland Park	2	1,000
Howard Lane	20	50,000
Jollyville	11	51,000
Martin Hill (1)	34	n/a
North Austin	10	39,800
Pond Springs (1)	3	n/a
Spicewood Springs	10	59,000
South System		
Capital of Texas Hwy (1)	0.5	n/a
Center Street	8	31,400
Davis Lane	20	29,500
La Crosse (1)	2	n/a
Leuthan Lane	3	13,170
Lookout Lane	0.3	3,000
Loop 360	0.439	3,200
Mt. Larson	0.1	100
Never Bend Cove	0.06	1,600
Pilot Knob (1)	10	n/a
Slaughter Lane	6	15,000
Thomas Springs (1)	1.25	n/a
Westlake Drive	0.010	500

(1) Storage only, no pumps.
Source: City's Water and Wastewater Utility.

Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2001 through 2011.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Millions of Gallons)
2001	50,140	(3.9)%	243
2002	50,883	1.5	214
2003	51,111	0.4	232
2004	48,469	(5.2)	197
2005	51,374	6.0	247
2006	56,603	10.2	241
2007	45,868	(19.0)	180
2008	53,066	15.7	227
2009	53,331	0.5	240
2010	43,827	(17.8)	190
2011	52,284	20.5	231

Source: City's Water and Wastewater Utility

Projected Water Pumpage - TABLE NINE

The following table, based on actual operating experience, summarizes the annual water pumpage and maximum day pumpage projected by the City.

Fiscal Year	Total Pumpage (Millions of Gallons)	Maximum Day Pumpage (Millions of Gallons)
2012	49,662	235
2013	49,797	236
2014	50,383	239
2015	51,241	243
2016	52,048	247
2017	52,695	250
2018	53,474	253
2019	54,242	257
2020	55,064	261

Source: City's Water and Wastewater Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2006		2007		2008		2009		2010	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		56,602,592		45,867,627		53,065,960		53,331,330		43,827,360
Less: Sales to Other Water Utilities (1)		4,116,576		3,159,689		3,830,477		3,553,293		2,771,880
Thousand Gallons to System		52,486,016		42,707,938		49,235,483		49,778,037		41,055,480
Water Sales:										
Urban	182,417	41,300,660	186,888	34,879,586	190,116	40,520,123	196,595	40,236,545	198,437	33,885,594
Rural	12,142	2,763,320	11,504	1,982,539	11,444	2,158,250	11,254	2,157,708	11,215	1,745,697
	194,559	44,063,980	198,392	36,862,125	201,560	42,678,373	207,849	42,394,253	209,652	35,631,291
City Departments	483	1,290,559	491	1,001,864	497	1,195,465	575	1,356,366	573	1,240,967
Total Sales to Ultimate Consumer	195,042	45,354,539	198,883	37,863,989	202,057	43,873,838	208,424	43,750,619	210,225	36,872,258
Used by Water Utility		103,749		105,645		174,946		70,090		90,417
Other Unmetered Usage		1,664,116		1,348,508		1,560,139		1,567,941		1,288,524
Loss and Unaccounted For		5,363,612		3,389,796		3,626,560		4,389,387		2,804,281
Thousand Gallons to System		52,486,016		42,707,938		49,235,483		49,778,037		41,055,480
Maximum Daily Consumption		241,456		176,979		227,144		228,234		193,110
Average Daily Consumption		135,537		112,394		130,697		129,600		108,614

(1) Includes sales to all wholesale customers.

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Large Water Customers - TABLE ELEVEN

Water and Wastewater Utility
Large Water Customers
Five Year Comparative Data (2006 - 2010)

Fiscal Year Ended September 30
(Gallons and Dollars in Thousands)

	2006		2007		2008		2009		2010	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
University of Texas	1,107,347	$ 3,209	1,022,218	$ 2,981	1,085,005	$ 3,521	1,170,061	$ 4,147	979,972	$ 3,679
Samsung	686,096	1,363	783,881	2,605	1,118,400	4,020	1,024,144	4,116	749,103	3,150
Water District 10	1,708,395	2,597	775,830	2,011	1,056,852	2,722	1,057,082	3,276	739,907	2,424
Freescale, Inc. (1)	848,429	2,765	886,402	2,909	748,582	2,696	698,391	2,816	675,872	2,855
Spansion	613,290	1,964	552,661	1,687	749,225	2,025	555,174	1,937	614,897	2,005
Wells Branch MUD	584,127	1,931	429,686	1,052	530,506	1,376	565,819	1,580	454,483	1,312
North Austin MUD	433,122	1,096	357,873	962	430,012	1,167	484,918	1,502	367,776	1,187
Northtown MUD	188,330	477	185,939	476	255,934	691	286,030	819	254,986	791
Lost Creek MUD	346,036	900	251,273	667	316,004	895	320,820	964	242,833	768
Shady Hollow MUD	309,501	887	202,342	586	225,365	642	242,315	774	201,921	685
	6,196,673	$17,189	5,448,105	$15,936	6,515,885	$19,785	6,404,754	$21,931	5,281,750	$18,856

(1) Totals for Freescale, Inc. include their east Austin plant site and their west Austin plant sites.

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WASTEWATER SYSTEM

Service Area

The Water and Wastewater Utility provides wastewater service to customers within the corporate limits of the City and a portion of Travis and Williamson Counties. The City has entered into wholesale service contracts with four MUDs, one WCID, and the Cities of Manor, Rollingwood, Sunset Valley and West Lake Hills to provide wastewater service.

Facilities

The Water and Wastewater Utility has two main wastewater treatment plants with a total permitted capacity of 150 mgd, one biosolids treatment and disposal facility, over 2,654 miles of sanitary wastewater mains and lines, and 125 lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant, which began operations in 1977, and the South Austin Regional Wastewater Treatment Plant, which started operating in 1986. A third plant, the Govalle Wastewater Treatment Plant, constructed in 1937 with permitted capacity of 10 mgd, was decommissioned in October 2006 after completion of a 25 mgd expansion at the South Austin Regional Wastewater Treatment Plant. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 2009 and 2010, the City received from the TCEQ renewals of discharge permits (TPDES permits) for all its wastewater treatment plants. The permits are renewable again in five years.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During fiscal year 2010 average flow was 57 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant (which resulted in the plant's current capacity of 75 mgd) was completed in 2004.

The South Austin Regional Wastewater Treatment Plant began operation in April 1986. The plant is now permitted to discharge at a rate of 75 mgd after a 25 mgd upgrade was completed in August 2006. During fiscal year 2010 average flow was 41 mgd. An interceptor transfers wastewater from the former Govalle plant to the South Austin Regional Wastewater Treatment Plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant.

The Hornsby Bend Biosolids Treatment Plant serves as the City's central biosolids treatment and disposal facility. Waste sludge from the Walnut Creek and the South Austin Regional plants is pumped to anaerobic digesters at Hornsby Bend. A greenhouse enclosed aquaculture pond is used to treat the pond water prior to its use for irrigation on utility owned land at the site. Major improvements recently completed at Hornsby Bend include sludge thickening facilities. Biosolids received at Hornsby Bend are thickened, anaerobically digested, dewatered in sludge drying basins or mechanically dewatered using belt presses and composted for marketing and distribution. Some dried biosolids are applied to on-site agricultural land. A Center for Environmental Research has been established with the cooperation of the City, The University of Texas and Texas A&M University. The City provides laboratory, offices and research facilities at Hornsby Bend for the two universities to conduct environmental research.

In 1985, the City entered into a contract with the Brushy Creek Water Control and Improvement District No. 1, Williamson County MUD No. 2, Williamson County MUD No. 3 and the City of Round Rock to fund, construct, and operate a regional wastewater collection and treatment system (the "Project") serving the upper Brushy Creek watershed. In 1994, the Project participants terminated the agreement. The City and the City of Round Rock subsequently entered an interlocal agreement where the two cities assumed the obligations and divided the Project assets and entered an interim operations and maintenance agreement. LCRA and Brazos River Authority ("BRA") have purchased Round Rock's share in the Project and have also purchased a portion of the City's share relating to the area now included in the City of Cedar Park's extraterritorial jurisdiction. The City of Cedar Park entered into a wastewater service agreement with LCRA and BRA in 1997. Final negotiations were completed, selling the City's remaining assets to the LCRA, effective October 1, 2000, with the City becoming a customer of the LCRA and BRA wastewater system. The agreement, which requires the City to pay for its portion of capital expansions and operations and maintenance costs on an annual basis, reserves enough wastewater capacity to adequately serve all of the area inside the City's city limits or extraterritorial jurisdiction and within the Brushy Creek watershed. In December 2009, the City purchased an operating interest from LCRA for approximately $12 million.

Similar to other municipal wastewater systems, the United States Environmental Protection Agency ("USEPA") had mandated that the City take corrective actions and make necessary infrastructure improvements to eliminate all overflows from its sanitary sewer system by June 30, 2009. On May 4, 2009 the USEPA issued a letter stating the City had satisfactorily completed all mandated corrective actions and infrastructure improvements and that the Administrative Order had been closed.

Stormwater is collected in an entirely separate gravity feed storm wastewater system and is segregated from the sanitary wastewater system. The storm wastewater system is operated and maintained by the City's Department of Public Works and Transportation.

Lift Stations

In addition to the wastewater treatment plants, the Water and Wastewater Utility owns and operates the following major lift stations.

Name	Firm Capacity (Gallons per Minute)
Montopolis (1)	22,000
Boggy Creek East	16,400
Shoal Creek	9,000
Tracor	5,580
Canterbury (1)	3,475
Taylor Slough	3,400
Barton Creek	5,800
Lake Creek	4,200
Davis Springs	3,600
Springfield	2,400

(1) These lift stations control flow to the South Austin Regional Wastewater Treatment Plant.

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 2001 through 2011.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
2001	34,820	12.5%
2002	34,146	(1.9)
2003	33,314	(2.4)
2004	31,762	(4.7)
2005	32,638	2.8
2006	30,273	(7.2)
2007	37,142	22.7
2008	32,006	(13.8)
2009	32,184	(0.6)
2010	37,287	15.9
2011	32,951	(11.6)

Source: City's Water and Wastewater Utility.

Projected Wastewater Flows - TABLE THIRTEEN

The following table, based on actual operating experience, summarizes the annual wastewater flows projected to be received at the City's wastewater treatment plants.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)
2012	35,866
2013	36,230
2014	36,595
2015	36,959
2016	37,323
2017	37,688
2018	38,052
2019	38,417
2020	38,781

Source: City's Water and Wastewater Utility.

To meet these projections, the rated capacity of the Walnut Creek Wastewater Treatment Plant was increased from 60 mgd to 75 mgd during 2004 and the South Austin Regional Wastewater Treatment Plant was upgraded from 50 mgd to 75 mgd in 2006.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the approved FY 2012-16 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately $1,074 million for system improvements. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of $774 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements) and (2) the application of $300 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand.

Services Financed by Utility Districts

On August 19, 1981, the City Council enacted an ordinance establishing the basic requirements for the City's consent to the creation of a MUD, a WCID, a Fresh Water Supply District or any other water district created under State law for the purpose of supplying water and/or wastewater service to land within the extra-territorial jurisdiction or the city limits of the City. That ordinance has been modified by the City's enactment of its Land Development Code, which contains provisions relating to the City's consent to MUDs and WCIDs.

MUDs and WCIDs supply water and wastewater service to areas within and outside the City limits and function as a financing mechanism for development of land.

Under the current process, the City consents to the formation of a district by approval of a consent ordinance, a consent agreement, and a utility construction contract, if necessary. These contracts between the City, the petitioners seeking formation of the district and the district itself establish a detailed set of requirements and policy statements governing the construction within, operation of and issuance of bonds by such district.

Under the creation agreements with the districts, the districts may be annexed separately and dissolved by the City. Upon annexation and dissolution of the districts, the City would assume the district's outstanding debts and other obligations, which pursuant to State law would become payable from ad valorem taxes levied and collected within the City or, in some cases, from a surcharge fee assessed by the City to utility users within the boundaries of the annexed district. Upon annexation, the City is empowered to issue any authorized but unissued bonds of the district and to use the proceeds for improvements within the annexed district. Alternatively, some of the districts may be annexed but not dissolved at the option of the City. If so, the City would be required only to provide services other than water and wastewater services and not to assume the district's outstanding debt. In December 1997, the City annexed ten MUDs and thereby assumed their outstanding utility system debt.

The City previously consented to the creation of twelve MUDs inside the City's corporate limits; however, all have now been dissolved.

Water Reuse Facilities

In the last two years, the City, acting through the Water and Wastewater Utility, has implemented a water reclamation initiative to develop facilities and processes to make treated wastewater effluent available for irrigation and cooling uses. The water reuse facilities operated by the Water and Wastewater Utility include three pump stations, two pressure zones with a boosted area, three water storage facilities with 3.5 MG in storage, and 43.5 miles of mainlines. An additional 4.1 miles of mainlines are in design or under construction. The water reuse facilities presently serve a total of thirty six customers. Customer demand is highly dependent on weather conditions. In 2010, customers used 1,203 billion gallons (BG) of reclaimed water. Efforts to promote the use of reclaimed water are focused on existing large-volume commercial and industrial potable water users that can convert a portion of their use of treated potable water to reclaimed water. The water reuse facilities extend from the east, where the water originates at the wastewater treatment plans, to the center of the City, where most of the reclaimed water customers are located.

Water and Wastewater Rates

Rates for water and wastewater services are established the City Council. Any rates increase to be effective for succeeding fiscal years must be approved by the City Council, and no assurances can be given that the Water and Wastewater System will seek future rate increases or whether the City Council will implement any future rate increases.

The City is not subject to regulation by the TCEQ with regard to the rates charged for water and wastewater services to customers within the boundaries of the City. The TCEQ has appellate jurisdiction to determine municipal water and wastewater rates outside the City's boundaries.

State law allows water districts to appeal the City's water and wastewater rates to the TCEQ.

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The following schedules present the monthly retail and wholesale customer water and wastewater rates.

Water Service Rates Effective November 1, 2011 – TABLE FOURTEEN

Monthly Customer Charges

Customer Account Charge	Equivalent Meter Charge			
	Customer Account Charge per Month	Meter Size	Retail Meter/Fire Protection Component Charge/Revenue Stability Fee per Month (1)	Wholesale Meter Charge per Month
Retail Customer Account Charge ($/Month)	$4.83	5/8	$ 6.67	$ 3.40
		3/4	11.77	4.40
Wholesale Customer Account Charge ($/Month)	$4.60	1	16.67	5.40
		1¼	23.52	9.40
		1½	31.17	10.40
		2	48.17	15.40
		3	116.17	35.40
		4	200.17	55.40
		6	405.17	115.40
		8	1,165.17	145.40
		10	1,325.17	195.40
		12	1,441.17	245.40

(1) The Revenue Stability Fee is a new fee, first assessed with the water service rates effective November 1, 2011. The amount of the fee currently is $4.40/month. The Revenue Stability Fee is intended to produce reserves to address volatility in revenue collection that may occur, based on factors such as decreases in revenue collections resulting from weather conditions.

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Volume Unit Charge (1)

Unit Cost per 1,000 Gallons	
Single-Family Residential (2)	
0 – 2,000 Gallons	$ 1.17
2,001 – 9,000 Gallons	3.08
9,001 – 15,000 Gallons	7.92
15,001 – 25,000 Gallons	10.95
25,001 – Over Gallons	12.19
Multifamily (3)	
Off Peak	$ 3.93
Peak	4.32
Commercial (3)	
Off Peak	$ 4.69
Peak	5.15
Large Volume/Industrial (3)	
Freescale	
Off Peak	$ 4.41
Peak	4.86
Hospira	
Off Peak	$ 4.69
Peak	5.15
Samsung	
Off Peak	$ 4.56
Peak	5.02
Sematech	
Off Peak	$ 4.45
Peak	4.90
Spansion	
Off Peak	$ 4.54
Peak	5.00
University of Texas	
Off Peak	$ 4.69
Peak	5.15

(1) Wholesale unit charges vary between $2.99 and $8.24 for each 1,000 gallons.
(2) The City has approved an inclining block rate structure to promote water conservation for the Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.
(3) Off Peak (November 1 – June 30 Bills). Peak (July 1 – October 31 Bills).

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Wastewater Service Rates Effective November 1, 2011 – TABLE FIFTEEN

Customer Account Charge

	Retail Customers	Wholesale Customers
Customer Account Charge ($/month)	$9.25	$9.25

Volume Unit Charge (1)

	Unit Cost per 1,000 Gallons (2)
Retail	
Single-Family	
0 - 2,000 Gallons	$3.79
2,001 - Over Gallons	8.38
Multifamily	7.71
Commercial	7.81
Large Volume	
Freescale	7.19
Hospira	7.59
Samsung	6.80
Sematech	6.85
Spansion	6.73
University of Texas	7.65

(1) Wholesale unit charges vary between $3.74 and $5.19 for each 1,000 gallons.
(2) Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.

The Water and Wastewater minimum charge and volumetric service rates effective November 1, 2011, reflect a 5.1% increase over the rates charged in the prior year. Including the new Revenue Stability Fee (see TABLE FOURTEEN above), the water and wastewater service rates reflect a 9.2% increase over the rates charged in the prior year.

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 and revised effective October 1, 2007. The revised fees are shown below. There are a number of express exemptions from payment of these fees. The City's policy is to use Capital Recovery Fee receipts to either service debt, defease debt or finance growth related capital improvement projects, thus reducing the amount required to be debt financed and saving the Water and Wastewater Utility the related financing costs. The fees listed below are based on one service unit (5/8" meter).

	Water	Wastewater	Total
Drinking Water Protection Zone in the City's extraterritorial jurisdiction	$2,500	$1,400	$3,900
Drinking Water Protection Zone in the City limits	2,200	1,200	3,400
Desired Development Zone in the City's extraterritorial jurisdiction	1,800	1,000	2,800
Desired Development Zone in the City limits	1,000	600	1,600
Urban watersheds	800	500	1,300
Central urban redevelopment combining district area and the area bounded by Lady Bird Lake, Lamar Boulevard, 15th Street, and IH-35	700	400	1,100
Outside of Austin extraterritorial jurisdiction	2,500	1,400	3,900

Analysis of Water Bills - TABLE SIXTEEN A

	Fiscal Year Ended September 30				
Average Monthly Bill Per Customer – Water	2006	2007	2008	2009	2010
Inside City (Urban)					
Residential	$ 31.16	$ 22.64	$ 31.82	$ 36.66	$ 29.17
Multi-Family	410.58	403.61	449.00	496.04	480.76
Commercial	259.95	231.33	269.13	286.87	243.33
Industrial	101,314.54	114,819.11	133,215.70	137,990.95	128,925.24
City Departments	749.31	524.49	559.07	665.31	504.56
Outside City (Rural)					
Residential	38.01	27.51	39.73	47.04	35.58
Multi-Family	392.34	356.31	481.47	521.13	571.32
Commercial	440.01	266.96	238.10	263.07	183.22
Average Monthly Bill					
Above Customers	69.09	54.48	67.42	74.48	63.07
Sales to Other Water Utilities*	42,981.04	34,079.94	49,534.41	50,551.73	41,007.04
Average Monthly Bill					
All Customers	$ 69.49	$ 57.91	$ 71.58	$ 78.84	$ 66.58
Average Monthly Use in 1000 Gallons - Water					
Inside City (Urban)					
Residential	9.06	6.80	8.27	8.70	6.71
Multi-Family	140.50	130.24	133.12	132.72	123.26
Commercial	71.33	59.26	64.55	62.42	48.67
Industrial	32,226.37	35,148.39	36,920.25	34,837.35	30,260.52
City Departments	222.26	171.02	197.55	200.44	179.61
Outside City (Rural)					
Residential	10.34	7.77	9.63	10.24	7.62
Multi-Family	127.28	124.25	141.63	141.09	145.50
Commercial	115.99	73.32	55.01	58.33	39.10
Average Monthly Use					
Above Customers	19.31	15.91	17.75	17.82	14.51
Sales to Other Water Utilities*	17,127.23	13,239.38	18,489.52	16,781.03	12,772.62
Average Monthly Use					
All Customers	21.06	17.24	19.30	19.27	15.61
Average Revenue Per 1000 Gallons - Water					
Inside City (Urban)					
Residential	$ 3.44	$ 3.33	$ 3.85	$ 4.21	$ 4.35
Multi-Family	2.92	3.10	3.37	3.74	3.60
Commercial	3.60	3.90	4.17	4.60	5.00
Industrial	3.14	3.27	3.61	4.01	4.26
City Departments	3.37	3.04	2.83	3.32	2.81
Outside City (Rural)					
Residential	3.68	3.54	4.12	4.59	4.67
Multi-Family	3.08	2.87	3.40	3.69	3.93
Commercial	3.79	3.64	4.33	4.51	4.69
Average Revenue					
Above Customers	3.37	3.42	3.80	4.18	4.35
Sales to Other Water Utilities*	2.51	2.57	2.68	3.01	3.21
Average Revenue					
All Customers	$ 3.30	$ 3.36	$ 3.71	$ 4.09	$ 4.27

*Includes all wholesale customers.

Analysis of Wastewater Bills - TABLE SIXTEEN B

	Fiscal Year Ended September 30				
Average Monthly Bill Per Customer - Wastewater	2006	2007	2008	2009	2010
Inside City (Urban)					
Residential	$ 26.43	$ 28.25	$ 32.83	$ 36.00	$ 32.35
Multi-Family	540.34	601.92	708.35	742.18	489.37
Commercial	255.75	271.92	313.23	327.27	308.94
Industrial	119,912.89	130,895.01	160,122.61	155,973.46	144,699.09
City Departments	177.19	195.06	218.13	365.15	470.68
Outside City (Rural)					
Residential	32.73	35.78	41.39	44.01	37.35
Multi-Family	599.96	707.28	921.50	966.67	1,136.77
Commercial	575.54	552.38	670.41	704.51	614.88
Average Monthly Bill					
Above Customers	59.74	64.04	74.50	78.34	74.65
Sales to Other Utilities*	34,418.20	36,934.27	44,450.94	49,907.13	49,409.22
Average Monthly Bill					
All Customers	$ 61.44	$ 66.03	$ 76.85	$ 80.89	$ 77.15
Average Monthly Use in 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	4.68	4.51	4.61	4.83	4.14
Multi-Family	108.69	109.60	111.74	111.27	108.43
Commercial	46.76	45.19	45.81	44.36	40.92
Industrial	24,063.62	24,676.79	25,903.39	23,946.17	22,123.58
City Departments	35.48	30.04	30.87	51.30	56.91
Outside City (Rural)					
Residential	5.26	5.28	5.44	5.57	4.84
Multi-Family	120.67	129.58	143.31	146.08	161.44
Commercial	102.00	94.60	96.83	95.72	85.04
Average Monthly Use					
Above Customers	11.13	10.84	11.02	10.96	9.97
Sales to Other Wastewater Utilities*	9,455.98	9,649.13	9,708.18	10,182.46	10,334.83
Average Monthly Use					
All Customers	11.60	11.36	11.53	11.48	10.49
Average Revenue Per 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	$ 5.65	$ 6.26	$ 7.13	$ 7.45	$ 7.81
Multi-Family	4.97	5.49	6.34	6.67	7.28
Commercial	5.47	6.02	6.84	7.38	7.55
Industrial	4.98	5.30	6.18	6.51	6.54
City Departments	4.99	6.49	7.07	7.12	8.27
Outside City (Rural)					
Residential	6.22	6.78	7.61	7.89	7.71
Multi-Family	4.97	5.46	6.43	6.62	7.04
Commercial	5.64	5.84	6.92	7.36	7.23
Average Revenue					
Above Customers	5.37	5.91	6.76	7.15	7.49
Sales to Other Utilities*	3.64	3.83	4.58	4.90	4.78
Average Revenue					
All Customers	$ 5.30	$ 5.81	$ 6.67	$ 7.05	$ 7.35

*Includes all wholesale customers.

THE ELECTRIC UTILITY SYSTEM
"AUSTIN ENERGY"

Management

Name	Title	Length of Service with City*
Larry Weis	General Manager	1 Year
Cheryl Mele	Chief Operating Officer	19 Years
Kerry Overton	Deputy General Manager	11 Years
Elaine Hart, CPA	Senior Vice President, Finance and Corporate Services	23 Years**
Jackie Sargent	Senior Vice President, Power Supply & Market Operations	1 Year
Ann Little	Vice President, Finance and Corporate Services	12 Years
David Wood	Vice President, Electric Service Delivery	18 Years
Karl Rabago	Vice President, Distributed Energy Services	2 Years
JJ Guiterrez	Vice President, Customer Care	16 Years

*As of September 30, 2011.
**Length of service not continuous.

Service Area

The service area for Austin Energy was established by the Public Utility Commission of Texas ("PUCT") pursuant to a certificate of convenience and necessity on April 3, 1978. The City's service area encompasses 206.41 square miles within the City itself and 230.65 square miles of surrounding Travis and Williamson Counties. The establishment of such a service area entitles Austin Energy to provide electric service within this area. As presently constituted, the City's service area overlaps with approximately 11 square miles of the service area of ONCOR Electric Delivery in Travis and Williamson Counties.

The City may not extend the service area for Austin Energy to an area receiving similar utility service from another utility service provider without first obtaining a certificate of convenience and necessity from the PUCT. The City has no plans to expand its present service area.

Customer Base – Average Monthly Number of Customers

For Twelve month Period ended June 30, 2011	Average Monthly Number of Customers	Percent
Residential	371,719	89.12%
Commercial	43,694	10.47%
Industrial	80	0.02%
Public Street & Highway	4	0.00%
Sales to Governmental Authorities	1,620	0.39%
Total Service Area Customers	417,117	100.00%

DESCRIPTION OF PHYSICAL PROPERTY

Generation

The City either owns or has an ownership interest in a diverse mix of generation sources, including coal, nuclear and natural gas facilities. In addition, Austin Energy has renewable energy installations or contracts for purchased power from wind and landfill methane projects. Generation capacity is adequate to meet native load. Also see "Austin Energy Resource, Generation and Climate Protection Plan to 2020".

Generation – TABLE ONE

The present generating facilities, or interest of Austin Energy therein, are as follows.

Unit	Year Installed	Nameplate Rating (MW)	Fuel
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	321.0	Gas/No. 2 oil backup
Unit No. 2	1977	405.0	Gas or Nos. 1 through 5 oil
Gas Turbines	1988	200.0	Gas/No. 1 oil backup
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Gas Turbines	2010	90.0	Gas
Combined Cycle	2004	300.0	Gas
MEC CHP (Dell Children's Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	200.0	Nuclear
Total Capacity owned by Austin Energy		2,470.6	
Purchased Power (1):			
LCRA Texas Wind Contract	1995	10.0	Wind
FPL Energy Upton Wind I, LP.	1999-2001	76.7	Wind
RES North America Sweetwater Wind	2005	128.0	Wind
Whirlwind Energy LLC	2007	60.0	Wind
Hackberry Wind LLC	2008	165.6	Wind
Gas Recovery System, LLC	1994-2003	4.0	Landfill Methane
Ecogas Inc. and Energy Developments, Inc	2002-2003	7.8	Landfill Methane
Total Capability including Purchase Power		2,922.7	

(1) The City has also signed contracts to purchase electric energy to be provided in future years. See "CUSTOMER STATISTICS - Power and Energy Purchase Contracts".

See "CUSTOMER STATISTICS - Generation and Use Data - TABLE FOUR", "System Peak Demand" for more information on peak demand and generation capacity. Generation capacity is adequate to meet native load. Based on historical availability patterns, the Electric Reliability Council of Texas ("ERCOT") expects that only 8.7% of wind facilities' nameplate ratings will be included in capacity requirements to meet system peak demand.

Fuel Supply

The cost and availability of fuel are two of the factors that affect Austin Energy's finances. Fuel mix percentages (based on generation) are provided below.

Percent of Power by Fuel Type

	As of September 30,				
% Generation	2006	2007	2008	2009	2010
Coal	29.7%	32.2%	33.2%	28.3%	32.6%
Natural Gas & Oil	27.9%	27.3%	25.7%	26.5%	22.4%
Nuclear	27.3%	25.8%	27.1%	26.4%	25.3%
Renewable Energy	5.7%	5.1%	6.1%	9.5%	9.8%
Purchased Power	9.4%	9.6%	7.9%	9.3%	9.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Fuel Type

Coal . . . Coal supply and rail transportation are procured through a portfolio of contracts with transportation specifically managed to minimize cost. Typically, several weeks of coal inventory are maintained to protect against disruptions. Coal inventories are managed within targeted ranges, and depending on the efficiency of railroad performance, train sets are either removed from or added to service to maintain desired inventory levels.

Natural Gas and Oil . . . Austin Energy utilizes a portfolio of gas contracts and multiple pipelines in an effort to diversify risk and minimize cost. In case of a curtailment in natural gas supplies, fuel oil may be used to replace the natural gas shortfall at the Decker Power Station. Austin Energy maintains an oil reserve equivalent to several days of operation.

Nuclear . . . The South Texas Project Nuclear Operating Company ("STPNOC"), on behalf of the owners of the South Texas Project (see "South Texas Project Electric Generating Station" below), is responsible for the supply of nuclear fuel and for the disposal of spent fuel for the South Texas Project Electric Generating Station ("STP"). Volatility in uranium prices and a number of industry-wide challenges to security of supply in the past few years have led to decisions to enter into long term supply contracts and to carry a full reload of natural uranium hexafluoride.

Fayette Power Project

The Fayette Power Project is a power project co-owned by the LCRA and Austin Energy. Austin Energy is a 50% owner in Units 1 and 2 of the Fayette Power Project. A third unit, also at the facility, is 100% owned by LCRA. Pursuant to the Participation Agreement, LCRA was appointed Project Manager and a Management Committee was established, supported by four Subcommittees (Environmental, Fiscal/Budget, Fuels and Technical) composed of two representatives from each participant to direct the operation of the project. The Fayette Power Project is a 7,500 acre site located 8½ miles east of LaGrange, Texas, which is approximately 65 miles southeast of the City.

The Clean Air Act and other regulations require all existing coal plants to reduce the levels of SO2 and NOX by 2010. As a result, the Fayette Power Project installed scrubbers on Units 1 and 2. The scrubbers are currently in commercial operation, with the project at 97.7% completion. Austin Energy's projected share of the final cost is approximately $202 million.

Austin Energy Gas Generation Facilities

All four of Austin Energy's gas generation facilities are located in Austin Energy's service territory. Austin Energy began commercial operation of a 300 MW combined cycle gas-fired electric generating facility at the Sand Hill Energy Center on September 1, 2004. The "one-on-one" combined cycle unit consists of one (1) "F" class combustion turbine ("CT"), one (1) natural circulation, duct fired, heat recovery steam generator ("HRSG"), one (1) steam turbine and balance of plant equipment and controls. The unit was designed so that a future "F" technology CT/HRSG train may be added to achieve a nominal rating of 500 MW for this power block. The facility was funded with cash from operations. In summer 2010, two General Electric LM6000 aeroderivative gas turbines were placed into service at the Sand Hill Energy Center. The two new units (45 MW each) are similar to the four existing peaking units installed at Sand Hill in 2001.

In July 2006, Austin Energy added electric generation at a central utility plant located at the redevelopment site of the former Robert Mueller Airport. The plant is a tri-generation facility producing steam, chilled water and power for adjacent buildings. Excess electric power generated at the facility is sent to the electric grid. The electric power is produced by a Mercury 50 gas turbine. The nameplate rating at ISO conditions is 4.6 MW. The gas turbine exhaust passes through a heat recovery steam generator producing steam for use by an adjoining hospital and/or in an absorption chiller. A 1.5 MW standby diesel generator gives the plant "Black Start" capability.

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South Texas Project Electric Generating Station

STP is a two-unit pressurized water reactor nuclear power plant, each unit nominally rated to produce 1,281.25 MW, located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles southeast of the City.

South Texas Project Ownership

Participants	Ownership %	Nominal MW Output
City of Austin – Austin Energy	16.0	428
NRG South Texas LP	44.0	1,175
CPS Energy (San Antonio)	40.0	1,067
Total	100.0	2,670

STP is operated by STPNOC, financed and directed by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs the STPNOC, with each owner appointing one member to serve. The fourth member is the STPNOC's chief executive officer and president. All costs and generation output continue to be shared in proportion to each participant's ownership interest.

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. Under NRC regulations, the STP owners can request a 20-year license renewal. The STP license renewal project process is underway for Units 1 and 2. NRC review of the license renewal application is proceeding on schedule and with no significant challenges. Three hundred requests for additional information were received from the NRC. The NRC is presently preparing draft Supplemental Environmental Impact Statements in support of the new extended license. Contention petitions were denied and are now closed. Completion of the license review process by the NRC is expected in the fourth quarter of 2012. STPNOC and the STP owners anticipate receiving NRC approval during the first quarter of 2013, and implementation in 2013-2027.

On November 13, 2008, NRG South Texas LP, one of the STP partners, provided Austin Energy with notice of an updated proposal to add Units 3 and 4 at the South Texas Project site. The City has the right to participate in the ownership of the proposed new units, up to its existing 16 percent share of the South Texas Project. Austin Energy evaluated the City's ownership option and provided City Council with an analysis on which to base a decision. The City Council elected to decline participation in this expansion as currently proposed.

South Texas Project Capacity Factor

For the calendar year ended December 31, 2010, the STP capacity factor for Unit 1 was 103.6%, and for Unit 2 the capacity factor was 89.8%, resulting in a total capacity factor of 96.7%. Low Pressure turbine upgrades were completed in 2007 for both units. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy's share is 21.9 MW. A scheduled major capital project is the replacement of the reactor vessel heads. Unit 1's replacement is now complete and work on Unit 2's reactor vessel head replacement was completed in the March 2010 refueling outage. This is a proactive move to eliminate reactor head corrosion issues found throughout the industry and reported at other facilities.

CUSTOMER RATES

Retail Service Rates

The City's retail service rates are regulated by the City Council. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act (Texas Utilities Code, Chapter 33, as amended, herein defined as "PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City's corporate limits.

State courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction. Austin Energy has not filed any requests with the City Council to change base rates since 1994. TABLE THREE shows the current Electric Utility System rates by customer class.

Following a 17 year period with no change in its base electric rates, Austin Energy currently has underway a comprehensive rate review and is anticipating recommending by the end of 2011 to the City Council that it increase electric rates to increase revenues by approximately 13%. The priority in this rate review is revenue sufficiency. Key challenges in this rate review will be striking the proper balance among objectives including:

- Financing the needs of Austin Energy's Resource, Generation and Climate Protection Plan to 2020 and financial implications of the increased goal for energy efficiency,
- Appropriate balancing of rates across customer classes,
- Requiring rate changes to be implemented in stages over several years

In planning for the rate review, Austin Energy plans to develop and recommend a long-range strategy for adjusting electric rates to satisfy these multiple objectives. Austin Energy has contracted for consulting expertise to assist with cost of service studies, cost analysis, rate comparisons, design and implementation of a public involvement process as well as electric rate design. A replacement for Austin Energy's Customer Information System was completed in October 2011 to enable billing of new rate design as well as provide efficiencies in customer service. Austin Energy expects that a rate increase will be proposed that, if approved by the City Council, will be effective no later than October 1, 2012. Austin Energy plans some revenue increases (transmission cost recovery mechanism) as well as cost reductions in its operating and capital programs to ensure stability of its financial position until the rate review is completed. Certain ratepayers, including many of the ratepayers who are among the largest users of electric service, have negotiated with Austin Energy long-term agreements in which rates are established, and those ratepayers would not be subject to any rate increase proposed and currently under consideration until these agreements expire in May 2015. These certain ratepayers are subject to a fuel adjustment clause as discussed herein.

Fuel Adjustment Clause

The City assesses an annually updated Fuel Adjustment Clause charge based on a formula designed to recover the actual cost of fuel, purchased power, and wholesale fees and charges to meet the City's service area obligations. The intent of the fuel formula is to avoid any over or under recovery of costs associated with fuel.

Transmission Service Adjustment Rider

Effective October 1, 2010, the City implemented a Transmission Service Adjustment Rider to collect the ongoing increases in statewide transmission costs. Austin Energy's transmission expense is projected to increase from $66 million to $124 million in the FY 2012-2016 period due to the ongoing Texas electric transmission grid build-out estimated at $8.2 billion. This includes the build-out of the Competitive Renewable Energy Zones ("CREZ"), which will add an estimated $6.5 billion in new transmission infrastructure.

Transmission expense is the cost of moving high-voltage electric energy over the regional electric grid operated by ERCOT from the power supply to the local lower-voltage distribution system. The rider will be a cost recovery or pass-through mechanism (no profit included) with an annual true-up for any changes made to the annual ERCOT wholesale transmission service charge matrix during the year and Austin Energy load ratio share. This rider will apply to each retail electric customer unless this charge would conflict with a written service contract executed prior to the effective date of the rider and will recover approximately $13 million in FY 2012.

Typical Residential Electric Bills of Large Texas Cities

City	Electric Bill*
San Antonio	$ 92.05
AUSTIN	92.69
Houston	105.50
El Paso	109.85
Dallas/Fort Worth	111.26
Corpus Christi	116.93

*Average Residential Bill for 1,000 KWh during the period July 2010 – June 2011 including fuel costs. The cities shown, other than Austin and San Antonio, are served by competitive retail service providers.
Source: Public Utility Commission of Texas and powertochoose.org.

CUSTOMER STATISTICS

TABLE TWO shows service area billed customer sales since the year ended September 30, 2007. The revenue per year varies in large degree due to the price of fuel which is passed through to customers in the fuel adjustment clause as stated above. MWH sales variances are due to a combination of customer growth and weather.

Five Year Electric Customer Statistics – TABLE TWO (1)

	Fiscal Year Ended September 30				
	2007	**2008**	**2009**	**2010**	**12 month ended 6/30/11** (2)
Revenue (000's)					
Residential	$ 356,143	$ 416,809	$ 406,393	$ 407,074	$ 423,559
Commercial	365,991	408,808	402,032	409,952	423,072
Industrial	113,248	138,901	132,792	122,714	134,186
Public Street & Highway	8,106	8,403	8,430	8,515	8,539
Sales to Government Authorities	76,358	86,069	82,751	81,875	83,928
Total	$ 919,846	$1,058,990	$ 1,032,398	$ 1,030,130	$ 1,073,284
MWH					
Residential	3,908,318	4,220,598	4,218,600	4,238,690	4,362,292
Commercial	4,350,912	4,534,964	4,480,902	4,553,866	4,644,484
Industrial	1,930,289	2,233,505	2,218,315	2,038,706	2,220,520
Public Street & Highway	47,230	47,690	47,831	48,078	48,261
Sales to Government Authorities	1,088,320	1,147,483	1,137,492	1,096,986	1,106,461
Total	11,325,069	12,184,240	12,103,140	11,976,326	12,382,018
Average Monthly Number of Customers					
Residential	345,197	352,574	363,217	368,700	371,719
Commercial	41,825	42,585	43,050	43,489	43,694
Industrial	75	79	80	80	80
Public Street & Highway	4	4	4	4	4
Sales to Government Authorities	1,519	1,549	1,575	1,597	1,620
Total	388,620	396,791	407,926	413,870	417,117
Average Monthly KWH per Customer					
Residential	943	998	968	958	978
Commercial	8,669	8,874	8,674	8,726	8,858
Industrial	2,135,275	2,356,018	2,310,745	2,123,652	2,313,042
Public Street & Highway	983,969	993,542	996,479	1,001,625	1,005,438
Sales to Government Authorities	59,712	61,732	60,192	57,242	56,917
Average Monthly Bill per Customer					
Residential	$ 85.98	$ 98.52	$ 93.24	$ 92.01	$ 94.96
Commercial	729.21	799.98	778.23	785.55	806.88
Industrial	125,274.28	146,520.04	138,325.00	127,827.08	139,777.08
Public Street & Highway	168,883.61	175,062.50	175,625.00	177,395.83	177,895.83
Sales to Government Authorities	4,134.63	4,630.35	4,378.92	4,272.33	4,317.28
Average Revenues per KWH					
Residential	$ 0.09112	$ 0.09876	$ 0.09633	$ 0.09604	$ 0.09710
Commercial	0.08412	0.09015	0.08972	0.09002	0.09109
Industrial	0.05867	0.06219	0.05986	0.06019	0.06043
Public Street & Highway	0.17164	0.17620	0.17625	0.17711	0.17693
Sales to Government Authorities	0.06924	0.07501	0.07275	0.07464	0.07585

(1) Source: Austin Energy.

(2) Unaudited

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Electric Rates – TABLE THREE

The following electric rates were effective March 17, 1997 by Ordinance 970306-P (1).

Customer Class	Fuel Adjustment Clause (2)	Customer Charge	1st 500 kWh	Energy Charge Winter November – April	Energy Charge Summer May - October
Residential Service (E01)	All kWh	$6.00	$.0355 Per kWh	$.0602 All kWh Above 500 kWh	$.0782 All kWh Above 500 kWh
General Service Non-Demand (E02)	All kWh	6.00		.0464 All kWh	.0644 All kWh
State Accounts Non-Demand (E13)	All kWh	6.00		.0319 All kWh	.0499 All kWh
		Minimum Bill (3)			
Water and Wastewater (E03)	All kWh	$12.00		.0277 All kWh	.0648 All kWh
Other City (Including Electric) (E04)	All kWh	12.00		.0354 All kWh	.0521 All kWh
Streetlight/Traffic (E05)	All kWh	12.00		.1498 All kWh	.1498 All kWh
			Energy Charge	Demand Charge	
General Service Demand (E06)	All kWh	12.00	$.0180 All kWh	$12.65 All kW	$14.03 All kW
General Service Demand - Public Schools (E10) (3)	All kWh	12.00	.0228 All kWh	5.68 All kW	7.95 All kW
Primary Service (E07)	All kWh	12.00	.0151 All kWh	11.11 All kW	12.10 All kW
Large Primary Service (E08) (3)	All kWh	12.00	.0150 All kWh	11.81 All kW	12.60 All kW
State Accounts – Demand Secondary Service (E14)	All kWh	12.00	.0107 All kWh	10.94 All kW	11.64 All kW
State Accounts – Primary Service (E17)	All kWh	12.00	.0107 All kWh	10.94 All kW	11.64 All kW
State/Large Primary Service (E15) (3)	All kWh	12.00	.0107 All kWh	10.94 All kW	11.64 All kW
Transmission Service (E11)	All kWh	12.00	.0140 All kWh	10.98 All kW	11.72 All kW
Nightwatchman	Fuel Charge		Pole Rental		Customer Charge
175 Watt Mercury Vapor	60 kWh Per Light		$1.74 Per Pole		$ 7.34 Per Light
100 Watt High Pressure Sodium	35 kWh Per Light		1.74 Per Pole		4.28 Per Light
400 Watt Mercury Vapor	140 kWh Per Light		1.74 Per Pole		17.11 Per Light
250 Watt High Pressure Sodium	90 kWh Per Light		1.74 Per Pole		11.00 Per Light

(1) Does not include special contracts, time-of-use and economic development rates.
(2) The Fuel Adjustment Clause recovers fuel costs. Customers also have the option for Green Choice rider in lieu of the Fuel Adjustment Clause, discussed on the following page.
(3) Minimum Bill is applied when the sum of energy, demand and fuel charges is less than $12.00.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On June 9, 2006, the PUCT approved the City's most recent wholesale transmission rate of $1.002466/kW. Transmission revenues are expected to total approximately $62 million in 2011. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

Within ERCOT, each load serving entity, including Austin Energy, pays for transmission services on a pro-rata basis. PUCT Docket No. 33672 designated CREZs and eventually promulgates alternative plans to construct approximately $5.4 billion in new transmission plant. The new transmission plant upgrades are estimated to be completed by 2015 and will link renewable energy resources, more specifically wind farms located in the Panhandle and West Texas, to load centers throughout ERCOT. The cost of these facilities will eventually be passed on to distribution service providers. The total State transmission construction cost estimate is $8.2 billion of which CREZ is $6.5 billion.

GreenChoice® Energy Rider

In March 2001, Austin Energy adopted a GreenChoice® Energy charge for renewable energy. Customers who subscribe to the GreenChoice program will pay, in lieu of the fuel adjustment factor, a renewable energy charge as determined by Austin Energy. Austin Energy's GreenChoice program has been recognized as the leading utility-sponsored green power program in the nation for sales for nine years in a row by the National Renewable Energy Laboratory. Subscribers see the fuel charge on their electric bill replaced with a GreenChoice charge that remains fixed for 5 years or more, depending on the contracted renewable energy source. The GreenChoice program is Green-e certified. Green-e is the nation's leading independent consumer protection program for the sale of renewable energy and greenhouse gas reductions in the retail market.

Green Choice Sales (kWh)	
2002	206,566,601
2003	235,478,890
2004	344,446,101
2005	434,040,739
2006	580,580,401
2007	577,636,840
2008	723,824,901
2009	764,895,830
2010	754,203,479

Power and Energy Sales Contracts

Austin Energy has numerous enabling agreements in place with various market participants. The agreements are designed to facilitate energy transactions by providing a standard agreement and may be cancelled by either party upon thirty days written notice. Any transactions are by mutual agreement; no party is obligated to offer, sell or buy energy under the agreements. At certain times, Austin Energy has surplus capacity and energy and is an active participant in the State wholesale power market.

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Generation and Use Data – TABLE FOUR

	Fiscal Year Ended September 30								12 mo. ended June 30	
	2007		2008		2009		2010		2011	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		10,999,758,000		11,446,861,000		10,780,499,000		10,275,574,000		9,929,557,000
kWh Received from ERCOT		1,661,154,000		2,067,170,000		2,763,237,000		2,832,001,000		3,324,380,000
Less: kWh Delivered to ERCOT		(571,210,000)		(355,061,000)		(401,123,000)		(390,666,000)		(183,662,000)
Less: kWh Delivered to Other Utilities		(151,020,000)		(369,236,000)		(483,631,000)		(198,682,000)		(103,106,000)
Total kWh Delivered to Service Area		11,938,682,000		12,789,734,000		12,658,982,000		12,518,227,000		12,967,169,000
Service Area Energy Use:										
Residential	345,197	3,908,317,955	352,574	4,226,036,265	363,217	4,218,600,234	368,700	4,238,690,401	371,719	4,362,291,910
General Service (Less UT & ENW)	42,559	7,042,867,290	43,342	7,566,322,558	43,829	7,477,806,302	44,305	7,362,471,563	44,530	7,647,810,403
	387,756	10,951,185,245	395,916	11,792,358,823	407,046	11,696,406,536	413,005	11,601,161,964	416,249	12,010,102,313
Public Street Lighting	4	34,486,701	4	35,142,877	4	47,830,865	4	48,077,910	4	35,969,761
City Utility Departments	180	200,560,827	179	210,643,582	187	214,401,264	177	189,961,003	211	204,033,631
Other City Departments	679	126,263,735	690	133,769,398	688	130,345,139	683	123,407,724	652	118,227,786
	863	361,311,263	873	379,555,857	879	392,577,268	864	361.446.637	867	358,231,178
Total Service Area Sales	388,619	11,312,324,408	396,790	12,171,914,680	407,925	12,088,983,804	413,869	11,962,608,601	417,116	12,368,333,491
Sales to UT & ENW (Nightwatchman)	1	12,743,795	1	14,124,875	1	14,156,478	1	13,717,834	1	13,684,002
Loss and Unaccounted For		613,613,797		603,694,445		555,841,718		541,900,565		585,151,507
Total kWh Delivered to Service Area	388,620	11,938,682,000	396,791	12,789,734,000	407,926	12,658,982,000	413,870	12,518,227,000	417,117	12,967,169,000
System Peak Demand (kW)		2,430,000		2,391,000		2,514,000		2,602,000		2,628,000

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Energy Risk Management

In an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy has established an Energy Risk Management Program. This program is authorized by the City Council to an $800 million limit 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 over a five year time horizon. 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.

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

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

Further explanation and historical information at last fiscal year end can be found in the footnotes to the financial statements for the fiscal year ended September 30, 2010 (see APPENDIX B–"Annual Financial Report–Note 14a–Energy Risk Management Program").

Power and Energy Purchase Contracts

The City has signed several long-term energy purchase agreements for conventional, wind, solar and landfill gas (Methane) electric generation.

In December 1994, the City signed a 25-year contract with Alternative Power Limited Partnership ("APLP") to purchase electric energy generated by APLP's 3-megawatt landfill gas plant in Austin. After dissolution of APLP in 2002, the seller of electric energy under the contract is now Gas Recovery Systems, LLC, the former general partner of APLP. Another megawatt of capacity was added in 2003, bringing the total capacity to 4 MW.

In March 1995, the City signed a 25-year contract with LCRA to purchase up to 10 MW of electric energy per year from the LCRA Texas Wind Power Project located in the Delaware Mountains east of El Paso. The project went into commercial operation in September 1995.

In December 1999, Austin Energy signed a 10-year contract to purchase the output of a 20 MW wind energy project built by Texas Wind Power Company ("Texas Wind") in Upton County. Texas Wind assigned the contract to King Wind LP in December 1999. The original contract provided Austin Energy an option to agree to purchase an additional 78.4 MW of electricity from the project to be provided by an increase in the project capacity. In October 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and necessitating an increase in the project capacity by an additional 56.7 MW. In December 2000 King Wind LP assigned the contract to FPL Energy Upton Wind I, LP. The 76.7 MW wind farm began full-scale operation in September 2001. A fourth amendment was executed in July 29, 2011 to allow a contract extension through December 31, 2012.

In December 1999, Austin Energy signed two contracts for the purchase of energy from landfill methane-recovery projects to be developed by Ecogas Inc. and Energy Developments, Inc. ("EDI"). Ecogas Inc. assigned its rights to EDI in October 2000. In October 2002, EDI brought on the first 5.2 MW of landfill methane generation at its Tessman Road facilities located in San Antonio, Texas. Another 2.6 MW of landfill methane generation was added in 2003, bringing the total capacity to 7.8 MW.

In February 2005, Austin Energy began purchasing 93 MW of wind power from the Sweetwater Phase II wind project near Sweetwater, Texas under a 12-year contract. In December 2005, Austin Energy increased its purchase to a total of 128 MW with additional capacity from Sweetwater Phase III.

In September 2006, Austin Energy signed a contract with J. Aron & Company, a subsidiary of The Goldman Sachs Group, Inc., to purchase 100 to 150 MW of energy per month in May-September of 2008, 2009 and 2010.

In September 2006, Austin Energy signed a 20-year contract with Renewable Energy Systems ("RES") America Development, Inc. to purchase the output of a 60 MW wind energy project located in Northwest Texas. On October 10, 2006, RES assigned the contract to Whirlwind Energy, L.L.C. The project began full-scale commercial operation in December 2007.

In November 2006, Austin Energy signed a contract with Morgan Stanley Capital Group, Inc. to purchase an additional 100 to 150 MW of energy per month in May – September of 2008, 2009 and 2010.

In August 2007, Austin Energy signed a 15-year contract with RES to purchase the output of a 165 MW wind energy project located near Abilene, Texas. On September 6, 2007, RES assigned the contract to Hackberry Wind, LLC. The project began full-scale commercial operation in December 2008.

In August 2008, Austin Energy signed a 20-year contract with Nacogdoches Power LLC to purchase the output of a 100 MW biomass power plant fueled by wood waste such as forest residue, mill residue, waste pallets and municipal wood waste. The project is located near Nacogdoches, Texas and is expected to commence commercial operation in 2012.

In August 2009, Austin Energy signed a 25-year contract with Gemini Solar Development Company, LLC to purchase the output of a 30 MW solar power plant. Currently under construction, the project is located on an Austin Energy site just east of Austin and is expected to commence commercial operation in December 2011.

In September 2011, Austin Energy signed a 25-year contract with Duke Energy Generation Services Holding, Inc. to purchase the output of a 200 MW wind energy project located in Willacy County, Texas. Also in September 2011, Austin Energy signed a 25-year contract with Whitetail Wind Energy, LLC to purchase the output of a 91 MW wind energy project located in Webb County, Texas. Austin Energy is finalizing a 20-year contract with Iberdrola Renewables, Inc. to purchase the output of a 200 MW wind energy project located in Kenedy County. All 491 MW wind energy projects will begin full-scale commercial operation in January 2013.

With respect to the contracts described above, Austin Energy is obligated to purchase all of the energy generated by each of the facilities up to the maximum amount as described above, to the extent energy is so generated. Many of the facilities described above do not run at full capacity for 24 hours a day; therefore, Austin Energy may be purchasing energy in amounts less than the maximum amounts that are shown above.

Transmission and Distribution System

The transmission and distribution plant statistics of Austin Energy as of December 31, 2010 are as follows:

Electric Transmission & Distribution System Statistics

	Number of Substations	Miles of Lines	Kilovolts
Transmission	11	618	345/138/69
Distribution	56	11,319	35/12.5/7.2
Overhead Primary		2,370	
Overhead Secondary		3,105	
Underground Primary		2,898	
Underground Secondary		2,946	

The City and LCRA entered into the Fayette Power Project Transmission Agreement dated March 17, 1977, setting forth the duties, obligations and responsibilities with respect to the transmission of energy from the Fayette Power Project. The City has also entered into the STP 345 kV Transmission Line Agreement dated as of January 1, 1976 with the participants in STP, setting forth the duties, obligations and responsibilities with respect to transmission facilities associated with STP. Austin Energy is interconnected with LCRA, with whom Austin Energy has a power interchange agreement. Austin Energy is also interconnected with CenterPoint Energy (formerly Houston Lighting & Power Co., and referred to herein as "CenterPoint"), CPS Energy and American Electric Power. Austin Energy is a member of ERCOT. As a participant in ERCOT, Austin Energy is able to provide and be provided with a reliable backup supply of generation under normal and emergency conditions. The diversification of fuel sources of the member systems increases the potential for economic interchanges among the respective systems. Sale and purchase transactions generally maximize the use of less expensive fuel sources by all members of the interconnected system.

Historically, electric utilities operating in the State have not had any significant interstate connections, and hence investor owned utilities have not been subject to regulation by the Federal Energy Regulatory Commission ("FERC") and its predecessor agencies under the Federal Power Act. Over the past several years, successful efforts have been made to provide interstate connections. These efforts have resulted in protracted judicial and administrative proceedings involving ERCOT members. The settlement of such proceedings permits the ERCOT members to avoid federal regulation as the result of any interstate interconnection with another interstate connected utility.

ISO 9001 Registration

The Austin Energy division responsible for the construction, maintenance and operation of Austin's electric system has become the first of any utility in the nation to earn ISO 9001:2000 registration. ISO (International Organization for Standardization) 9000 is a series of international quality standards designed to ensure that all activities related to providing and delivering a product or service are appropriately quality assured. To earn the registration, applicants must develop a Quality Management System that reflects standards of performance for every major task, in this case, related to building, maintaining and repairing the electric system. Auditors from the National Standards Authority of Ireland ("NSAI"), the worldwide entity that administers the ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the Electric Service Delivery Quality Management System by NSAI auditors.

In September 2010, the Electric Service Delivery Quality Management System was re-registered under the current ISO 9001:2008 standard. The ISO auditors noted that procedures and written work instructions have been implemented for more than 530 work activities. More than 250,000 companies worldwide, including 25,000 in the U.S., are certified in the ISO 9000 series. Austin Energy transmission and distribution work units, however, are the first of any utility in the country to be so certified.

In June, 2010, Austin Energy's Customer Care unit was also registered as an ISO 9001:2008 organization. The Customer Care unit is responsible for receiving customer requests, responding to customer requests, billing customers, processing customer payments, and managing customer accounts.

Work has also begun to develop a quality management system and seek ISO registration for Power Supply and Market Operations.

Conventional System Improvements

In September 2011, the 2012-2016 Capital Improvements Spending Plan was approved by the City Council in the amount of $1,019,438. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and the issuance of commercial paper.

Austin Energy Smart Meter Installation Program

Austin Energy initiated a pilot project in 2001 to evaluate the then new automated meter technology. Austin Energy installed (1-way) automated meter read ("AMR") meters at apartment buildings throughout Austin, 110,000 of which are still installed. In 2008, Austin Energy began the second phase of its smart meter program to exchange the remaining 300,000 customer meters with second generation-2-way AMR meters. These AMR meters communicate daily meter reads via radio signals. Automated meters have been installed for all Austin Energy customers with the exception of less than 1,000 special-function meters, which are still being tested.

Austin Energy requires its meter vendor to test 100% of the automated meters for accuracy, and to provide electronic copies of test results. Austin Energy also conducts in-house accuracy tests of a random sample of 10% of all new meters before installations occur. All testing is in accordance with the metering standards and accuracy requirements used by all electric utilities as set by American National Standards Institute C12.1. Additionally, Austin Energy tested the accuracy of a sample of removed meters. The old meters (many of which are 20 years old or older) were still accurate, so that customers should not see any difference in billed electric use with the AMR meters.

Austin Energy tested 7% (approximately 20,000) of the meters replaced by AMR meters, and found that more than 97% of these removed meters still met the accuracy level required by ANSI C12 standards. Approximately 2.2% (430) of the meters tested were running slow. In those situations, customers saw some increase in electric usage due to the more accurate, automated meter.

Despite the magnitude of this project, Austin Energy has not received a significant number of calls relating to the new automated meters. Customers who question the amount of power for which they have been billed can request the accuracy of their meter be checked. Austin Energy sends a technician out to perform the testing.

Austin Energy has reviewed customer call logs and associated service orders, and found that, in the past two years while the AMR meters were being exchanged, 10,743 (3.8%) of customers whose meters were being exchanged called with questions about the new meters or high consumption. After talking with Austin Energy customer service representatives, only 231 requested meter accuracy tests, of which 25 were exchanged.

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for continued success.

First, an overarching Risk Management Strategy guides Austin Energy to manage its exposure when considering future courses of action. This approach allows Austin Energy to prepare for future options without prematurely investing and allows time for more information to become known before major commitments are made.

Second, a strategy to provide Excellent Customer Service positions Austin Energy to meet evolving customer expectations in a rapidly changing energy industry. Under this strategy, Austin Energy intends to build employee and customer satisfaction so that it is positioned for competition or regulation in the future.

Third, an Energy Resource strategy directs Austin Energy to seek cost-effective renewable energy and conservation solutions to meet customers' new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy has developed a Resource, Generation and Climate Protection Plan to 2020 discussed further in the next section.

Austin Energy Resource, Generation, and Climate Protection Plan to 2020

In February 2007, the City Council passed Resolution 20070215-023, directing the City Manager to develop, implement, and report to the City Council annually upon the implementation and progress of policies, procedures, and targets as necessary to make Austin the leading city in the nation in the effort to reduce and reverse the negative impacts of global warming. Soon thereafter, the Austin Climate Protection Program was created to implement this resolution and help the City build a more sustainable community. From 2007-2011, the Austin Climate Protection Program staff were housed in Austin Energy, but in 2012 are being transferred to the City Manager's Office.

The Austin Climate Protection Program has worked with every City department to create a departmental climate protection plan to ensure that departmental operations were reducing greenhouse gas emissions from energy, water, waste, and transportation. Austin Energy developed the Resource, Generation, and Climate Protection Plan to 2020 (the "Plan") to meet these objectives. The City Council adopted the Plan on April 22, 2010, as a resource planning tool that brings together demand and energy management options over the planning horizon.

Developing the Plan involved extensive analysis of the expected risks, costs, and opportunities to meet the future demand for electricity services. The goals outlined in this document are based on Austin Energy's current understanding of technology and of national, state and local energy policies. The primary goals of the plan are by 2020 to achieve 800 MW in energy efficiency, 35% renewable energy generation, and CO2 emissions 20% below 2005 levels.

The Plan is designed to be flexible and dynamic. As circumstances change, the City must maintain the flexibility to modify elements to respond to a range of factors, including economic conditions, customer load, fuel prices and availability, infrastructure build-out, technological development, law and regulations, policy direction, and customer needs. Therefore, as conditions change, the Plan will be adapted and modified to manage risk, maintain system and service reliability, achieve policy goals, and meet customer demand for excellence in all aspects of service. As each significant implementation step is undertaken through contracts, purchases or other arrangements, Austin Energy's recommendations to the City Council will be supported by assessment of impacts on all customers and by charting the progress each step will make toward achieving the goals outlined in this Plan.

Austin Energy will review the Plan annually and issue a report on performance against goals. Austin Energy will reassess the Plan in a public forum every two years, the first of which will take place in 2012. Every major resource decision and Plan change will, as always, be taken before the City Council for review and authorization. This plan demonstrates that customers and our community can indeed expect equitable, economic, and environmentally responsible electric services.

Goals Summary

Austin Energy adopts the following changes and additions to its current resource planning goals, with a target of meeting these goals by 2020:

- Increase the energy efficiency goal from 700 MW to 800 MW
- Increase the renewable energy goal from 30% to 35%
- Increase the solar component of the renewable energy goal from 100 MW to 200 MW
- Establish a CO2 reduction goal of 20% below 2005 level

Figure 1 shows a scenario developed and presented by Austin Energy during the public participation and task force discussions that demonstrates the type and pace of investments that may be followed in meeting these goals. Specific resource investments will be evaluated continually by Austin Energy, reinforcing that the plan is adaptable to changing legal/regulatory, market, and economic conditions. As explained further in this plan, however, each individual investment will be considered by the City Council and subject to public review.

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Austin Energy Recommendation

Generation Resources in MW

Year	Coal/Nuclear	Gas	Biomass	Wind	Solar	Renewable Energy %
2009	1,029	1,444	12	439	1	10%
2010		100			30	10%
2011				*(77) 200		15%
2012			100			17%
2013				150		25%
2014					30	25%
2015		200		100		28%
2016			50		20	30%
2017				*(126) 200	30	33%
2018					20	32%
2019					30	32%
2020				115	40	35%
Total	1,029	1,744	162	1,001	201	

* Expiring Wind Contract MWs shown in ( )

Figure 1

Austin Energy Recommendation

Generation Resources & Load Forecast (updated to April 2010)

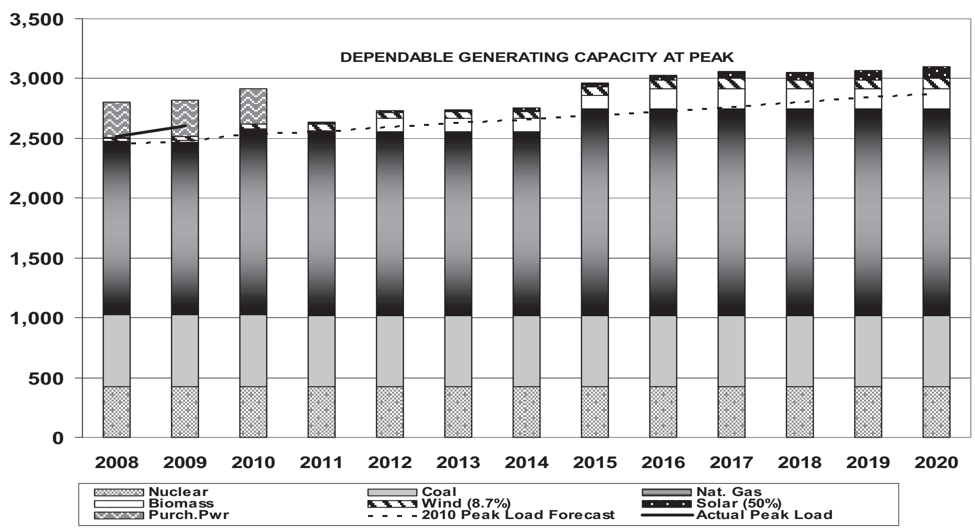

Figure 2

Plan implementation (Figure 2) provides a reserve versus projected peak demand. The projected peak demand, represented by the dotted line, also takes into account an increase from 700 to 800 MW of energy efficiency and load shifting proposed by 2020.

Coal/Nuclear. The Plan (Figure 1) recognizes current ownership levels in the STP and the Fayette Power Plant. Plan implementation would effectively reduce by about 24% the amount of energy Austin Energy receives from the Fayette Power Project by 2020 to meet customer load. That reduction figures prominently in the Austin Energy goal to reduce its greenhouse gas emissions within the planning horizon by 20% from 2005 levels.

Natural Gas. The proposed plan calls for the build out of the gas-fueled Sand Hill Energy Center to add 200 megawatts of combined cycle capacity. This is in addition to the recently completed installation of 90 MW of peaking units at the facility.

Biomass. A total of 150 MW of biomass-fueled generation is projected to be developed. The City Council has approved a 20-year contract through which Austin Energy will purchase the annual output of a 100 MW wood chip-fueled biomass plant currently under construction 10 miles northwest of Nacogdoches, Texas. The plant is being built by Nacogdoches Power LLC, a Southern Company subsidiary, and is expected to go online in 2012. An additional 50 MW of biomass is anticipated in later years.

Wind. The majority of the Austin Energy renewables goal will be met through wind-generated power. As an early adopter of wind energy resources, Austin Energy now has wind contracts for about 200 MW of wind capacity that will expire by 2020. The proposed Plan calls for total wind capacity by 2020 of 1,001 MW.

Solar. Installed solar capacity will increase from 1 MW to 201 MW by 2020. In February 2009, the City Council approved a 25-year contract under which Austin Energy will purchase the annual output of a 30 MW solar farm to be built near Webberville on Austin Energy property. That project, being built by Gemini Solar Development Company, is expected to commence commercial operation in December 2011 and will be one of the nation's largest solar projects.

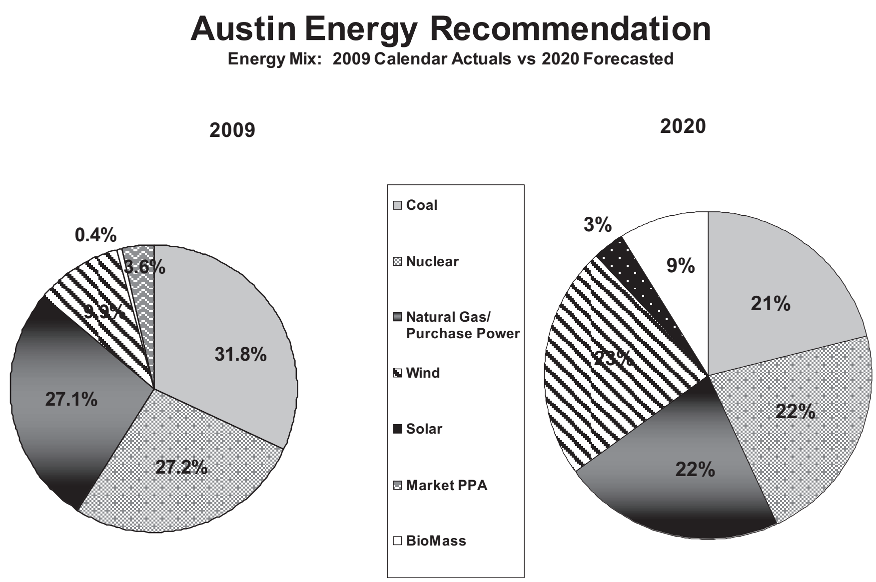

Figure 3

The generation mix by fuel type (Figure 3) that would result from Plan implementation reflects a decrease in natural gas use from about 30% today to 24% in 2020; 8% of power generated by biomass, 3% by solar with a drop in coal-generated power from 32% to 22% and a drop in the percentage of nuclear-generated power from 25% to 21%.

On October 6, 2011 the City Council passed Resolution 20111006-059, directing the City Manager to develop a report by September 2012 analyzing strategies relating to the Fayette Power Project that were outlined in the Generation Plan. Specifically, the report would detail: the potential impact of the EPA Cross-State Air Pollution Rule and other proposed EPA regulations that could impact Fayette Power Project's costs of operation; the feasibility of selling the City's share of Fayette Power Project to LCRA or a third party; and the feasibility of "mothballing" the City's share of Fayette Power Project.

Financial Policies

In a constantly changing electric utility industry, Austin Energy continues to follow strong financial policies aimed at maintaining financial integrity while allowing for flexibility to respond to market and regulatory challenges. Some of the more significant financial policies reviewed and approved annually by City Council during the budget process are:

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance.

- Debt Service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x.

- A fund named Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
  - An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.
  - Up to a maximum of 60 days additional non-power supply operating requirements set aside as a Contingency Reserve.
  - Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Competitive Reserve.

- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for our customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two years. A Rate Stabilization Reserve shall be created and established, replacing the Competitive Reserve in FY 2012, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and/or (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs. Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

- The General Fund Transfer shall not exceed 12% of Austin Energy's three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.

- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the South Texas Nuclear Project. An external investment manager may be hired to administer the trust investments.

- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four years prior to the expected plant closure.

A complete listing of Austin Energy's financial policies can be found at http://www.ci.austin.tx.us/budget/11-12/downloads/fy12proposed_budget_vol2.pdf.

Real Estate Taxes

Austin Energy pays no real property taxes on facilities inside or outside the City, nor payments in lieu of taxes with respect to Austin Energy.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

The City Council has original jurisdiction over Austin Energy's retail electric rates, while the PUCT sets Austin Energy's recoverable Transmission Matrix Expense. Certain residential ratepayers can appeal retail rate changes to the PUCT under section 33.101 of PURA by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City limits. State courts have held that the PUCT may apply the same ratemaking standards in such an appeal as are applied to utilities over which the PUCT has original jurisdiction.

Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, prejudicial, discriminatory, predatory, or anti-competitive.

An Independent System Operator ("ISO") was established for the ERCOT as a part of the rules that were adopted by the PUCT to open access to the wholesale electric market in the State and was approved by the PUCT on August 21, 1996. The ISO received approval on May 5, 2000, of its certification under Senate Bill 7, adopted by the State legislature and signed into law in 1999 ("SB7"). The ISO's responsibilities as detailed in SB7 are to (1) ensure nondiscriminatory access to the ERCOT transmission system; (2) ensure the reliability and adequacy of the ERCOT network; (3) ensure timely and accurate customer switching; and (4) ensure the accuracy of accounts among wholesale buyers and sellers. Austin Energy is a member of ERCOT, and Austin Energy staff are very active participants in the ERCOT stakeholder process.

SB7 amended PURA to provide for retail deregulation of the electric utility industry in the State. SB7 opened retail competition for Investor Owned Utilities ("IOUs") beginning January 1, 2002. SB7 allowed local authorities to choose when to bring retail competition to their Municipally Owned Utilities ("MOU"), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to "opt in" for retail competition is adopted by the municipal utility's governing body, the decision is irrevocable. The City has not opted in to competition. As a result, retail competition is not allowed inside Austin Energy's service territory. Austin Energy participates in the wholesale power market.

State Wholesale Market Design Developments

In the summer of 2002, the PUCT initiated an investigation to convert the wholesale market in the ERCOT region from a zonal-based market design to a nodal market design. On September 22, 2003, the PUCT adopted a rule requiring that ERCOT use a stakeholder process to develop a nodal market design. The PUCT's purpose in ordering the change was to promote economic efficiency in the production and consumption of electricity, support wholesale and retail competition, support the reliability of electric service, and reflect the physical realities of the ERCOT electric system. The key components of the nodal market as ordered by the PUCT include: continued reliance on bilateral markets for energy and ancillary services; establishment of a day-ahead energy market; resource-specific bid curves for energy and ancillary services; congestion pricing incorporating direct assignment of all congestion rents to resources causing the congestion; tradable congestion revenue rights ("CRRs") made available through auctions; nodal energy prices for resources; energy trading hubs; and zonal energy prices for load settlement.

On September 23, 2005, ERCOT filed with the PUCT the nodal market Protocols developed through the ERCOT stakeholder process. The nodal Protocols incorporate specific provisions that allow Austin Energy to hedge congestion risk in the new market. For its generation resources in operation prior to September 1, 1999, Austin Energy receives preassigned CRRs at a discount to the market price which are available prior to the auction of CRRs. The service territory of Austin Energy is identified as a load zone for settlement purposes. On February 23, 2006, the PUCT voted to approve the nodal Protocols for the ERCOT region. The nodal market began operation in December of 2010. In anticipation of the opening of the nodal market, Austin Energy employees were active participants in ERCOT's transition preparedness activities. Austin Energy's Energy and Market Operations staff, system planning and operations staff, and finance and accounting staff took steps to modify key systems and processes to assure Austin Energy's capability to participate fully in the ERCOT nodal market.

Since the implementation of the ERCOT nodal market in 2010, each day, Austin Energy's Energy and Market Operations staff offer all of Austin Energy's generation resources into the ERCOT markets. All power to serve Austin Energy's load is procured from the ERCOT market as well. Participation in the centralized ERCOT wholesale market allows Austin Energy to procure the cheapest source of supply possible to service its customers, whether that power is produced from Austin Energy's own generation resources or procured from the ERCOT market.

Federal Rate Regulation

Austin Energy is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy under current Federal statutes and regulations. Austin Energy submits various reports to FERC and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records.

Austin Energy is not subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under State law that is similar to the RTOs envisioned in the FERC Order No. 2000 and which predates the Order by several years. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas electric market. ERCOT is responsible for the management and oversight of the day-to-day operations of the transmission network. Under PURA, the PUCT has specific responsibilities to oversee ERCOT operations and market participant compliance with ERCOT Protocols.

Under the Energy Policy Act of 2005, municipal entities are now subject to certain FERC authority on reliability. Specific reliability requirements rules have been developed by the FERC. On July 20, 2006, the FERC certified the North American Electric Reliability Council ("NERC") as the nation's Electric Reliability Organization ("ERO"), which will be responsible for developing and enforcing mandatory electric reliability standards under the FERC's oversight. On April 19, 2007, FERC approved the Delegation Agreement between the NERC and ERCOT, which will govern the responsibilities of ERCOT as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. On June 4, 2007, FERC approved an initial set of NERC reliability standards that apply to entities operating in the ERCOT region. Austin Energy has established compliance programs in its Energy Markets; transmission systems planning, operations and reliability; and Information Technology and Telecommunications units to examine the requirements for compliance with the new standards and to evaluate and implement any needed changes to systems and procedures. This process is verified through external audits involving the Regional Entity.

Environmental Regulation General

Austin Energy's operations are subject to environmental regulation by Federal, State and local authorities. Austin Energy has processes in place for assuring compliance with applicable environmental regulations. Austin Energy's Environmental Services section consists of a staff of educated and trained environmental compliance professionals who are responsible for establishing and maintaining compliance programs throughout the utility. The Environmental Services section interprets existing Federal, State and local regulations and routinely track changes to regulations, which affect Austin Energy processes. Austin Energy has prepared documentation which details roles and responsibilities for environmental compliance throughout the organization. The Environmental Services section staff and facility personnel monitor conformance with the environmental requirements and report deficiencies to facility management. Environmental Services is also responsible for conducting environmental training for the organization.

Environmental Regulation Related to Air Emissions

Maintenance Start-up and Shutdown Permits

Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power production facilities. All of Austin Energy's large generating units have been issued Federal Operating Permits and Federal Acid Rain Permits for the individual units by the TCEQ and the USEPA. In 2011, Austin Energy and all owners of large electric generating units in Texas applied to the TCEQ for permits to cover Maintenance, Start-up and Shut-down emissions ("MSS") – those permits are expected to be issued in late 2011 or 2012.

Cross-State Air Pollution Rule

Austin Energy's large facilities have been complying with the Clean Air Interstate Rule ("CAIR"), a cap-and-trade program for annual NOx and SO2 emissions, since 2009. The USEPA finalized a court-mandated replacement for CAIR in 2011, called the Cross-State Air Pollution Rule ("CSAPR"), with compliance to begin in 2012 for annual NOx, annual SO2 and ozone season NOx emissions in 23 eastern- and mid-U.S. states including Texas. Each state gets an allotment of emissions allowances and allocates these to generators. Generators must hold an allowance for each ton of covered emissions; allowances must be purchased to cover emissions in excess of allocations and any surplus allowances can be banked or traded (sold). Interstate trading is effectively limited by imposing penalties on generators in a state that brings in too many allowances from others states, but intrastate trading is unlimited. Although not in the original proposal, USEPA finalized the requirement that Texas sources hold SO2 allowances and USEPA allotted Texas allowances to cover only approximately 50% of total SO2 emissions in 2010, meaning there will be a large deficit of SO2 allowances in Texas and presumably very high SO2 prices beginning 2012.

The CSAPR will impact Decker, Fayette Power Project and Sand Hill Energy Center. Austin Energy expects to hold enough NOx allowances for all three facilities to cover most emissions and any additional allowances needed could be acquired without risking penalties due to out of state purchases. At this time, Austin Energy does not anticipate that compliance with NOx requirements would necessitate major capital investment in NOx control; however, the exact cost impacts of any potential allowance purchases are uncertain since there is still no market for those allowances or known allowance prices. Austin Energy may need to purchase NOx allowances to cover a small fraction of total NOx emissions beyond what Fayette Power Project units are allocated. With respect to SO2, Fayette Power Project was allocated SO2 allowances based on historical data in years 2010 and earlier. Given that the recently installed Flue Gas Desulfurization (FGD) Scrubbers on Units 1 and 2 remove 95% of the units' SO2 emissions, Austin Energy does not expect to need more allowances than allocated. USEPA proposed technical corrections on October 7, 2011 granting Texas generators approximately 30% more SO2 allowances and delaying the interstate trading provisions for two years; both of those proposed measures should serve to ease compliance burden and costs.

Greenhouse Gas Emissions

In 2007, the United States Supreme Court rendered its first major decision in the climate change area in *Massachusetts v. EPA*. The Court held, 5-4, that carbon dioxide was an "air pollutant" for purposes of Section 202 of the Clean Air Act ("CAA" or "the Act") and that the USEPA was required by that section to issue carbon dioxide emission standards for motor vehicles if it found that such emissions endanger public health and welfare. In December 2009, USEPA made the endangerment finding. USEPA's endangerment finding obligated the agency, under Section 202(a) of the CAA, to issue greenhouse-gas (GHG) emissions standards for motor vehicles. In May 2010, the USEPA began discharging this duty when it issued a final rule regulating GHG emissions from mobile sources (the "Light Duty Vehicle Rule"). With this action, GHG emissions became "subject to regulation" under the CAA for the first time. Under the text of the CAA, air pollutants that are subject to regulation under the statute are subject to the Act's Prevention of Significant Deterioration ("PSD") and Title V Operating-Permit ("Title V") provisions for stationary sources. Consequently, adoption of the Light Duty Vehicle Rule triggered the regulation of new and modified stationary sources, such as power plants, under the PSD and Title V programs. In an effort to limit the number of affected sources, the USEPA issued a rule on June 3, 2010 (the "Tailoring Rule"), which establishes heightened emission thresholds for new and modified sources. In addition, USEPA's reconsideration of the "Johnson Memo", which was completed on March 29, 2010, confirmed that the inclusion of greenhouse gas emissions in PSD permits for new and modified sources exceeding the emission threshold will be begin on January 2, 2011. USEPA has entered into a settlement agreement whereby it has committed to adopting New Source Performance Standards for GHG emissions from new and existing electric generating units by May 2012. USEPA has not yet proposed a rule, and in fact, has missed the deadline for proposal under the settlement.

Since 2007, Austin Energy has voluntarily reported point and non-point source greenhouse gas emissions to the California Climate Action Registry ("CCAR") and later The Climate Registry ("TCR") as one of its members since 2007. Beginning with calendar year 2010, Austin Energy and all other major industrial sources in the country will begin mandatory greenhouse gas reporting to the USEPA.

Austin Energy is a participant in trade organizations actively monitoring potential greenhouse gas regulatory programs. Austin Energy has no planned modifications to owned generating units that would trigger GHG control requirements under PSD. Austin Energy believes that it is similarly positioned as any other comparable electric utility with similar electric generation resources to comply with USEPA rules that limit GHG emissions, and is factoring the best available information into its generation resource decisions.

Environmental Regulation Water

Wastewater discharges are regulated pursuant to the Clean Water Act National Pollution Discharge Elimination System ("NPDES"). Stormwater run-off is similarly regulated. The USEPA has granted the TCEQ authority to implement these programs in Texas as the Texas Pollution Discharge Elimination System ("TPDES"). Austin Energy's larger power generation facilities, Decker and Sand Hill Energy Center, have TPDES and Stormwater Permits, which require monitoring and limitations of discharges. The USEPA proposed regulations in March 2011 that would add additional requirements to the TPDES permits to limit mortality of aquatic organisms at power plant cooling water intake systems. The proposal known as "316(b)" is expected to be finalized in 2012.

New standards for the design and performance of cooling water intake structures for large users of cooling water such as power plants were proposed in 2011. Intakes must implement protective screens with a fish capture and return system and limit the mortality rate of fish due to impingement against the screens. State permitting authorities must also set limits, or determine appropriate technologies, on a case-by-case basis to reduce mortality due to entrainment through the cooling system. USEPA must finalize the rule in July 2012. After mandatory data collection, power plants have between three to eight years to comply with the standards. 316(b) standards have been in progress since the 1970's, and the subject of litigation and a Supreme Court ruling.

316(b) applies primarily to Fayette Power Project and Decker because they withdraw large volumes of water for once-through cooling. The USEPA rule did not mandate cooling tower retrofits at all existing facilities as some had feared as a worst case, and Austin Energy does not expect that level of capital investment to be required at Decker and Fayette Power Project. There is a possibility that the existing intake structures will need to be upgraded in the three to eight year timeframe. Although Sand Hill Energy Center has an intake on the Colorado River for make-up water Austin Energy does not anticipate any major investment needed there because that facility employs cooling towers that draw in water at rates below the applicability threshold. In accordance with the proposed rule, Austin Energy and LCRA will need to conduct several tests starting in 2012 to determine the existing baseline impingement and entrainment mortality rates and therefore compliance status. At this time Austin Energy assumes the same as other utilities that the 316(b) standards will require at least some modification to existing cooling water intakes.

Spill Prevention and Emergency Response

Austin Energy maintains plans for preventing and responding to spills of oil and hazardous materials at its power plants and substations as required by the Clean Water Act Spill Prevention Control and Countermeasure and Facility Response Plan requirements. Austin Energy's spill response team responds to spills in less than one hour from the time the spills are reported.

Environmental Other

Austin Energy began decommissioning the Holly Street Power Plant in 2011. The project includes the removal of the main power plant and adjacent support structures and the cleanup of historical contamination. The project is expected to last until the end of 2013.

Nuclear Regulation

Nuclear generation facilities are subject to regulation by the Nuclear Regulatory Commission ("NRC") and are required to obtain liability insurance and a United States Government indemnity agreement in order for the NRC to issue operating licenses. This primary insurance and the retrospective assessment discussed below are to insure against the maximum liability under the Price-Anderson Act for any public claims arising from a nuclear incident which occurs at any of the licensed nuclear reactors located in the United States.

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors are different. The Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at $12.6 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $117.495 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $17.55 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $300 million for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers' compensation system as sole remedy and bring suit against another party. The limit increased to $375 million effective January 1, 2010.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses ($2.75 billion is the maximum amount available for purchase from NEIL, defined below). Nuclear property insurance consists of $500 million in primary property damage insurance and $2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited ("NEIL"). In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $30.7 million during any one-policy year. This number changes annually and is calculated as 10 times the current premium for each policy.

The NRC regulations set forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license is required to submit to the NRC a bi-annual report indicating how reasonable assurance would be provided. The City provides the required report on their share of STP to the NRC which is based on the minimum amount for decommissioning excluding waste disposal as required by the NRC regulations of $105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The 2008 report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A. The City has been collecting for its share of anticipated decommissioning activities which may begin as early as 2027 through its rates since Fiscal Year 1989. The decommissioning trust market value on September 30, 2011 was $176,325,016.90. For Fiscal Year 2012, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense. In 2007 dollars, the minimum amount for decommissioning the City's share of STP is $221 million. See "INVESTMENTS – Legal Investments".

Recent Events Affecting the Nuclear Industry

On March 11, 2011, a region of Japan sustained significant loss of life and destruction because of a major earthquake and resulting tsunami. Included in the damage areas were the Fukushima nuclear units, which lost power to components of the backup and safety control systems and began emitting radiation into the surrounding environment. Following the incident, the NRC began looking into the safety aspects of nuclear plant operations in the United States with the objective of assuring that events such as those at the Fukushima plant do not occur in this country. The NRC has been holding public meetings and briefings on recommendations made by the NRC's Japan Task Force with the most recently held meeting occurring on October 11, 2011. The process in ongoing and it is unknown what the exact implications will be to safety standards at existing and proposed nuclear operation in the United States.

COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS OCTOBER 1, 2005 TO SEPTEMBER 30, 2010

(in thousands rounded)

	Fiscal Year Ended September 30				
INCOME	2010	2009	2008	2007	2006
Revenue	$1,518,352	$1,573,459	$1,628,261	$1,393,344	$1,412,853
Operating Expense	(1,026,312)	(1,041,685)	(1,012,532)	(846,005)	(824,870)
Balance Available for Debt Service	492,040	531,774	615,729	547,339	587,983
Depreciation and Amortization Expense	(209,019)	(196,620)	(192,726)	(190,203)	(193,517)
Earnings Before Interest Expense	283,021	335,154	423,003	357,136	394,466
Interest Incurred on Debt	(174,497)	(181,899)	(175,301)	(180,957)	(169,818)
Other	(6,378)	(26,632)	(10,868)	(16,530)	(9,840)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	$ 102,146	$ 126,623	$ 236,834	$ 159,649	$ 214,808
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	(67.59%)	(66.20%)	(62.18%)	60.72%	(58.38%)
Balance Available for Debt Service	32.41%	33.80%	37.82%	39.28%	41.62%
Depreciation and Amortization Expense	(13.77%)	(12.50%)	(11.84%)	(13.65%)	(13.70%)
Earnings Before Interest Expense	18.64%	21.30%	25.98%	25.63%	27.92%
Interest Incurred on Debt	(11.49%)	(11.56%)	(10.77%)	(12.99%)	(12.02%)
Other	(0.42%)	(1.69%)	(0.67%)	(1.19%)	(0.70%)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	6.73%	8.05%	14.55%	11.46%	15.20%

(a) Income before transfers to the General Fund and Other Funds, for 12 months ended September 30, 2010, which are as follows (in thousands rounded):
Transfer to General Fund $129,968
Transfers to Other Funds $ 4,461

(b) Excludes Combined Utility Funds' deferred costs recovered in future years of $21,862 for twelve months ended September 30, 2010.

(c) There was no extraordinary gain or loss during each respective twelve month period.

(d) Excludes capital contributions of $15,749 for twelve months ended September 30, 2010.

OPERATING STATEMENT
ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM
(in thousands)

	Fiscal Year Ended September 30				
	2010	2009	2008	2007	2006
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	$ 402,597	$ 402,892	$ 408,827	$ 351,207	$ 379,728
Commercial General	592,125	594,637	613,858	537,180	531,440
City Utility Departments	15,721	17,316	17,839	15,280	17,168
Public Street Lighting	6,396	6,343	6,365	6,056	6,023
City General Government Departments	8,152	8,670	8,647	7,691	8,363
Sales to Other Utilities	7,584	16,878	45,511	19,314	23,041
Transmission	60,746	57,003	56,004	57,237	46,864
Rent from Electric Property	3,255	2,722	2,485	2,405	2,472
Customers' Forfeited Discounts and Penalties	4,898	5,141	5,114	4,771	4,951
Miscellaneous	46,202	50,684	53,084	55,347	50,556
Total Electric Utility	$1,147,676	$1,162,286	$1,217,734	$1,056,488	$ 1,070,606
WATER UTILITY					
Urban	$ 141,539	$ 170,889	$ 158,603	$ 120,766	$ 141,267
Rural	10,394	9,753	8,853	6,967	9,854
Sales to Other Water Utilities	8,568	10,490	10,381	7,755	10,387
Water Connections	483	471	463	474	493
Customers' Forfeited Discounts and Penalties	720	906	818	752	787
Miscellaneous	9,752	2,971	2,396	1,636	1,773
Total Water Utility	$ 171,456	$ 195,480	$ 181,514	$ 138,350	$ 164,561
WASTEWATER UTILITY					
Urban	$ 157,722	$ 175,898	$ 164,987	$ 137,243	$ 125,349
Rural	5,859	6,125	5,890	4,723	4,549
Service to Other Utilities	10,298	6,244	5,123	4,582	3,831
Wastewater Connections	483	471	452	435	452
Customers' Forfeited Discounts and Penalties	931	1,054	990	867	787
Industrial Waste Surcharge	4,024	3,866	3,801	3,662	3,728
Miscellaneous	9,876	2,758	2,366	2,606	2,980
Total Wastewater Utility	$ 189,193	$ 196,416	$ 183,609	$ 154,118	$ 141,676
Interest	$ 10,027	$ 19,277	$ 45,404	$ 44,388	$ 36,010
TOTAL REVENUE	$1,518,352	$1,573,459	$1,628,261	$1,393,344	$1,412,853

OPERATING STATEMENT
ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM – (Continued)
(in thousands)

	Fiscal Year Ended September 30				
EXPENSE	2010	2009	2008	2007	2006
ELECTRIC UTILITY					
Production	$ 339,221	$ 353,059	$ 391,628	$ 316,182	$ 340,316
Joint Facility Production	201,024	187,374	180,674	142,194	133,493
System Control	12,335	12,852	12,121	11,628	9,912
Transmission and Distribution	113,958	105,552	92,559	84,713	75,798
Jobbing and Contract Work	(3)	751	(675)	56	594
Customer Accounting and Collection	14,327	15,189	15,813	15,988	14,506
Customer Services	20,961	22,408	18,300	19,214	17,134
Administrative and General	165,088	172,062	147,896	121,206	103,518
Total Electric Utility	$ 866,911	$ 869,247	$ 858,316	$711,181	$695,271
WATER UTILITY					
Purification	$ 22,497	$ 23,288	$ 21,806	$ 20,951	$ 26,463
Distribution	28,276	26,699	24,946	23,971	23,607
Customers' Accounting and Collection	8,202	8,212	6,922	6,272	6,315
Jobbing and Contract Work	(6)	2	5	3	24
Design Engineering	2,176	2,431	1,759	1,764	1,671
Administrative and General	27,724	35,176	28,454	20,594	17,425
Total Water Utility	$ 88,869	$ 95,808	$ 83,892	$ 73,555	$ 75,505
WASTEWATER UTILITY					
Wastewater Lines	$ 9,706	$ 8,975	$ 8,342	$ 8,436	$ 7,484
Sewage Treatment Plant	28,125	30,565	27,759	26,041	23,902
Customers' Accounting and Collection	4,050	4,050	3,465	3,074	3,160
Jobbing and Contract Work	0	0	0	0	8
Design Engineering	13,026	12,918	11,746	10,312	9,674
Administrative and General	15,625	20,122	19,012	13,406	9,866
Total Wastewater Utility	$ 70,532	$ 76,630	$ 70,324	$ 61,269	$ 54,094
TOTAL EXPENSE (1)	$1,026,312	$1,041,685	$1,012,532	$846,005	$824,870
NET REVENUE AVAILABLE FOR DEBT SERVICE	$ 492,040	$ 531,774	$ 615,729	$547,339	$587,983
Electric Customers	419,353	407,926	392,167	392,143	380,698
Water Customers	210,901	209,994	202,533	199,671	197,511
Wastewater Customers	198,116	196,842	188,958	186,675	184,022

(1) Interest expense, depreciation, amortization, other non-operating items, and OPEB accrual are not included in total expense.

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years ("FY") ended September 30, 2006 through September 30, 2010 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY06 through FY10, were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY06 through FY10 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY06 through FY10 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

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The Electric Utility System and Water and Wastewater System – TABLE FIVE (000's)

	Fiscal Year Ended September 30				
	2010	2009	2008	2007	2006
Plant Cost					
Utility Systems					
Electric	$4,475,178	$4,302,379	$4,084,559	$3,843,739	$3,730,305
Water	1,893,032	1,757,958	1,746,414	1,529,445	1,468,913
Wastewater	2,012,704	1,932,710	1,822,136	1,673,671	1,573,490
Total Cost	$8,380,914	$7,993,047	$7,653,109	$7,046,855	$6,772,708
Allowance for Depreciation:					
Electric	$1,895,660	$1,797,981	$1,705,518	$1,614,321	$1,553,865
Water	517,841	483,312	472,469	415,920	381,364
Wastewater	603,524	557,609	514,634	473,751	437,373
Total Depreciation	3,017,025	2,838,902	2,692,621	2,503,992	2,372,602
Cost after Depreciation	$5,363,889	$5,154,145	$4,960,488	$4,542,863	$4,400,106
Equity in Utility Systems					
Utility Systems	$8,380,914	$7,993,047	$7,653,109	$7,046,855	$6,772,708
Plus: Inventories, Materials and Supplies (1)	49,376	45,557	45,849	44,409	41,358
Net Construction Assets and Unamortized Bond Issue Cost	57,826	86,610	36,622	43,015	62,412
	$8,488,116	$8,125,214	$7,735,580	$7,134,279	$6,876,478
Less:					
Allowance for Depreciation	$3,017,025	$2,838,902	$2,692,621	$2,503,992	$2,372,602
Construction Contract Payable	0	0	0	0	0
Total	$3,017,025	$2,838,902	$2,692,621	$2,503,992	$2,372,602
Utility Systems, Net	5,471,091	5,286,312	5,042,959	4,630,287	4,503,876
Revenue Bonds and Other Debt Outstanding (2)	$3,366,859	$3,284,335	$3,107,434	$2,976,746	$2,912,616
Less: Bond Retirement and Reserve Funds	0	0	0	0	0
Net Debt	$3,366,859	$3,284,335	$3,107,434	$2,976,746	$2,912,616
Equity in Utility Systems	$2,104,232	$2,001,977	$1,935,525	$1,643,541	$1,591,260
Percentage of Equity in Utility Systems	38.46%	37.87%	38.38%	35.50%	35.33%

(1) Does not include fuel oil or coal inventories of approximately $27.20 million at September 30, 2010. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of $3.05 billion (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of $0 thousand (net of discounts); Capital Lease Obligations of $1.3 million; Commercial Paper of $300 million (net of discounts); General Obligation Bonds of $2.24 million; and Contractual Obligations of $12.45 million.

LITIGATION

A number of claims against the City, as well as certain other matters of litigation, are pending with respect to various matters arising in the normal course of the City's operations. The City Attorney and the City Management are of the opinion that resolution of the claims pending (including the matters described below) will not have a material effect on the City's financial condition or the financial condition of the Electric Utility System and/or the Water and Wastewater System.

The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2010.

Electric Utility System Litigation

The City is in litigation with the owner of a block of land in downtown Austin, which is the site of a municipal parking garage and utility-owned chilled-water plant site. The chilled-water plant is one of two currently providing chilled-water services to some of Austin Energy's commercial customers in the downtown area. The City initiated a condemnation proceeding against the land on August 9, 2001 in Travis County Probate Court as Cause No. 2403, *City of Austin v. Whittington, et al*. The trial court granted the City summary judgment upholding the City's right to condemn the land, and a jury awarded the condemnee a price of $7.75 million. The condemnee appealed the condemnation proceeding. It also brought a related suit for declaratory judgment in the 250th Travis County District Court, Cause No. GN302752, *Whittington, et al. v. City of Austin*, alleging the City had failed to include an alleyway crossing the land in its condemnation proceeding, and thus had not taken title to the entire block. In the original condemnation proceeding, the Third Court of Appeals (Case No. 03-03-00496-CV) reversed the trial court's summary judgment, holding that the City had failed to meet its burden to show the City Council made proper determinations of public purpose and necessity in deciding to condemn the land. The Texas Supreme Court declined to review the appellate court's decision. In the separate alleyway case, the trial court entered judgment against the City, finding that the City had failed to include the alleyway in its condemnation proceeding and thus did not hold title to the alleyway portion of the land. The cases were consolidated and tried to a jury in April 2007. The jury found against the City on its affirmative defense, and valued the property at $10.5 million. The City appealed. The Third Court of Appeals upheld the trial court verdict. On May 20, 2010, the City filed a petition for review with the Texas Supreme Court, which asked for a briefing on the merits on August 20, 2010. The City filed its brief on the merits on September 30, 2010, and is unable to predict the outcome of the appeal.

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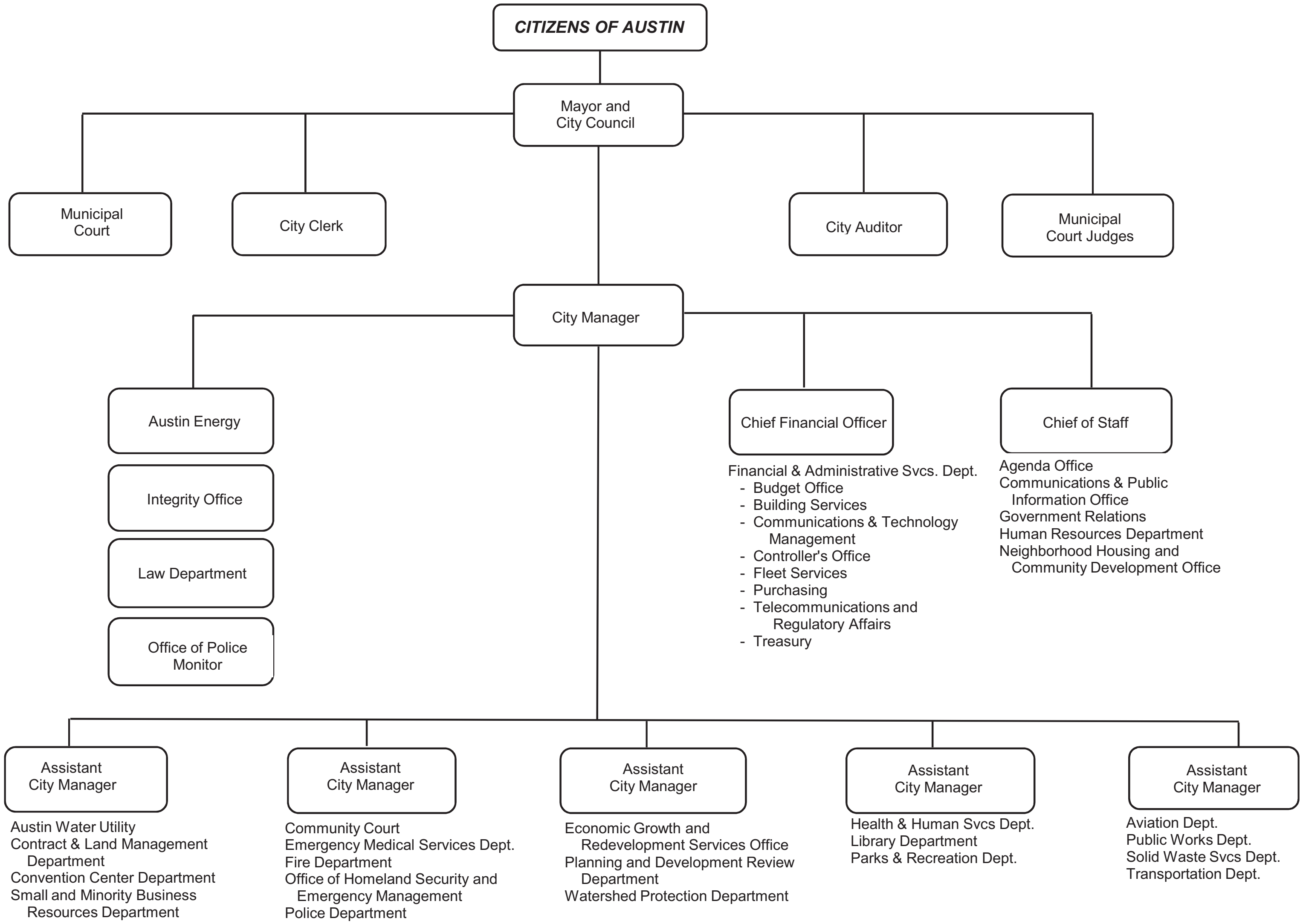
CITY OF AUSTIN, TEXAS

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

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 16 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, 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 approved collective bargaining for fire fighters but not for police officers. Approximately 15% of the City's employees are members of the American Federation of State, County and Municipal Employees, 8% are members of the American Police Association and 7% are members of the International Association of Fire Fighters.

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

Annexation Program

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

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

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

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

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

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

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

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

(1) Includes acres converted from limited purpose to full purpose status.
(2) Through July 18, 2011.

Recent Annexation

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

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

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

2007 saw the conversion of Watersedge, Ribelin Ranch, and approximately one-half of Goodnight Ranch from limited purposes to full purposes. In addition, the final remaining portions of Avery Ranch, annexed for limited purposes in 2000, were converted to full purposes. Several planned residential subdivisions in the ETJ were annexed. In total, 2,466 full purpose acres and $22 million in TAV were annexed in 2007.

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

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

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

Future Annexation

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

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

Pension Plans

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

The Police Officers contribute 13.0% and the City contributes 20.63% of payroll as of October 1, 2011. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 16.2% of payroll, and the City contributes 20.05% as of October 1, 2011.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2010, the amortization period of the unfunded actuarial accrued liability for the Police Officer's Fund was 23.2 years, for the Firefighters Fund it was 20.5 years and for the Municipal Employees Fund it was infinite.

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

As reported in the actuarial valuation of the Municipal Employees Fund prepared for the period ending December 31, 2010, 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. In 2005, a Supplemental Funding Plan ("SFP") was approved that increased the City's annual contribution rate to a maximum of 12%, but even this additional funding was not sufficient to restore the long-term financial health of the Municipal Employees Fund. In FY 2011, City Council approved an amendment to the SFP that increased the City contributions by 2% annually, with a maximum rate of 18% of pay to be contributed by 2013. The City contributed an additional 6% in FY 2011 and will contribute an additional 8% in FY 2012 pursuant to the terms of the SFP. In addition, a new benefit tier for new employees hired on or after January 1, 2012, has been approved by the Municipal Employees Fund Board of Trustees, the City Council and the Texas Legislature. The new benefit tier increases the age and service criteria necessary to reach retirement eligibility. It also decreases the pension multiplier, which is used to determine the final pension amount paid to future retirees. These two actions are expected to substantially improve the long-term financial health of the Municipal Employees Fund over time.

See Note 8 to the City's Financial Statements for additional information on the City's 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 3,118 retirees was $21.7 million in 2010 and $19.6 million in 2009 for 3,115 retirees.

As of September 30, 2010, the City's unfunded actuarial accrued liability is approximately $1.1 billion; the net OPEB obligation is $270.1 million. The City has worked with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to assess the effect these would have on reducing retiree benefits or developing other cost-sharing strategies. Cost reduction strategies have also been implemented.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to 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 $7.5 million for claims and damages at the end of fiscal year 2010. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

INVESTMENTS

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

Legal Investments

Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (11) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange

Commission (the "SEC") that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; (12) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below. The City also is authorized by the PFIA to invest its funds in certificates of deposit issued by one or more federally insured depository institutions, wherever located, in accordance with procedures set forth in the PFIA.

A political subdivision such as the City may enter into securities lending programs if (i) the 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; and (iv) the agreement to lend securities has a term of one year or less.

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

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

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

Investment Policies

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; that address the quality and capability of investment personnel; and that include procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of PFIA. 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 fund's 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 and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority of the City Council or the Chief Financial Officer of the City.

Additional Provisions

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

Current Investments

As of September 30, 2011, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	5%
U. S. Agencies	51%
Municipal Bonds	1%
Local Government Investment Pools	43%

The dollar weighted average maturity for the combined City investment portfolios is 419 days. The City prices the portfolios weekly utilizing a market pricing service.

TAX MATTERS

Tax Exemption

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

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

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

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

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

On September 12, 2011, President Obama submitted to Congress the "American Jobs Act of 2011" (the "American Jobs Act"), which, if enacted, could result in additional federal income tax being imposed on certain owners of tax-exempt obligations, including the Bonds, for tax years beginning on or after January 1, 2013. As proposed, the American Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest, to 28 percent irrespective of the actual marginal tax rate imposed on such taxpayers. The American Jobs Act or other proposed legislation, if enacted, could directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. The introduction or enactment of the American Jobs Act or other proposed legislation could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to the American Jobs Act or other pending or proposed tax legislation.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

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

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United

States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports - The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Systems of the general type included in the main text of the Official Statement within the numbered tables only and in APPENDIX B. The City will update and provide this information as of the end of each fiscal year within six months after the end of each fiscal year. The City will provide the updated information to the MSRB.

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

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

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

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

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

Compliance with Prior Undertakings - During the last five years, the City has compiled in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. On October 24, 2007, the City filed its audited financial statements for the fiscal year ended September 30, 2006, in accordance with the Rule. Prior to this date the City had filed unaudited financial statements, in accordance with the Rule, pursuant to its continuing disclosure agreements.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received ratings of "Aa2" by Moody's, "AA" by S&P and "AA-" by Fitch. An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the City nor its financial advisor, Public Financial Management, Inc. ("PFM"), will undertake any responsibility to notify bondholders of any such revisions or withdrawals of rating.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Parity Water/Wastewater Obligations, and the Previously Issued Separate Lien Obligations, equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Twentieth Supplement and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as APPENDIX E.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions "PLAN OF FINANCING", "SECURITY FOR THE BONDS" (except for the information under the subheading "Financial Guaranty Disclosure"), "DESCRIPTION OF THE BONDS" (except for the information under the subheading "Bondholders Remedies"), "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subheading "Compliance with Prior Undertakings"), "OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds", "OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION – Legal Opinions", and in "APPENDIX C", "APPENDIX D" and "APPENDIX E" to verify that the information relating to the Bonds, the Master Ordinance and the Twentieth Supplement contained under such captions and in APPENDIX C and APPENDIX D in all respects accurately and fairly reflect the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds occurring. The opinion of Bond Counsel will accompany the global certificates deposited with DTC in connection with the use of the Book-Entry-Only System. Certain legal matters will be passed on for the Underwriters by their counsel, Vinson & Elkins L.L.P. The fee to be paid to the counsel for the Underwriters is contingent on the delivery of the Bonds.

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

Financial Advisor

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

Independent Auditors

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

The financial statements of the City included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, to the extent and for the period indicated in their report.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a price equal to the initial offering prices to the public, as shown on the inside cover page of this Official Statement, less an underwriting discount of $1,065,802.29. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Bonds that Incapital sells.

Forward-Looking Statements

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials.

Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Verification of Arithmetical and Mathematical Calculations

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

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

Miscellaneous Information

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

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

/s/ Lee Leffingwell
Mayor
City of Austin, Texas

ATTEST:

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

General Information

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

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

Austin is nationally recognized as a great place to live due in part to its diverse and eclectic population, as well as its promotion of a year-round outdoor active lifestyle. Austin offers a wide variety of entertainment, with music as a special element. Known as the "Live Music Capital of the World", Austin has more than 120 live music venues and is host to the annual South by Southwest and Austin City Limits music festivals.

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

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

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

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

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

Recent Economic Performance

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

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

The Texas economy outperformed the U.S. economy during 2010. According to the *Monthly Review of the Texas Economy* report for June 2011 published by The Real Estate Center at Texas A&M University, the U.S. employment growth rate was 0.7 percent from May 2010 to May 2011, while Texas experienced 1.9 percent employment growth during the same period. The same report indicates the annual employment growth rate for the Austin-Round Rock metropolitan area from May 2010 to May 2011 as sixth in the State of Texas at 1.8 percent. According to the Bureau of Labor Statistics, Texas experienced no change in the unemployment rate during the same time period, at 7.9 percent, while the U.S. rate in May was 8.7 percent, a decrease from 9.3 percent in May 2010. The *Southwest Economy*, published by the Federal Reserve Bank of Dallas, attributes the performance of the Texas economy compared to the rest of the nation to Texas' business friendly environment which helped keep alive firms that might have succumbed to the recession elsewhere, a slower than the national average in state spending, high energy prices and Texas' reliance on sales taxes rather than income taxes. *Southwest Economy* states that income is impacted greater than consumption during economic downturns because people try to maintain their living standards while enduring temporary wage cuts or unemployment spells. So income tax revenue tends to fall further that sales tax revenue during recessions, leaving income-tax-reliant states facing deeper shortfalls.

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

Home sales are an important indicator of the local and national economy. Data compiled by the Real Estate Research Center at Texas A&M shows Austin Home sales declined 4.2 percent in 2010 with an ending inventory of 6.6 months compared to a 7 percent decline in 2009, with ending inventory of 5.4 months. Texas sales also showed improvement during 2010. Annual home sales declined 4.6 percent in 2010 with an ending inventory of 7.4 months compared to a 7 percent decline in 2009 with an ending inventory of 6.3 months. National sales of existing homes experienced a 4.9 percent annual sales loss during 2010. Sales during 2008 experienced the lowest sales volume since 1997 with a decline of 13.1 percent from 2007 sales volume. The total nationwide housing inventory at the end of 2010 was a 9.4 month supply compared to a 7.2 month supply in 2009.

Economic Outlook
The U.S. economy continued to suffer from significant job losses in 2010, with unemployment at 9.6 percent. The Federal Reserve has predicted that the pace of recovery will be slow in 2011 and will gain momentum in 2012. One of the region's leading economists, Angelos Angelou stated in his 2010-2011 Economic Address that the significant job losses realized during 2009 could take 6 – 8 years to recoup. The Texas economy, the world's 11th largest economy, supported by sector-diversity in Houston, Dallas-Ft. Worth, San Antonio and Austin, continued to outperform the U.S. economy in 2010.

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

Long-term Financial Planning
A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a planning tool in developing the following year's operating budget. The City's budget approach emphasizes fiscal responsibility by limiting spending in a given year to projected revenue collections. 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 reaffirmed Austin's "AAA" long-term rating for the City's 2011 public improvement bonds offered to sale this past August. Standard and Poor's upgraded the Austin Water Utility's bond rating two levels from "A+" to "AA" in December 2008.

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

Austin includes several enterprise activities, including a municipally-owned electric utility, water/wastewater utility, airport, and other miscellaneous operations. The City's largest enterprise department, Austin Energy, serves more than 400,000 customers with a service territory of approximately 437 square miles and an approved budget for Fiscal Year 2011-12 of $1.14 billion in annual revenue and $1.21 billion in requirements. The FY2011-12 Budget supports Austin Energy's efforts to face its challenges and continue to deliver clean, affordable, reliable energy and excellent customer service. Austin Energy has continued efforts to manage costs in order to keep rates affordable and mitigate budget shortfalls. Cost controls alone have not been sufficient to achieve structural balance of the Austin Energy budget, indicating the need for a rate review. Austin Energy's customers have benefited from seventeen years of stable electric rates with base electric rates (excludes fuel) unchanged since 1994. A rate review is currently underway. The FY2011-12 Budget does not include additional revenue from this planned rate increase as the final analysis, rate design and revenue estimates are still being developed. A rate structure will be developed that keeps rates affordable and Austin Energy financially sound. Austin Energy's capital improvement spending plan of $220.4 million includes significant projects such as the System Control Center, Holly Power Plan decommissioning, Customer Information Billing System replacement, new substations (Mueller, Dunlap, Elroy) and various generation unit improvements.

The City's enterprise activities also include the Austin Water Utility, which provides water and wastewater services to more than 212,000 customers within Austin and surrounding areas. Revenue from the sale of water, wastewater, and reclaimed water service, along with other revenue, is projected at $463.4 million in FY 2011-12. Total requirements for operations and maintenance, debt service, and transfers are proposed at $465.9 million. The Water and Wastewater minimum charge and volumetric service rates effective November 1, 2011, reflect a 5.1% increase over the rates charged in the prior year and a new Water Revenue Stability Fee that reduces service revenue volatility and improves stabilization of Utility finances. Including the new Revenue Stability Fee, the water and wastewater service rates reflect a 9.2% increase over the rates charged in the prior year. A major cost driver for the Austin Water utility is required capital improvements to replace aging infrastructure, capacity improvements, and service extensions. The Austin Water Utility's proposed spending in the capital improvements budget is $287.8 million in FY2011-12. Total operating requirements do not include any additional positions and the utility's contractual and commodity budgets were targeted at 2010 levels in order to keep the rate increase to a minimum.

Other enterprise funds and their FY 2011-12 budgets include Aviation ($110.8 million), Convention Center ($56.9 million), and Solid Waste Services ($84.5 million).

Major Initiatives

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

Austin's City Council began defining its policy priorities in the early 1990s. Adopted in April 2007 and amended in 2009, the Council established the following priorities:

- Rich Social and Cultural Community
- Vibrant Urban Fabric
- Healthy, Safe, and Family-Friendly City
- Sustainable Economic Development and Financial Health

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

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

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

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

<u>Affordable Housing.</u> The Rental Housing Development Assistance (RHDA) program provides funding for nonprofit and for-profit developers to acquire, rehabilitate, or construct affordable rental housing for low-income households. On

November 7, 2006, Austin voters approved $55 million in General Obligation Bonds to be issued for the development and retention of affordable housing, $33 million of which is expected to be used in the RHDA Program. The program exceeded its annual goal in Fiscal Year 2009-2010 by 12 percent. A major factor in exceeding the goal included the preservation of 130 project-based Section 8 units using Private Activity Bonds and General Obligation Bond funding. Accomplishments include completion of 262 units expending $19.7 million in GO Bond funding and $1.8 million in grant and other funding sources.

CityWorks Academy. In December of 2009, 28 Austin residents graduated in the inaugural class of CityWorks Academy, a 10-week program created with the idea of providing Austin residents a unique opportunity to learn about the City's governmental processes, its procedures, the services it provides, and the people who deliver those services. The program has proven to be a huge success. The city received approximately 200 applications from residents interested in participating in a second session. Thirty-two Austinites, representing a cross-section of the community, were chosen for the second CityWorks Academy that began September 7, 2010. The City plans to offer the academy each year in the fall.

American Recovery and Reinvestment Act (ARRA)

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

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

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

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

Financial Policies

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

Internal Controls

City management is responsible for establishing, implementing, and maintaining a framework of internal controls designed to ensure that City assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with 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 2010 CAFR, the City continues to meet its responsibility for sound financial management.

Cash Management
The City's investment policy is to minimize credit and market risk while maintaining a competitive portfolio yield. Cash balances of all City funds are invested in consideration of five factors: safety, term, liquidity, market exposure, and rate of return. Cash balances of most funds, except for debt service and other legally restricted funds, are pooled for investment purposes. The City's investments are made in accordance with the Texas Public Funds Investment Act and the City of Austin Investment Policy. During 2010, 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

	2007		2008		2009		2010		June 2011	
Industrial Classification		% of Total		% of Total		% of Total		% of Total		% of Total
Manufacturing	60,600	7.9%	55,000	7.0%	49,500	6.5%	47,300	6.2%	48,500	6.2%
Government	158,400	20.8%	163,700	21.0%	167,900	22.1%	170,500	22.2%	171,200	21.9%
Trade, transportation & utilities	159,800	21.0%	163,700	21.0%	152,500	20.1%	134,200	17.5%	137,900	17.6%
Services and miscellaneous	290,100	38.0%	300,500	38.5%	304,000	40.0%	333,200	43.5%	341,700	43.7%
Finance, insurance and real estate	45,200	5.9%	47,200	6.0%	43,900	5.8%	42,300	5.5%	43,300	5.5%
Natural resources, mining & construction	49,200	6.4%	50,800	6.5%	42,000	5.5%	39,000	5.1%	39,600	5.1%
Total	763,300	100.0%	780,900	100.0%	759,800	100.0%	766,500	100.00%	782,200	100.00%

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

Source: Texas Labor Market Review, July 2011, Texas Workforce Commission.

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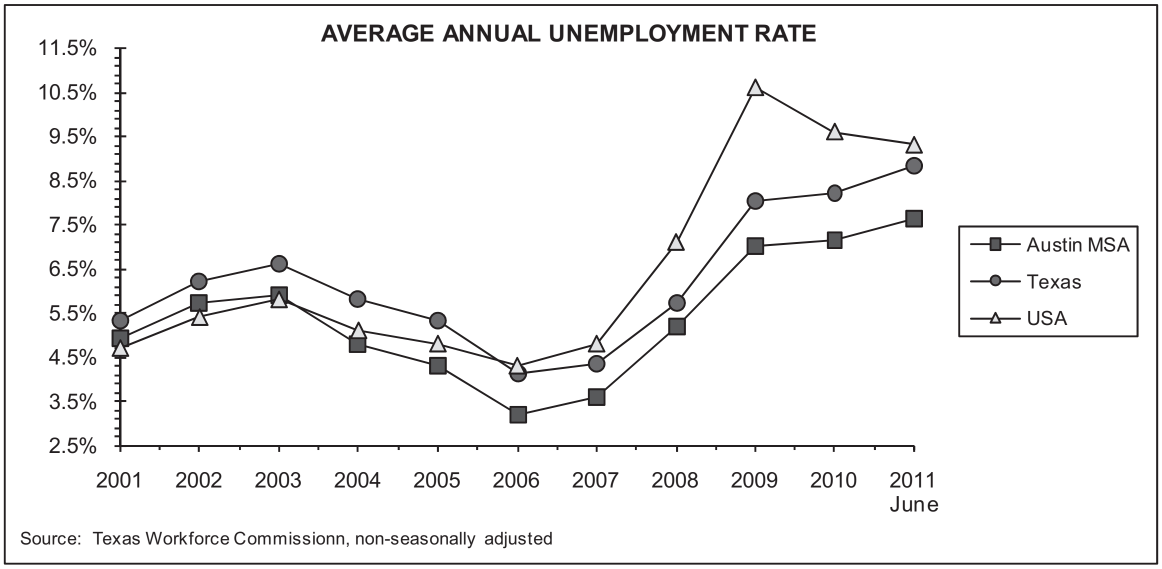
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008	5.2%	5.7%	7.1%
2009	7.0%	8.0%	10.6%
2010	7.1%	8.2%	9.6%
2011 June	7.6%	8.8%	9.3%

Note: Information is updated periodically, data contained herein is latest provided.
Source: Texas Labor Market Review, July 2011, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-07	$11.422	1-1-08	$11.639	1-1-09	$10.864	1-1-10	$10.215	1-1-11	$11.492
2-1-07	16.371	2-1-08	16.569	2-1-09	14.289	2-1-10	15.921*	2-1-11	16.149
3-1-07	11.080	3-1-08	12.109	3-1-09	10.528	3-1-10	10.736	3-1-11	11.117
4-1-07	11.414	4-1-08	11.355	4-1-09	9.724	4-1-10	10.290	4-1-11	10.311
5-1-07	14.611	5-1-08	13.882	5-1-09	12.612	5-1-10	14.145	5-1-11	14.022
6-1-07	11.748	6-1-08	12.185	6-1-09	11.213	6-1-10	11.533	6-1-11	11.941
7-1-07	12.011	7-1-08	12.129	7-1-09	10.752	7-1-10	11.569	7-1-11	11.927
8-1-07	14.101	8-1-08	14.486	8-1-09	13.495	8-1-10	12.799		
9-1-07	11.883	9-1-08	12.349	9-1-09	10.673	9-1-10	11.427		
10-1-07	12.257	10-1-08	11.781	10-1-09	11.037	10-1-10	11.562		
11-1-07	14.774	11-1-08	13.595	11-1-09	12.419	11-1-10	13.347		
12-1-07	12.365	12-1-08	12.190	12-1-09	11.165	12-1-10	11.216		

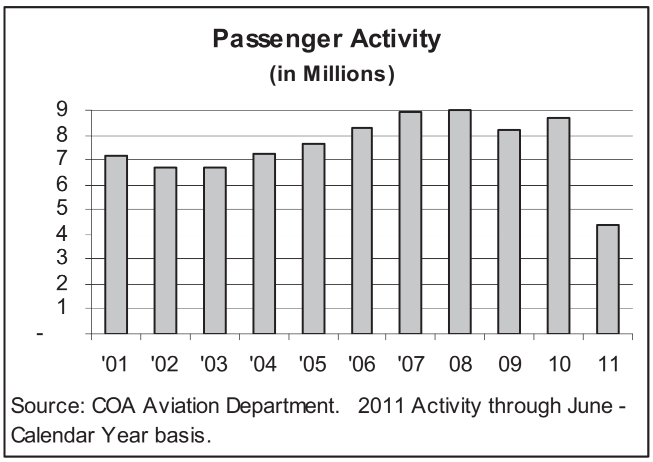
*Includes a $1.5 million one-time sales tax correction.
Source: City of Austin, Budget Office.

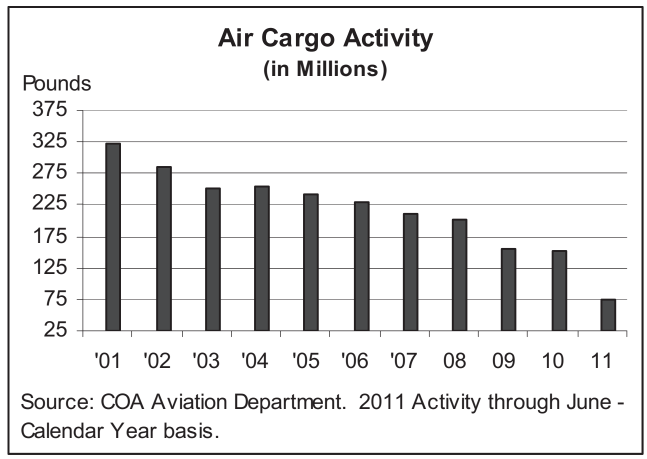
Ten Largest Employers (As of September 30, 2010)

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

Source: 2010 Comprehensive Annual Financial Report.

Transportation





Austin-Bergstrom International Airport

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

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

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

Wealth Indicators

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

Demographic and Economic Statistics - Last Ten Years

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

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

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

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

(3) Source: Claritas, a Nielson Company.

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

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

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Connections and Permits

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

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

Housing Units

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

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
2002	18,716	$3,695,947,381	$197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,047	6,910,684,916	246,397
2008	22,438	5,470,241,896	243,783
2009	20,747	4,924,240,373	237,347
2010	19,872	4,906,445,110	246,792
2011 June	10,224	2,603,773,781	252,183

Note: Information is updated periodically, data contained herein is latest provided.

Source: Real Estate Center at Texas A&M University.

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
2002	77.1%
2003	76.7%
2004	80.8%
2005	84.2%
2006	87.5%
2007	85.6%
2008	80.6%
2009	77.7%
2010	80.0%
2011 (2nd Qtr)	80.9%

Source: Oxford Commercial.

Education

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

School Year	Average Daily Membership	Average Daily Attendance
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,063	74,212
2007/08	82,739	74,622
2008/09	83,730	75,606
2009/10	84,996	76,658
2010/11	85,929	80,198

Source: Austin Independent School District.

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

The University of Texas at Austin has total enrollment of 51,195 for the fall semester of 2010 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. There are more than 257 hotels available within the Austin Metropolitan Area and year to date occupancy through June 2011 is 68.8%.

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

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APPENDIX B

AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Deloitte & Touche LLP

March 30, 2011

The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 53, and No. 55 through No. 58.

FINANCIAL HIGHLIGHTS

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

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

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

Total revenues for the City decreased $75.9 million; revenues for governmental activities decreased $2.8 million; revenues for business-type activities decreased $73.1 million. Total expenses for the City decreased $2.3 million; expenses for governmental activities increased $15.3 million; expenses for business-type activities decreased $17.6 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

b -- Fund financial statements

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

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

c -- Notes to the financial statements

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

d -- Other information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

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

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

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

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

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

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

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.5 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $3.5 billion, or 79% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $573.9 million of the City's net assets, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, $345.3 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased $93.0 million in the current fiscal year. A significant portion of the decrease in unrestricted net assets is due to the recognition of $95.0 million in other post employment benefit expense in accordance with GASB Statement No. 45.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for business-type activities; however unrestricted net assets for governmental activities are a deficit of $58.0 million.

b -- Changes in net assets

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

Changes in Net Assets
September 30
(in thousands)

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

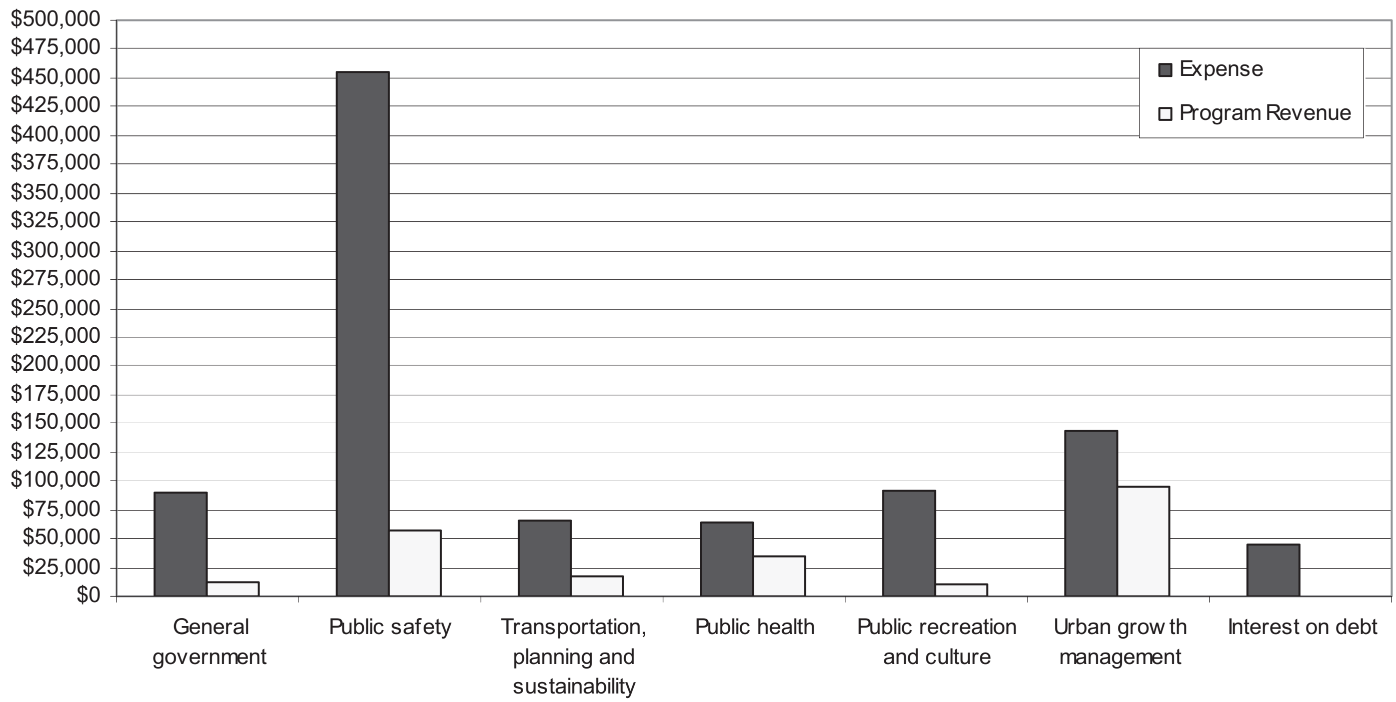
<u>FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued</u>

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

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

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

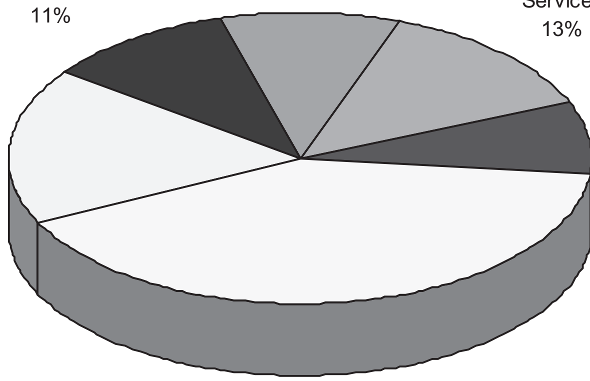
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



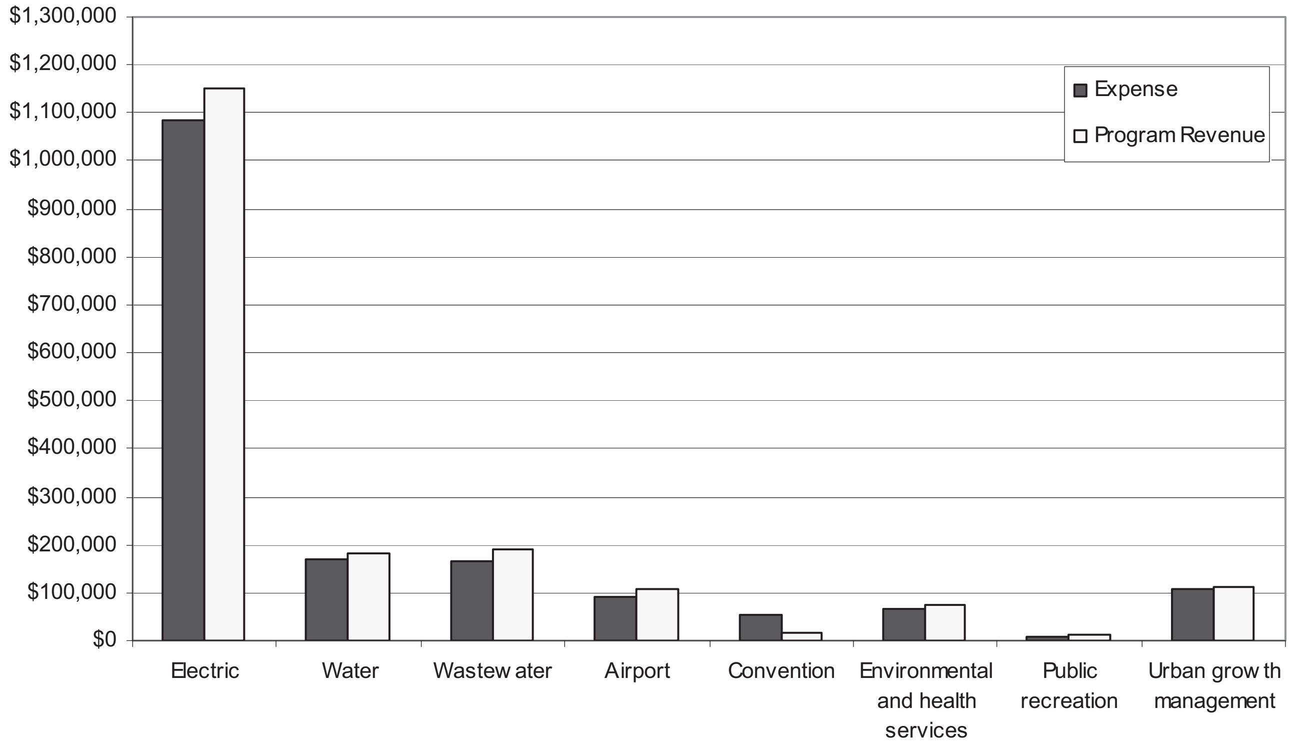
d -- Program revenues and expenses -- business-type activities
Business-type activities increased the City's net assets by approximately $14 million, accounting for a 0.3% increase in the City's total net assets. Key factors include:

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

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

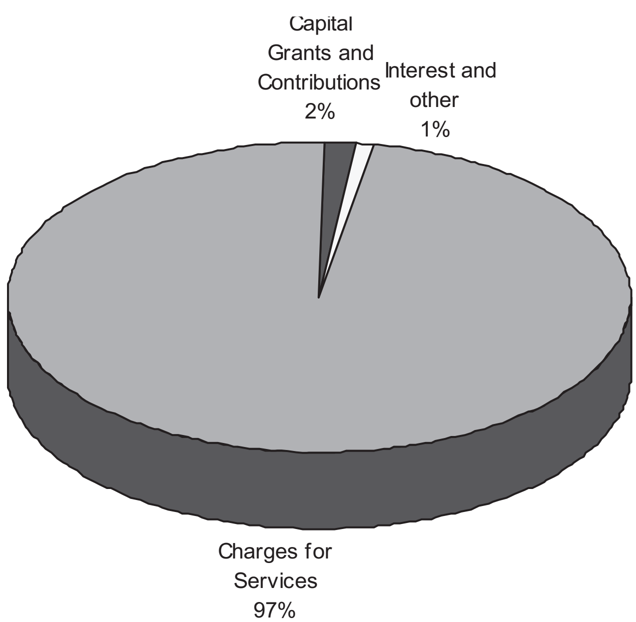
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



For all business-type activities, charges for services provide the largest percentage of revenues (97%), followed by capital grants and contributions (2%), and interest and other revenues (1%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

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

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $370.4 million, a decrease of $81.5 million from the previous year. Approximately $191.5 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale, legally restricted permanent fund resources, and certain debt service amounts. Reserved fund balance increased $40.3 million in comparison to the prior year, primarily due to an increase in the reservation for encumbrances of $37.0 million in capital projects funds authorized in 2006.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $104.6 million, while total fund balance was $108.7 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 17.6% of total General Fund expenditures of $595.6 million, and total fund balance represents 18.3% of expenditures. The City's financial policies provide that surplus fund balance be designated for budget stabilization. This amount is a component of unreserved fund balance. The fund balance designated for budget stabilization was $58.6 million. The balance designated for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total designated amount, with the other two-thirds designated for budget stabilization in future years.

The General Fund fund balance increased $16.5 million during the fiscal year, while unreserved fund balance increased $16.9 million. Significant differences from the previous year include:

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

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

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

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

OTHER INFORMATION

a -- General Fund budgetary highlights

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

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

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

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2010, total $8.9 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, nuclear fuel, plant held for future use, and water rights. The total increase in the City's capital assets for the current fiscal year was $307 million (3.6%), with an increase of 3.0% for governmental activities and an increase of 3.8% for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Land and improvements	$ 332	324	464	449	796	773
Other assets not depreciated	20	20	1	1	21	21
Building and improvements	442	450	1,363	1,392	1,805	1,842
Equipment	64	73	3,867	3,555	3,931	3,628
Vehicles	35	36	63	58	98	94
Infrastructure	1,237	1,255	--	--	1,237	1,255
Construction in progress	242	145	667	747	909	892
Nuclear fuel, net of amortization	--	--	34	33	34	33
Plant held for future use	--	--	28	28	28	28
Water rights, net of amortization	--	--	89	75	89	75
Total net capital assets	$ 2,372	2,303	6,576	6,338	8,948	8,641

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

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

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported $5.0 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 10.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds and other tax supported debt, net	$ 900	953	125	131	1,025	1,084
Commercial paper notes, net	--	--	300	340	300	340
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,643	3,443	3,643	3,443
Capital lease obligations	1	--	2	2	3	2
Total	$ 901	953	4,097	3,944	4,998	4,897

During fiscal year 2010, the City's total outstanding debt increased by $101 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities decreased $52 million due to debt service payments made during the year.
- Outstanding debt for business-type functions increased $153 million. The City issued $220.3 million of Electric Utility System separate lien revenue refunding bonds and $166.6 million of Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper ($316 million) and existing debt ($74 million).

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

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2010	2009	2010	2009	2010	2009
General obligation bonds and other tax supported debt	Aaa	Aa1	AAA	AAA	AAA	AA+
Commercial paper notes	P-1	P-1	A-1+	A-1+	F1+	F1+
Commercial paper notes - taxable	P-1	P-1	A-1+	A-1+	F1+	F1+
Utility revenue bonds - prior lien	A1	A1	AA	AA	AA-	AA-
Utility revenue bonds - subordinate lien	A1	A1	AA	AA	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa2	Aa3	AA	AA	AA-	AA-
Airport system revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Airport variable rate bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Convention Center revenue bonds	A2	A2	A-	A-	NUR(1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

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

The local economy experienced signs of recovery in 2010; a key indicator being an increase in sales tax revenues of 3.5 percent, compared to a 9.5 percent decline in the previous year. Austin's diverse economic base and national reputation as a great place to live continues to attract talented individuals and new employment opportunities. The Austin metro area ranked highest in employment growth of the five major metro areas in Texas, which includes Dallas-Fort Worth, Houston, San Antonio, El Paso, and Austin, and experienced the third highest growth rate in the state, gaining nearly 8,200 jobs in 2010.

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

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

e -- Requests for Information

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

BASIC FINANCIAL STATEMENTS

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(In thousands)

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

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

(Continued)

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

(In thousands)

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

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

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

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

City of Austin, Texas
Exhibit A-2

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

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

(In thousands)

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

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

(In thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the year ended September 30, 2010
(In thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

(In thousands)

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 53, and No. 55 through No. 58. In fiscal year 2010, the City implemented GASB Statement No. 51 entitled "*Accounting and Financial Reporting for Intangible Assets*" (see Note 2 for impact), GASB Statement No. 53 entitled "*Accounting and Financial Reporting for Derivative Instruments*" (see Note 14 for impact), GASB Statement No. 57 entitled "*OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*", and GASB Statement No. 58 entitled "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*". Implementation of the GASB Statement No. 57 and No. 58 did not have a significant impact on the City's financial statements. The more significant accounting and reporting policies and practices used by the City are described below.

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

a -- Reporting Entity

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

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

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

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

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

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

- Travis County Hospital District - City Councilmembers appoint four board managers, Travis County appoints four board managers, and the City and County mutually appoint one board manager. Travis County reports the Hospital District as a component unit on their financial statements.

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

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

b -- Government-wide and Fund Financial Statements

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

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

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GASB Statement No. 34; the City has elected to present the Airport Fund as a major fund even though it does not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into nonmajor governmental, nonmajor enterprise, or internal service fund groupings.

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

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

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

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

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

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

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

The City reports the following major governmental fund:

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

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

> Special Revenue Funds: Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, including grant funds.
>
> Debt Service Funds: Account for the accumulation of resources for, and the payment of, general long-term debt and HUD Section 108 loan principal, interest, and related costs.
>
> Capital Projects Funds: Account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds); they are funded primarily by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.
>
> Permanent Funds: Account for resources that are legally restricted to the extent that only earnings (not principal) may be used for purposes that support the City's programs. Permanent funds account for the public recreation and culture activity.

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

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

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

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. In accordance with GASB Statement No. 20, the City applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The City reports the following major enterprise funds:

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

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

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

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

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

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

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

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

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

d -- Budget

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

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

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

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

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

e -- Financial Statement Elements

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

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

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2010 (in thousands):

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest is not capitalized on governmental capital assets. Enterprise funds, with the exception of the Electric Fund and Water and Wastewater Fund, capitalize interest paid on long-term debt when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project. Interest is not capitalized on Electric Fund and Water and Wastewater Fund assets in accordance with accounting for regulated operations.

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

		Business-type Activities			
Assets	**Governmental Activities (1)**	**Electric**	**Water and Wastewater**	**Airport**	**Nonmajor Enterprise**
Buildings	5-40	15-50	15-50	15-40	12-40
Plant and equipment	5-50	6-40	5-60	4-50	5-40
Vehicles	3-20	3-40	3-20	3-20	3-30
Communication equipment	7-15	7-18	7	7	7
Furniture and fixtures	7-12	12-40	12	10-12	7-12
Computers and EDP equipment	3-7	3-7	3-7	3-7	3-7
Water rights	--	--	101	--	--
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds

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

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include a fuel cost adjustment clause that permits recovery of fuel costs in the month incurred or in future months. The City reports fuel costs on the same basis as it recognizes revenue. Unbilled revenue is recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2010. The amount of unbilled revenue recorded, as of September 30, 2010, for the Electric Fund was $40.4 million. The Water and Wastewater Fund records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2010. The amount of unbilled revenue recorded as of September 30, 2010 was $11.2 million for water and $10.7 million for wastewater.

Interfund Revenues, Expenses, and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds. In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred in the Support Services Fund, which is reported as an internal service fund. Indirect costs are calculated in a citywide cost allocation plan or through indirect cost rates, which are based on the cost allocation plan.

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

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

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

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

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

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

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

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

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

The City does not participate in a risk pool but purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bonds, airport operations, and contractors working at selected capital improvement project sites. It complies with GASB Statement No. 10, *"Accounting and Reporting for Risk Financing and Related Insurance Issues"* (see Note 15).

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

f -- Comparative Data

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

g -- Use of Estimates

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

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

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

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

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

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

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

4 – POOLED INVESTMENTS AND CASH

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

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

5 – INVESTMENTS AND DEPOSITS
a -- Investments

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

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

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

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

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
4. Obligations of other states, cities, counties or other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;
5. Bankers’ acceptances so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, is eligible collateral for borrowing from a Federal Reserve Bank and is accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated;
6. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that is either rated not less than A-1, P-1 or the equivalent by at least two nationally recognized credit rating agencies or is rated at least A-1, P-1 or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;

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

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

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

The City invests in TexPool, TexasDAILY, and TexStar to provide its liquidity needs. TexPool, TexasDAILY, and TexStar are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool, TexasDAILY, and TexStar are 2(a)7-like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool, TexasDAILY, and TexStar are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2010, TexPool, TexasDAILY, and TexStar had a weighted average maturity of 30 days, 52 days and 46 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2010.

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

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2010 (in thousands):

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

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

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

b -- Investment categories

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

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

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

<u>**Operating Funds**</u>
As of September 30, 2010, the City operating funds had the following investments:

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

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

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

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

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

At September 30, 2010, less than half of the Investment Pool was invested in AAAm rated LGIPS (2(a) 7-like pools), with the remainder invested in short-to-medium term US Agency obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity of all securities was 296 days, which was less than the threshold of 365 days.

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

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

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

(1) Includes combined pledge debt service

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

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

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

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

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

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

Special Purpose Funds
Austin Energy Strategic Reserve Fund
As of September 30, 2010, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (days)
Local Government Investment Pools	$ 32,231	1
US Treasury Notes	32,719	1,030
US Agency Bonds	71,747	1,002
US Agency Bonds-Step	4,998	990
Total	$ 141,695	773

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

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

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

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

At September 30, 2010, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 773 days (2.12 years).

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

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

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

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

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Nuclear Decommissioning Trust Funds portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2010, the dollar weighted average maturity was 2.52 years.

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

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

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

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

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

c -- Investments and Deposits

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

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

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

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

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

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2010.

6 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2009, upon which the 2010 levy was based, was $80,960,540,976.

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

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

6 – PROPERTY TAXES, continued

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

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2010, was $.2950 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7050 per $100 assessed valuation, and could levy approximately $570,771,814 in additional taxes from the assessed valuation of $80,960,540,976 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

The City has recorded capitalized interest for fiscal year 2010 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

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

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

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

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

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

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

(2) Components of accumulated depreciation increases:

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

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

Current year amortization - Water	$ 988

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

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

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

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 19,154

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

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

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

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

(2) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

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

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

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

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

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

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

Current year amortization - Water	$ 988

8 – RETIREMENT PLANS
a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are Citywide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2009. Membership in the plans at December 31, 2009, is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	5,061	534	539	6,134
Current employees	8,142	1,651	1,025	10,818
Total	13,203	2,185	1,564	16,952

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

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

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

b -- Funding Policy

	City of Austin Employees' Retirement And Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	13.0%	15.7%
City's contribution (percent of earnings)	12% (1)	18.63% (2)	18.05% (3)

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

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

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

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

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

The City's annual pension cost of $109,226,000 for fiscal year ended September 30, 2010, was $21,850,000 more than the City's actual contributions. Three-year trend information is as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):				
2008	$ 56,848	19,872	14,835	91,555
2009	59,067	19,909	10,102	89,078
2010	78,559	20,609	10,058	109,226
Percentage of APC contributed:				
2008	65%	100%	87%	N/A
2009	69%	97%	135%	N/A
2010	69%	112%	133%	N/A
Net Pension Obligation (Asset):				
2008	$ 63,740	--	3,709	67,449
2009	82,146	646	218	83,010
2010	106,376	(1,799)	(3,144)	101,433

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

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

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

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

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

d -- Schedule of funding progress

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

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

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

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

9 – SELECTED REVENUES
a -- Major enterprise funds

Electric and Water and Wastewater

The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 9, 2006, the PUC approved the City's most recent wholesale transmission rate of $1.002466/kW. Transmission revenues totaled approximately $60.7 million in 2010. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations and a debt service coverage approach.

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

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

Airport

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

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

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

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

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

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

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

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

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

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2010 (in thousands):

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

a -- Long-Term Liabilities, continued

Business-type activities (continued):

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

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

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

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2010, including those reported in certain proprietary funds (in thousands):

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

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Includes Water and Wastewater principal ($13,806) and interest ($4,726) and Drainage principal ($4,321) and interest ($1,822).
(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

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

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

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

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

c -- Business-Type Activities Long-Term Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2010, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

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

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

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

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

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the “taxable notes”) in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City’s electric system and the City’s water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2010, were P-1 (Moody’s Investor Services, Inc.), A-1+ (Standard & Poor’s), and F1+ (Fitch).

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

At September 30, 2010, the Electric Fund had outstanding taxable commercial paper notes of $33,568,000 (net of discount of $28,266), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 0.33% to 0.43%. The City intends to refinance maturing commercial paper notes by issuing long-term debt. The notes have the following terms:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Airport -- Revenue Bonds - The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2010, the total airport system obligation for prior lien bonds is $308,530,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $110,255,210 at September 30, 2010. Revenue bonds authorized and unissued amount to $735,795,000.

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

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2010 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2003 Refunding	December 2003	$ 54,250	48,680	14,513 (1)	4.00 - 5.25%	11/15/2010-2018
2008 Remarketing	April 2008	281,300	259,850	95,742 (2)	0.18 - 0.50%	11/15/2010-2025
			$ 308,530			

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

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

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

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

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

Airport Debt -- Variable Rate Revenue Notes - The City is authorized by ordinance to issue airport system variable rate revenue notes. At September 30, 2010, the airport system had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $10,935,526 including accrued interest, at September 30, 2010, and was restricted within the airport system. During fiscal year 2010, interest rates on the notes ranged from 0.16% to 0.33%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the airport system.

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

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

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

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

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

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

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

Nonmajor fund:

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

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

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

Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2010, the total convention center obligation for prior and subordinate lien bonds is $224,015,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $89,903,235 at September 30, 2010. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2010.

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

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2010 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1999A	June 1999	$ 25,000	21,450	13,707 (1)	5.05 - 5.50%	11/15/2010-2029
2004 Refunding	February 2004	52,715	43,890	11,831 (1)	3.00 - 5.00%	11/15/2010-2019
2005 Refunding	May 2005	36,720	36,720	21,796 (1)	3.30 - 5.00%	11/15/2011-2029
2008AB Refunding	August 2008	125,280	121,955	42,570 (2)	0.15% - 0.55%	11/15/2010-2029
			$ 224,015			

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

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

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

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

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

Governmental Activities
(in thousands)

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

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

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

Electric Business-Type Activities
(in thousands)

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

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

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

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

Water and Wastewater Business-Type Activities
(in thousands)

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

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

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1.
(2) Portions of these bonds are variable rate bonds with rates of 0.16% to 0.45%.
(3) The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1. This schedule reflects the debt schedules as of September 30, 2010.

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

Airport Business-Type Activities
(in thousands)

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

Fiscal Year Ended September 30	Capital Lease Obligations		Total Airport Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2011	331	4	13,874	13,606	27,480
2012	--	--	14,195	13,024	27,219
2013	--	--	14,834	12,456	27,290
2014	--	--	15,636	11,687	27,323
2015	--	--	16,372	11,029	27,401
2016-2020	--	--	126,548	40,504	167,052
2021-2025	--	--	110,903	15,159	126,062
2026-2030	--	--	24,750	206	24,956
	331	4	337,112	117,671	454,783
Less: Unamortized bond discounts	--	--	(841)	--	(841)
Unamortized gain(loss) on bond refundings	--	--	(14,418)	--	(14,418)
Add: Unamortized bond premiums	--	--	2,023	--	2,023
Net debt service requirements	$ 331	4	323,876	117,671	441,547

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

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

Nonmajor Business-Type Activities
(in thousands)

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

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

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

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

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

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2011	$ 2,216	893	2,319	1,803	10,628	1,570
2012	2,100	777	2,436	1,698	10,369	1,208
2013	2,352	672	1,936	1,587	9,280	863
2014	1,705	550	2,684	1,501	7,369	556
2015	1,654	465	2,131	1,382	5,542	334
2016-2020	7,149	1,084	11,024	5,597	6,315	293
2021-2025	494	25	11,861	2,441	--	--
2026-2030	--	--	2,245	940	--	--
2031-2035	--	--	1,405	543	--	--
2036-2040	--	--	1,420	173	--	--
	17,670	4,466	39,461	17,665	49,503	4,824
Less: Unamortized bond discounts	(62)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(2,547)	--	--	--	--	--
Add: Unamortized bond premiums	1,172	--	708	--	561	--
Net debt service requirements	16,233	4,466	40,169	17,665	50,064	4,824

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

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1.
(2) These are variable rate notes with rates ranging from 0.16% to 0.33%.

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

Business-Type Activities
(in thousands)

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

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

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

e -- Defeased Debt

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

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

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

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997, the City issued several series of bonds. The aggregate principal amount outstanding of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Subsequent to September 30, 1997, the City has issued $104 million in various series of housing revenue bonds that have an outstanding balance of $101.4 million as of September 30, 2010.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2010, $350.3 million in revenue and revenue refunding bonds was outstanding that had an original issue value of $382.2 million.

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

12 – INTERFUND BALANCES AND TRANSFERS

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

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

Interfund receivables, payables, and advances reflect loans between funds. Of the above current amount, $15.1 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $42.6 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund transfers during fiscal year 2010 were as follows (in thousands):

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

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

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2010. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – DERIVATIVE INSTRUMENTS

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

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

a -- Energy Risk Management Program

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

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

Hedging Derivative Instruments

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

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

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

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

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

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

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

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

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

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

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

Risks

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

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

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

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

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

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

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

Investment Derivative Instruments

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

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

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

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

<u>Risks</u>

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

b -- Variable Rate Debt Management Program

Hedging Derivative Instruments

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

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

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

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

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

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

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

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

Due to the continued decline in interest rates during fiscal year 2010, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2010. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received.

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

Risks

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

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

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

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

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

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

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

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

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

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

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

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

Investment Derivative Instruments

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

c -- Swap Payments and Associated Debt

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

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

15 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

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

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

Austin Energy's investment is financed with City funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was $209.9 million as of September 30, 2010. The increase in the pro-rata interest from 2009 is primarily due to the scrubbers. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies.

b -- South Texas Project

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

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

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

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

c -- South Texas Project Decommissioning

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

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

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

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

d -- Purchased Power

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

e -- Decommissioning and Environmental/Pollution Remediation Contingencies

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

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

f -- Texas Water Development Board

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

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

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

g -- Arbitrage Rebate Payable

The City's arbitrage consultant has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate the excess amounts to the federal government. The estimated amounts payable at September 30, 2010, was $139 thousand for governmental activities, $7 thousand for water and wastewater, and $19 thousand for other nonmajor enterprise activities.

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

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

i -- Capital Improvement Plan

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

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

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

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. Closure is expected to occur in May 2011. The amount of costs reported, based on landfill capacity as of the City's fiscal year-end, is as follows (in thousands):

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

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

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

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

Fund name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO or HMO for health coverage. Approximately 30% of city employees and 41% of retirees use the HMO option; approximately 70% of city employees and 59% of retirees use the PPO. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability, and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on the number of full-time equivalent (FTE) employees per fund.

The City purchases stop-loss insurance for the City's PPO and HMO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $2 million. In fiscal year 2010, six claims exceeded the stop-loss limit of $500,000; during fiscal year 2009, five claims exceeded the stop-loss limit of $500,000; during fiscal year 2008, no claims exceeded the stop-loss limit of $500,000. City coverage is limited to $2 million in lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

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

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from $33.4 to $47.5 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		**Liability Reserve**		**Workers' Compensation**	
	2010	2009	2010	2009	2010	2009
Liability balances, beginning of year	$ 9,260	4,796	6,965	7,848	14,052	13,818
Claims and changes in estimates	9,480	9,807	3,270	2,784	3,908	3,391
Claim payments	(8,182)	(5,343)	(2,659)	(3,667)	(2,659)	(3,157)
Liability balances, end of year	$ 10,558	9,260	7,576	6,965	15,301	14,052

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

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

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

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

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

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

m -- Other Commitments and Contingencies

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

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

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

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

16 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

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

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

	OPEB
Annual required contribution	$ 119,299
Interest on net OPEB obligation	7,374
Adjustment to annual required contribution	(9,969)
Annual OPEB cost	116,704
Contributions made	(21,707)
Change in net OPEB obligation	94,997
Beginning net OPEB obligation	175,151
Net OPEB obligation	$ 270,148

Schedule of Funding Progress (in thousands):

Year Ended September 30	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2010	$ --	1,134,864	1,134,864	0.0%	620,526	182.9%

(1) UAAL – Unfunded Actuarial Accrued Liability

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years are as follows (in thousands):

Year Ended September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 108,574	19%	87,507
2009	107,207	18%	175,150
2010	116,704	18%	270,148

16 – OTHER POST-EMPLOYMENT BENEFITS, continued

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

	OPEB
Actuarial Valuation Date	October 1, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization method	Level Percentage Open
Remaining Amortization Period	30 years
Inflation Rate	N/A
Salary Increase	None
Payroll Increase	None
Assumed Rate of Return on Investments	4.21%
Health Care Cost Trend Rate	10% in 2009, decreasing 1% per year for five years to an ultimate trend of 5% in 2014

17 – SUBSEQUENT EVENTS
a -- General Obligation Bond Issue

In October 2010, the City issued $79,528,000 of Public Improvement Bonds, Series 2010A. The proceeds from the issue will be used as follows: street improvements ($16,998,000), streets and signals ($15,800,000), drainage improvements ($24,000,000), park improvements ($20,130,000), cultural arts ($100,000), central library ($1,000,000), and public safety facility ($1,500,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 2.00% to 4.00%, are $37,170,378.

In October 2010, the City issued $26,400,000 of Public Improvement Bonds, Taxable Series 2010B. The proceeds from the issue will be used as follows: affordable housing ($26,400,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 3.00% to 4.65%, are $16,225,123.

In October 2010, the City issued $22,300,000 of Certificates of Obligation, Series 2010. The proceeds from this issue will be used as follows: public safety facilities ($3,850,000), solid waste services landfill closure ($8,100,000), public works transportation projects ($9,000,000), and improvements ($1,350,000). These certificates of obligation will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these certificates of obligation, at rates ranging from 2.00% to 3.50%, are $8,237,625.

In October 2010, the City issued $16,450,000 of Public Property Finance Contractual Obligations, Series 2010. The proceeds from this issue will be used as follows: solid waste services capital equipment ($8,600,000), parking meter pay stations ($2,600,000), golf capital equipment ($1,070,000), public works transportation capital equipment ($2,505,000), wastewater utility capital equipment ($1,016,000), and water utility capital equipment ($659,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2011 to 2017. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2011. Total interest requirements for these obligations, at rates ranging from 1.00% to 1.75%, are $897,315.

17 – SUBSEQUENT EVENTS, continued
b -- Public Improvement Refunding Bond Issue

In November 2010, the City issued $91,560,000 of Public Improvement Refunding Bonds, Series 2010. The net proceeds of $108,587,889 (after issue costs, discounts, and premiums) from the refunding were used to refund $41,500,000 of Public Improvement Bonds, Series 2002; $31,785,000 of Public Improvement Refunding Bonds, Series 2003; $20,010,000 of Certificates of Obligation, Series 2001 and 2002; $2,090,000 of Circle C MUD #3 and Circle C MUD #4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1996; $4,040,000 of Davenport Ranch MUD #1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1997 and Series 1997B; and $70,000 of Northwest Austin MUD #1Unlimited Tax Bonds, Series 2001. The refunding resulted in future interest requirements to service the debt of $40,480,158 with interest rates ranging from 4% to 5%. An economic gain of $9,426,174 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $11,427,089.

c -- Water and Wastewater System Revenue Bond Refunding Issue

In November 2010, the City issued $76,855,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010A. Proceeds from the bond refunding were used to refund $75,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are $153,171,897, with interest rates ranging from 4% to 5.125%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2013 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

In November 2010, the City issued $100,970,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010B. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. Proceeds from the bond refunding were used to refund $100,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are $213,428,131, with interest rates ranging from 2.494% to 6.018%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2013 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

d -- Texas Water Development Board

As of January 28, 2011, the City has converted an additional $9,130,000 of initial bonds to definitive Water and Wastewater System Revenue Bonds, Series 2010 over six separate draw requests. With these issuances, the outstanding commitment with the TWDB is now reduced to $11,845,000.

REQUIRED SUPPLEMENTARY INFORMATION

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General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2010
(In thousands)

	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 387,061	--	387,061	371,138	371,138	15,923
Franchise fees	34,964	--	34,964	34,082	34,082	882
Fines, forfeitures and penalties	18,692	(1)	18,691	18,999	18,999	(308)
Licenses, permits and inspections	15,716	--	15,716	18,028	18,028	(2,312)
Charges for services/goods	33,394	(84)	33,310	36,590	36,590	(3,280)
Interest and other	8,059	(1,191)	6,868	4,910	4,910	1,958
Total revenues	497,886	(1,276)	496,610	483,747	483,747	12,863
EXPENDITURES						
General government						
Municipal Court	11,768	(41)	11,727	11,954	11,954	227
Public safety						
Police	235,223	(1,403)	233,820	241,176	241,176	7,356
Fire	119,575	(831)	118,744	120,246	120,246	1,502
Emergency Medical Services	44,132	(30)	44,102	43,777	44,107	5
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	363	--	363	350	350	(13)
Public health:						
Health	37,464	172	37,636	38,974	38,974	1,338
Public recreation and culture						
Parks and Recreation	35,945	(140)	35,805	36,810	36,810	1,005
Austin Public Library	24,095	9	24,104	24,543	24,543	439
Urban growth management						
Neighborhood Planning and Zoning	17,588	(74)	17,514	19,604	19,604	2,090
Development Services and Watershed Protection	(53)	53	--	--	--	--
General city responsibilities (4)	69,456	(52,630)	16,826	16,760	16,760	(66)
Total expenditures	595,556	(54,915)	540,641	554,194	554,524	13,883
Excess (deficiency) of revenues over expenditures	(97,670)	53,639	(44,031)	(70,447)	(70,777)	26,746
OTHER FINANCING SOURCES (USES)						
Transfers in	130,233	1,182	131,415	131,167	131,167	248
Transfers out	(16,014)	(56,052)	(72,066)	(68,424)	(68,424)	(3,642)
Total other financing sources (uses)	114,219	(54,870)	59,349	62,743	62,743	(3,394)
Excess (deficiency) of revenues and other sources over expenditures and other uses	16,549	(1,231)	15,318	(7,704)	(8,034)	23,352
Fund balance at beginning of year	92,161	(7,560)	84,601	49,948	46,994	37,607
Fund balance at end of year	$ 108,710	(8,791)	99,919	42,244	38,960	60,959

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

1 – BUDGET BASIS REPORTING

a -- General

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

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement ($340,000), accrued payroll ($2,599,000), expenditures for workers' compensation ($5,006,746), liability reserve ($1,740,000), and public safety ($2,325,759).

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ 16,549
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(76)
Net compensated absences accrual	30
Outstanding encumbrances established in current year	(2,442)
Payments against prior year encumbrances	1,952
Other	(695)
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ 15,318

c -- Budget Amendments

The original expenditure budget of the General Fund was amended during fiscal year 2010 primarily for increased public safety costs. The original and final budget is presented in the accompanying financial statements.

RETIREMENT PLANS-TREND INFORMATION

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

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
2007	$1,653,500	2,112,800	459,300	78.3%	417,451	110.0%
2008	1,481,377	2,246,903	765,526	65.9%	448,740	170.6%
2009	1,672,470	2,330,937	658,467	71.8%	442,539	148.8%
Police Officers						
2007	482,303	637,560	155,257	75.6%	111,809	138.9%
2008	464,230	693,202	228,972	67.0%	122,735	186.6%
2009	518,112	733,635	215,523	70.6%	122,928	175.3%
Fire Fighters (2)						
2005	493,567	580,054	86,487	85.1%	65,885	131.3%
2007	584,420	586,802	2,382	99.6%	76,556	3.1%
2009	589,261	664,185	74,924	88.7%	78,980	94.9%

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

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

OTHER POST EMPLOYMENT BENEFITS-TREND INFORMATION

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

Fiscal Year Ended Sept. 30	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2008	October 1, 2006	$ --	1,035,766	1,035,766	0.0%	618,214	167.5%
2009	October 1, 2006	--	1,035,766	1,035,766	0.0%	629,822	164.5%
2010	October 1, 2008	--	1,134,864	1,134,864	0.0%	620,526	182.9%

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APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

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ORDINANCE NO. 0006008-56A

AN ORDINANCE providing for the issuance WATER AND WASTEWATER SYSTEM revenue obligations; making provision for the payment of such obligations from the revenues of the City's Water and Wastewater System; enacting provisions incident and related to the issuance, payment and security of such Obligations, including covenants and agreements relating to the operation and management of the Water and Wastewater System, the revenues derived from its operation and ownership, the establishment and maintenance of funds and accounts for the payment of such obligations, specifying the terms and conditions for the issuance of parity revenue obligations and other matters incident and related to their issuance and security; suspending the rule requiring ordinances be read on three separate days; and declaring an emergency.

WHEREAS, the City of Austin, Texas (the "City" or the "Issuer"), a "home-rule" city operating under a home-rule charter adopted pursuant to Section 5 of Article XI of the Texas Constitution has heretofore financed improvements and extensions to the City's Water and Wastewater System (the "System") by the issuance and sale of revenue obligations payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Water and Wastewater System and the City's Electric Light and Power System; and

WHEREAS, the revenue obligations currently outstanding payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Water and Wastewater System and the City's Electric Light and Power System include:

(a) "Prior First Lien Obligations" more particularly identified as follows : (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986A", dated April 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986C", dated November 15, 1986, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (v) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993,(xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (xiv) "City of Austin, Texas, Combined Utility

Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xviii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, (xix)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997,

(b) "Prior Subordinate Lien Obligations" more particularly described as follows: (i) "City of Austin, Texas, Water, Sewer and Electric Refunding Revenue Bonds, Series1982", dated March 15, 1982, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (iii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iv) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998", dated August 1, 1998, (v)"City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (vi) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998, and

(c) "Commercial Paper Obligations" more particularly described as follows: (i) City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A", authorized for issuance pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A currently authorized up to an aggregate principal amount of $350,000,000 and (ii) "City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes", authorized for issuance pursuant to Ordinance No. 980513-B currently authorized up to an aggregate principal amount of $60,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No. 980513-B; and

AND WHEREAS, in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations, the City retained the authority to issue "Separate Lien Obligations" payable solely from either the Net Revenues of the Water and Wastewater System or the Net Revenues of the Electric Light and Power System , but not both, without specifying any terms or limitations on the issuance of such "Separate Lien Obligations"; and

WHEREAS, the City has determined future financing of capital improvements for the City's Water and Wastewater System and the City's Electric Light and Power System should be undertaken and accomplished through the issuance of "Separate Lien Obligations" which will enable the City to restructure provisions governing the issuance of such obligations and relating to the operations of such systems and provide financing flexibility to both systems, particularly the Electric Light and Power System in a more competitive market resulting from a change in laws affecting the regulation, generation, distribution and sale of electric energy, and

WHEREAS, in furtherance of its determination that future financing of capital improvements to the City's Water and Wastewater System shall be undertaken through the issuance of revenue obligations payable solely from and secured by a lien on and pledge of the Net Revenues of the City's Water and Wastewater System, the Council hereby finds a master ordinance governing and pertaining to their issuance should be adopted and enacted; and

WHEREAS, the terms used in this Ordinance and not otherwise defined shall have the meaning given Exhibit A to this Ordinance attached hereto and made a part hereof;

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN, TEXAS:

Section 1. REVENUE OBLIGATION FINANCING FOR THE CITY'S WATER AND WASTEWATER SYSTEM. From and after the date hereof, all revenue obligations, other than Commercial Paper Obligations, to finance capital improvements for the Water/Wastewater System shall be payable from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and from the funds and accounts hereinafter provided in this Ordinance and in any Supplement. This Ordinance is intended to provide for and govern the issuance of such Parity Water/Wastewater Obligations and establish the security for their payment, the agreements and covenants with the holders or owners of such obligations in regard to the management and operation of the Water/Wastewater System, the application and disbursement of revenues derived from its operation and ownership and other matters incident and related to the issuance of such revenue obligations. Each issue or series of Parity Water/Wastewater Obligations shall be issued, incurred or assumed pursuant to the terms of a Supplement, and each such Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, terms of payment and redemption, and any other related matters not inconsistent with the Constitution and laws of the State of Texas or the provisions of this Ordinance.

Section 2. PLEDGE OF REVENUES/SECURITY FOR PAYMENT. Subject to the prior claim on and lien on the Net Revenues of the Water/Wastewater System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations, the Net Revenues of the Water/Wastewater System are hereby pledged to the payment of the Parity Water/Wastewater Obligations and such Parity Water/Wastewater Obligations, together with the Prior Subordinate Lien Obligations and Previously Issued Separate Lien Obligations currently Outstanding, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water/Wastewater System in accordance with the terms of this Ordinance and any Supplement. Additionally, Parity Water/Wastewater Obligations shall be secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, Reserve Fund and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Water/Wastewater Obligations pending expenditure in accordance with the terms of this Ordinance and any Supplement. Parity Water/Wastewater Obligations are and will be secured by and payable only from the Net Revenues of the Water/Wastewater System, and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, of the Water/Wastewater System. The owners of the Parity Water/Wastewater Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Ordinance or any Supplement.

Section 3. NO ADDITIONAL PRIOR FIRST LIEN /PRIOR SUBORDINATE LIEN COMBINED UTILITY SYSTEMS REVENUE OBLIGATIONS. From and after the date of the adoption of this Ordinance, the City hereby provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations and at such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations currently Outstanding and the Commercial Paper Obligations have been fully paid and discharged in a manner such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations of the Water/Wastewater System then Outstanding shall be Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations, or obligations subordinate to the Parity Water/Wastewater Obligations then Outstanding, and payable only from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance, including this Ordinance with respect to Parity Water/Wastewater Obligations and any Supplement.

Section 4. RATE COVENANT. The City will fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water/Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient:

(i) to pay all current Operating Expenses,

(ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Water/Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations or (y) an amount, when added to Other Available Water/Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations, and

(iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water/Wastewater System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates and charges to be revised and adjusted to comply with this Section or obtain a written report from an Utility System Consultant after a review and study of the operations of the Water/Wastewater System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with this Section and such adjustments and revisions to water and wastewater rates and charges are promptly implemented and enacted in accordance with such Utility System Consultant's report. Notwithstanding anything herein to the contrary, the City shall be deemed to be in compliance herewith if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Section 5. GENERAL COVENANTS. Subject to the provisions contained in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations which may be in conflict herewith and control to the extent of any conflict, the City hereby covenants and agrees with the Holders of the Parity Water/Wastewater Obligations to the extent permitted by law as follows:

(a) **PERFORMANCE**. All covenants, undertakings, stipulations, and provisions contained in this Ordinance and any Supplement shall be duly performed and honored at all times; the principal amount of and interest on Parity Water/Wastewater Obligations shall be timely paid as the same shall become due and payable on the dates, at the places and in the manner prescribed in each Supplement and such Parity Water/Wastewater Obligations; and all deposits to the credit of the Funds and Accounts shall be made at the times, in the amounts and in the manner specified by this Ordinance and in any Supplement; and any Holder may require the City, its officials and employees to perform, honor or enforce the covenants and obligations of this Ordinance, or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City, its officials and employees.

(b) **CITY'S LEGAL AUTHORITY**. The City is a duly created and existing home rule municipality of the State of Texas, and is duly authorized under the laws of the State of Texas to issue the Parity Water/Wastewater Obligations; with the adoption of each Supplement, all action on the City's part for the issuance of the Parity Water/Wastewater Obligations shall have been duly and effectively taken; and the Parity Water/Wastewater Obligations upon issuance and delivery to the Holders shall and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) **OPERATION AND MAINTENANCE**. The Water/Wastewater System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Water/Wastewater System shall be maintained, preserved and kept in good repair, working order and condition, and proper maintenance, repairs and replacements of such property, facilities and plants shall occur to preserve and keep the Water/Wastewater System operating in a business like manner.

(d) **TITLE**. The City has or will have lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Water/Wastewater System; the City warrants it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof against the claims and demands of all persons whomsoever; and the City is lawfully qualified to pledge the Net Revenues to the payment of the Parity Water/Wastewater Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(e) **LIENS**. All taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon the Water/Wastewater System, its properties or revenues, shall be paid before the same become delinquent; all lawful claims for rents, royalties, labor, materials and supplies shall be paid in a timely manner, which if unpaid might by law become a lien or charge on the revenues of the Water/Wastewater System or the Water/Wastewater System's properties prior to or interfere with the liens hereof, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the lien on and pledge of the Net Revenues of the Water/Wastewater System for the Parity Water/Wastewater Obligations granted by this Ordinance or any Supplement might or could be impaired; provided however, that no such tax, assessment or charge, and no such claims that might result in a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the City.

(f) **NO FREE SERVICE.** Save and except as provided by V.T.C.A., Government Code, Section 1502.057, as amended, no free service of the Water/Wastewater System shall be allowed.

(g) **FURTHER ENCUMBRANCE.** Save and except for the issuance of Parity Water/Wastewater Obligations, the Net Revenues of the Water/Wastewater System shall not hereafter be encumbered in any manner unless such encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance and any Supplement; but the right to issue Subordinated Debt payable in whole or in part from a subordinate lien on the Net Revenues is specifically recognized and retained.

(h) **SALE, LEASE OR DISPOSAL OF SYSTEM PROPERTY.** To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the Water/Wastewater System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the Water/Wastewater System. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Water/Wastewater System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the Water/Wastewater System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Water/Wastewater System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations or for any other Water/Wastewater System purpose..

(i) **BOOKS, RECORDS AND ACCOUNTS.** Proper books, records and accounts pertaining to the operation and ownership of the Water/Wastewater System shall be established and maintained in accordance with generally accepted accounting principles, and such books, records and accounts shall be kept and maintained separate and apart from all other records and accounts of the City. Accurate and complete entries of all transactions relating to the Water/Wastewater System shall be recorded in such books, records and accounts, and such books and records relating to the financial operations of the Water/Wastewater System shall be kept current on a month to month basis.

(j) **INSURANCE**. Except as otherwise permitted below, insurance shall be obtained and maintained on the properties of the Water/Wastewater System in a manner and to the extent municipal corporations operating like properties carry and maintain such insurance, and such insurance shall be maintained with one or more responsible insurance companies and cover such risks, accidents or casualties customarily carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage caused by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times during regular business hours. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds available for such purpose as the City in its sole desecration shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance Account or Fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the Water/Wastewater System.

In lieu of obtaining policies for insurance as provided above, the City may self-insure against risks, accidents, claims or casualties described above, or such risks, accidents, claims or casualties may be covered under one or more blanket insurance policies maintained by the City. The annual audit hereinafter required shall contain a section commenting on whether the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing the areas of insurance for which the City is self-insuring, all policies carried, and whether all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(k) **AUDITS**. After the close of each Fiscal Year while any of the Parity Water/Wastewater Obligations are Outstanding, an annual audit of the books, records and accounts relating to the operations of the Water/Wastewater System shall be made by an Accountant as part of the City's overall annual comprehensive audit. After such annual audit has been completed and approved by the City, a copy thereof shall be sent to the Municipal Advisory Council of Texas and to any owner of $100,000 or more in Outstanding Principal Amount of Parity Water/Wastewater Obligations who shall request a copy of such annual audit in writing. A copy of such annual audit shall be available for the inspection at the administrative offices of the Water/Wastewater System by the owners of the Parity Water/Wastewater Obligations and their agents and representatives at all reasonable times during regular business hours.

(l) **GOVERNMENTAL AGENCIES**. Any and all franchises, licences, permits and authorizations received or obtained from any governmental agency or department and applicable to or necessary with respect to the operations of the Water/Wastewater System shall be kept current and in effect, and no franchise, permit, license or authorization required or necessary for the acquisition, construction, equipment, operation and maintenance of the Water/Wastewater System shall be allowed to expire or terminate by a failure of the City to act or shall the City fail to comply with any terms or conditions that results in a forfeiture or early termination of any such franchise, permit, license, or authorization.

(m) **NO COMPETITION**. To the extent it legally possible, the City will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a material substitute for the Water/Wastewater System's facilities, and, to the extent that it legally may, the City will prohibit any such competing facilities.

(n) **RIGHTS OF INSPECTION**. Subject to public safety and other restrictions as may be reasonably imposed, the owner of Parity Water/Wastewater Obligations shall have the right at all reasonable times during regular business hours to inspect properties of the Water/Wastewater System and all records, accounts and data relating thereto, and copies of such records, accounts and data will be furnished to such owner from time to time, upon the written request and at the payment of the cost of making such copies by the owner making such request.

Section 6. SYSTEM FUND. In accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Water/Wastewater Obligations are Outstanding a separate fund or account known and designated as the "Water and Sewer System Fund" (herein called the "Water and Wastewater System Fund" or "System Fund"). All funds deposited to the credit of the System Fund and disbursements from such Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of Water/Wastewater System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding and (iii) the special Funds and Accounts for the payment of the Parity Water/Wastewater Obligations.

FOURTH: To pay Subordinated Debt, including amounts for the payment of the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

FIFTH: To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water/Wastewater System's Surplus Revenue Account

Any Net Revenues remaining in the Water and Sewer Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

Section 7. DEBT SERVICE FUND. For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (other than Operating Expenses) incurred in connection with Parity Water/Wastewater Obligations, there is hereby created and there shall be established and maintained on the books of the City a separate fund designated as the "Water/Wastewater Revenue Obligation Debt Service Fund" (the "Debt Service Fund") and moneys to the credit of such Debt Service Fund shall be placed in a special fund or account maintained at an official depository of funds of the City.

The amount of the deposits to be made to the credit of the Debt Service Fund to pay the principal of and interest on the Parity Water/Wastewater Obligations as the same shall become due and payable and the manner for making such deposits shall be addressed and contained in each Supplement. In addition, the City reserves the right in any Supplement to establish within the Debt Service Fund various Accounts to facilitate the timely payment of Parity Water/Wastewater Obligations as the same become due and owing.

Section 8. RESERVE FUND. (a) Establishment. There is hereby created and there shall be established and maintained on the books of the City a separate fund or account designated as the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). Except as provided in subsection (f) below, the Reserve Fund shall be maintained for the benefit of the owners of the Parity Water/Wastewater Obligations. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. The amounts deposited to the credit of the Reserve Fund shall be deposited in a special fund maintained at an official depository of City. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the Parity Water/Wastewater Obligations as they become due or paying principal of and interest on the Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund shall be an amount equal to the Required Reserve Amount. The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount.

(b) Credit Facility. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer.

(c) Priority of Draws. If the City is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the City shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency.

In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subject to the provisions of Section 8(d) below and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

(d) Reserve Amount Deficiency. In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of this Ordinance and any Supplement, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

(e) Excess Required Reserve. As Parity Water/Wastewater Obligation secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Ordinance or a Supplement, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

(f) Application to Commercial Paper/Credit Agreements For the purpose of this Section, the Reserve Fund shall not secure Parity Water/Wastewater Obligations issued in the form of commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplement.

Section 9. SYSTEM SURPLUS REVENUE ACCOUNT. At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water/Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water/Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water/Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water/Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water/Wastewater Funds". The amount so designated as "Other Available Water/Wastewater Fund" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

Section 10. ISSUANCE OF ADDITIONAL OBLIGATIONS. (a)Parity Water/Wastewater Obligations. The City reserves and shall have the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law pursuant to the provisions of this Ordinance and a Supplement hereafter adopted. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if:

(i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in this Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of this Ordinance and any Supplement contain the amounts then required to be therein or the proceeds of sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and

(ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water/Wastewater System, after deducting amounts expended from the Water/Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water/Wastewater Revenues, are equal to 1.25 times the average Annual Debt Service Requirements of the Parity

Water/Wastewater Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations.

For purposes of paragraph (a) (ii), if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the certificate, report or opinion of the Accountant required above shall give effect to the issuance of the proposed refunding Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded following their cancellation or provision being made for their payment).

(b) Short-Term Parity Water/Wastewater Obligations. The City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of this subsection, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

(c) Special Facilities Debt and Subordinated Debt. Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

(d) Credit Agreements. Payments to be made under a Credit Agreement may be treated as Parity Water/Wastewater Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Water/Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water/Wastewater Obligations then Outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

(e) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water/Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water/Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

Section 11. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS. (a) Any Parity Water/Wastewater Obligation shall be deemed to be paid, retired and cease to be Outstanding within the meaning of this Ordinance, and the Supplement pursuant to which it was issued, when payment of the principal amount of, redemption premium, if any, on such Parity Water/Wastewater Obligation, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either shall have been (i) made in accordance with the terms thereof or (ii) provided by irrevocably depositing with, or making available to, a Paying Agent (or escrow agent) therefor, in trust and set aside exclusively for such payment, in accordance with the terms and conditions of an agreement between the City and said Paying Agent (or escrow agent), (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such Paying Agent pertaining to the Parity Water/Wastewater Obligation with respect to which such deposit is made shall have been paid or the payment thereof duly provided (and irrevocable instructions shall have been given by the City to such Paying Agent to give notice of such redemption in the manner required by the Supplement authorizing the issuance of such Parity Water/Wastewater Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Water/Wastewater Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Water/Wastewater Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Water/Wastewater Obligation was issued. In addition, in connection with a defeasance, such Paying Agent shall give notice of redemption, if necessary, to the owners of any Parity Water/Wastewater Obligation in the manner provided in the Supplement for such Parity Water/Wastewater Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Water/Wastewater Obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or the Supplement pursuant to which it was issued or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys deposited with a Paying Agent (or escrow agent) may, at the direction of the City, also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Paying Agent pursuant to this Section which is not required for the payment of the principal of the Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City for deposit to the credit of the Debt Service Fund.

(c) Except as provided in clause (b) of this Section, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon, shall be applied solely to and used solely for the payment of such Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon.

Section 12. AMENDMENT OF ORDINANCE. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Water/Wastewater Obligations so as to:

(1) Make any change in the maturity of any of the Outstanding Parity Water/Wastewater Obligations;

(2) Reduce the rate of interest borne by any of the Outstanding Parity Water/Wastewater Obligations;

(3) Reduce the amount of the principal payable on the Outstanding Parity Water/Wastewater Obligations;

(4) Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Parity Water/Wastewater Obligations or impose any conditions with respect to such payment;

(5) Affect the rights of the owners of less than all of the Parity Water/Wastewater Obligations then Outstanding;

(6) Amend this subsection (a) of this Section; or

(7) Change the minimum percentage of the principal amount of Parity Water/Wastewater Obligations necessary for consent to any amendment;

unless such amendment or amendments be approved by the owners of all of the Parity Water/Wastewater Obligations affected by the change or amendment then Outstanding.

(b) Notice of Amendment Requiring Consent. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations for inspection by all Holders of Parity Water/Wastewater Obligations. Such publication is not required, however, if notice in writing is given by mail, first class postage prepaid, to each Holder of Parity Water/Wastewater Obligations.

(c) Time Period for Obtaining Consent If within one year from (i) the date of the first publication of said notice or (ii) the date of the mailing by the Paying Agent of written notice to the owners of the Parity Water/Wastewater Obligations, whichever date first occurs if both methods of giving notice are used, the City shall receive an instrument or instruments executed by the owners of at least a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations consenting to and approving such amendment in substantially the form of the copy thereof on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Revocation of Consent. Any consent given by the owner of a Parity Water/Wastewater Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, and shall be conclusive and binding upon all future owners of the same Parity Water/Wastewater Obligation during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, such consent may be revoked by the owner who gave such consent, or by a successor in title, by filing written notice thereof with the Paying Agent or Registrar, as the case may be, for such Parity Water/Wastewater Obligation and the City, but such revocation shall not be effective if the owners of at least a majority in Outstanding Principal Amount of the then Outstanding Parity Water/Wastewater Obligations as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(e) Implementation of Amendment. Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations of the City under this Ordinance and all the owners of then Outstanding Parity Water/Wastewater Obligations and all future Parity Water/Wastewater Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(f) Amendment without Consent. The foregoing provisions of this Section notwithstanding, the City by action of its governing body may amend this Ordinance for any one or more of the following purposes:

(1) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the owners of the Parity Water/Wastewater Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations then outstanding;

(3) To modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after all Parity Water/Wastewater Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(4) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(5) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Water/Wastewater Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Water/Wastewater Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Parity Water/Wastewater Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(7) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Water/Wastewater Obligations. Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Parity Water/Wastewater Obligations may be determined as provided in each Supplement and unless otherwise provided in a Supplement, the owners of the Parity Water/Wastewater Obligations insured as to the payment of principal of and interest thereon shall be deemed to be the insurance company providing the insurance coverage on such Parity Water/Wastewater Obligations; provided such amendment to this Ordinance is an amendment that can be made with the consent of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations and such insurance company is not in default with respect to its obligations under its insurance policy.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Parity Water/Wastewater Obligations then Outstanding under such Supplement a priority over the owners of any other Parity Water/Wastewater Obligations then Outstanding.

Section 13. DEFICIENCIES; EXCESS NET REVENUES. (a) Revenue Deficiency. If on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Funds and Accounts established in accordance with this Ordinance and any Supplement, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other source available for such purpose.

(b) Excess Revenue. Subject to making the required deposits to the credit of the Funds and Accounts established in accordance with this Ordinance and any Supplement, when and as required by this Ordinance and any Supplement, the excess Net Revenues may be used by the City for any lawful purpose.

Section 14. FUNDS SECURED. Moneys in all Funds and Accounts created in accordance with this Ordinance and any Supplement shall be secured in the manner prescribed by law for securing funds of the City.

Section 15. INVESTMENTS. Moneys in any Fund or Account established pursuant to this Ordinance and any Supplement may, at the option of the City, be placed or invested in Eligible Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually during the last month of each Fiscal Year. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Fund or Account from which moneys used to acquire such investment shall have come.

Section 16. BENEFITS OF ORDINANCE. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

Section 17. GOVERNING LAW. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 18. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 19. CONSTRUCTION OF TERMS. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

Section 20. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 21. PUBLIC MEETING. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

Section 22. EMERGENCY. The public importance of this measure and the fact that there is an urgent public need for the City to obtain the funds from the sale of the Bonds as soon as possible and without delay for the immediate preservation of the public peace, health and safety of the citizens of the City constitute and create an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

PASSED AND ADOPTED, this June 8, 2000.

CITY OF AUSTIN, TEXAS

Kirk Watson

KIRK WATSON
Mayor

ATTEST:

Shirley A. Brown

SHIRLEY A. BROWN
City Clerk

(City Seal)

APPROVED:

Andrew Martin

ANDREW MARTIN
City Attorney

EXHIBIT "A"

DEFINITIONS

As used in the Ordinance, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Account" means any account created, established and maintained on the books and records of the City under the terms of any Supplement.

"Accountant" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"Annual Debt Service Requirements" means, for any Fiscal Year, the principal of and interest on all Parity Water/Wastewater Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(i) Committed Take Out. If the City has entered into a Credit Agreement with a Credit Provider to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased by the Credit Provider shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(ii) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable by reason of any required purchase of such Funded Debt by the City) in any Fiscal Year is either (a) equal to 25%, or more, of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or (b) exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(iii) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer executes a certificate to the effect that such Balloon Debt (a) may be treated as being retired in installments (and the instrument creating such Balloon Debt expressly permits such Debt to be treated as being retired in installments), or (b) paid from the funding and accumulation of a sinking fund (and the instrument creating such Balloon Debt expressly permits the funding and accumulation of a sinking fund) according to a fixed schedule stated in such certificate, then the principal of (and, in the case of retirement, or to the extent provided for the funding and accumulation of a sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such fixed schedule, provided this clause (iii) shall apply only to Balloon Debt when installments due and payable prior to such certificate have been duly paid or all deposits to the sinking fund established for such Debt have been duly credited to the sinking fund on or before the times required by such schedule; and provided further this clause (iii) shall not apply when the City has elected to apply the rule set forth in clause (ii) above;

(iv) Prepaid Debt. Principal of and interest on Parity Water/Wastewater Obligations, or portions thereof, payable from capitalized interest, accrued interest and amounts deposited or set aside in trust for the payment thereof with a financial institution shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year;

(v) Variable Rate. As to any Parity Water/Wastewater Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the City, either (a) an interest rate equal to the average rate borne by such Parity Water/Wastewater Obligations (or by comparable debt in the event that such Parity Water/Wastewater Obligations has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be used for this purpose;

(vi) Commercial Paper. Any Parity Water/Wastewater Obligations issued in the form of commercial paper shall use an interest rate for such Parity Water/Wastewater Obligations calculated in the manner provided in clause (v) of this definition and the maturity schedule shall be calculated in the manner provided in clause (ii) of this definition; and

(vii) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (i) through (vi) above and any payments otherwise included above under (i) through (vi) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"Bond Counsel" means Messrs. Fulbright & Jaworski L.L.P. or other firm engaged by the City with legal experience and expertise in the issuance and sale of obligations by municipalities in the State of Texas and with respect to the exclusion of interest on obligations from federal income taxation under Section 103(a) of the Code.

"City" and **"Issuer"** mean the City of Austin, Texas.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

"Commercial Paper Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Credit Agreement" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Water/Wastewater Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City in connection with the authorization, issuance, security, or payment of Parity Water/Wastewater Obligations and on a parity therewith.

"Credit Facility" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Water/Wastewater Obligations would rate the Parity Water/Wastewater Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Water/Wastewater Obligations would assign a rating to the Parity Water/Wastewater Obligations of one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Water/Wastewater Obligations and the interest thereon.

"Credit Provider" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

"Debt" of the City payable from Net Revenues means all:

(i) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Water/Wastewater System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(ii) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Net Revenues of the Water/Wastewater System, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (A) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (B) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"Debt Service Fund" means the "Water/Wastewater System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"Designated Financial Officer" shall mean the Director of Finance, Treasurer or such other financial or accounting official of the City so designated by the governing body of the City.

"Eligible Investments" means those investments in which the City is now or hereafter authorized by law, including, but not limited to, the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), as amended, to purchase, sell and invest its funds and funds under its control.

"Fiscal Year" means the twelve month financial accounting period for the Water/Wastewater System which currently ends on September 30 of each calendar year.

"Fund" means any fund created, established and maintained under the terms of the Ordinance and any Supplement.

"Funded Debt" of the Water/Wastewater System means all Parity Water/Wastewater Obligations (and, for purposes of Section 10(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"Government Obligations" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

"Gross Revenues" means all revenues, income, and receipts derived or received by the City from the operation and ownership of the Water/Wastewater System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Water/Wastewater System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code, and Other Available Water/Wastewater System Revenues . The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts and grants in aid of construction or impact fees charged under authority of Chapter 395, Texas Local Government Code, which by law are restricted as to use.

"Holder" or **"Bondholder"** or **"owner"** means the registered owner appearing on the books and records of the Registrar of any Parity Water/Wastewater Obligation registered as to ownership and the holder of any Parity Water/Wastewater Obligation payable to bearer.

"Maturity" when used with respect to any Debt means the date the principal of such Debt or any installment thereof becomes due and payable, whether at its Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

"Net Revenues" and **"Net Revenues of the Water/Wastewater System"** with respect to any period of time means the Gross Revenues for such period less Operating Expenses incurred during such period.

"Operating Expenses" means the expenses of operation and maintenance of the Water/Wastewater System, including all salaries, labor, materials repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Water/Wastewater Obligations. Operating Expenses shall include the purchase of water, the treatment and disposal of wastewater, and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

"Opinion of Counsel" means a written opinion of counsel acceptable to the City.

"Ordinance" means this Ordinance No. 000608-56A pertaining to the issuance Parity Water/Wastewater Obligations, and any amendments thereto.

"Other Available Water/Wastewater System Revenues" means an amount of unencumbered funds accumulated in the Water/Wastewater System Surplus Revenue Account designated as Other Available Water/Wastewater Funds and deposited to the credit of the System Fund as provided in Section 9 hereof; provided, the maximum amount which may be so designated in any Fiscal Year for purposes of complying with the provisions of Sections 4 and 10 of this Ordinance cannot exceed twenty-five per cent (25%) of the Debt Service Requirements for the Parity Water/Wastewater Obligations for such Fiscal Year.

"Outstanding" when used with respect to Parity Water/Wastewater Obligations means, as of the date of determination, all Parity Water/Wastewater Obligations theretofore delivered under this Ordinance and any Supplement, except:

(i) Parity Water/Wastewater Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(ii) Parity Water/Wastewater Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;

(iii) Parity Water/Wastewater Obligations upon transfer of or in exchange for and in lieu of which other Parity Water/Wastewater Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and

(iv) Parity Water/Wastewater Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless acquired for purposes of cancellation, Parity Water/Wastewater Obligations owned by the City shall be deemed to be Outstanding as though owned by any other owner.

"Outstanding Principal Amount" means, with respect to all Parity Water/Wastewater Obligations or to a series of Parity Water/Wastewater Obligations, the outstanding and unpaid principal amount of such Parity Water/Wastewater Obligations paying interest on a current basis and the accreted value as of each compounding date for Parity Water/Wastewater Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Water/Wastewater Obligations

"**Prior First Lien Obligations**" means those obligations identified and described in the preamble of the Ordinance.

"**Prior Subordinate Lien Obligations**" means to obligations identified and described in the preamble of the Ordinance.

"**Parity Water/Wastewater Obligations**" means all Debt of the City, except Previously Issued Separate Lien Obligations, issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

"**Paying Agent**" means bank, trust company or other entity selected by the City in a Supplement undertaking the duties and responsibilities for the payment to the Holders of the principal of and interest on the series or issue of Parity Water/Wastewater Obligations.

"**Previously Issued Separate Lien Obligations**" means those obligations payable, in whole or in part under a contract with the City, from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and more particularly described as follows: (i) Circle C MUD#4 City of Austin, Texas Contract Revenue Bonds, Series 1990,dated date February 1, 1990 and currently outstanding in the principal amount of $2,745,000, (ii) Circle C MUD #3 City of Austin, Texas Contract Revenue Bonds, Series 1991,dated date June 15, 1991, and currently outstanding in the principal amount of $26,835,000, (iii) Village at Western Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $17,570,000, (iv) Southland Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $20,525,000, (v) Maple Run at Austin MUD City of Austin, Texas Contract Revenue Bonds, Series 1992, dated February 1, 1992, and currently outstanding in the principal amount of $13,255,000, and (vi) North Austin MUD#1 City of Austin, Texas Refunding Contract Revenue Bonds, Series 1994, dated February 1, 1994, and currently outstanding in the principal amount of $13,035,000.

"**Prudent Utility Practice**" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act at the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the Water/Wastewater System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"**Rating Agency**" means a nationally recognized securities rating agency which has assigned a rating to the Parity Water/Wastewater Obligations.

"Required Reserve Amount" means an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations then Outstanding, to the extent such Parity Water/Wastewater Obligations are to be secured by the Reserve Fund in accordance with the terms and provisions of Section 8 of the Ordinance and the provisions of any Supplement.

"Reserve Fund" means the "Water/Wastewater System Revenue Obligation Reserve Fund" established pursuant to Section 8 of the Ordinance.

"Reserve Fund Obligations" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

"Registrar" means bank, trust company or other entity selected by the City in a Supplement to serve as the registrar for the registration and transfer of a series or issue of Parity Water/Wastewater Obligations issued in fully registered form as to the payment of principal of and interest thereon.

"Stated Maturity" when used with respect to Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"Subordinated Debt" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Water/Wastewater Obligations then Outstanding or subsequently issued.

"Supplement" or **"Supplemental Ordinance"** means an ordinance supplemental to, and authorized and adopted by the governing body of the City pursuant to the terms of, the Ordinance.

"System Fund" means the **"Water and Sewer System Fund"** affirmed in Section 6 of the Ordinance.

"Term of Issue" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term in any Supplement authorizing the issuance of commercial paper) or (ii) twenty-five years.

"Utility System Consultant" means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal water and wastewater facilities and systems similar in size to the Water/Wastewater System.

"Value of Investment Securities" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

"Water/Wastewater System"means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of water and the collection, treatment and disposal or reuse/reclaim of wastewater, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Water/Wastewater System shall not include facilities of any kind which are declared not to be a part of the Water/Wastewater System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities.

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APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

SECTION : Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues." Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A," dated August 1, 1996, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B," dated August 1, 1996, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997," dated August 1, 1997, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998," dated July 1, 1996, and (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A," dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994," dated March 1, 1994, (ii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998," dated August 1, 1998, (iii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (iv) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A," dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION : Pledge. (a) Electric Light and Power System. Subject only to the prior lien on and pledge of the Net Revenues of the Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

SECTION : Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

(1) To pay the respective Maintenance and Operating Expenses thereof,

(2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,

(3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and

(4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

SECTION : Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

Any Net Revenues remaining in the Electric Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

SECTION : Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Waterworks and Sewer System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

Any Net Revenues remaining in the Water and Sewer Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

SECTION : Reserve Fund. (a) In connection with the issuance of the Prior Lien Bonds and Subordinate Lien Bonds, the City agrees and covenants to keep and maintain with its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on (i) the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement noted below, whichever date is the last to occur. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which, subject to the limitations hereinafter specified, may be withdrawn and transferred from the Reserve Fund) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is $106,790,235.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund.

Currently, the Required Reserve is fully funded with Financial Commitments of Financial Security Assurance Inc. in the amounts of $30,000,000 (the Initial Financial Commitment acquired) and $76,790,325.15 (an additional Financial Commitment acquired on or about August 31, 2004).

When and so long as the money and investments, or Financial Commitments, are on deposit to the credit of the Reserve Fund in an amount equal to or exceeding the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the Required Reserve deficiency occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve. During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the "Interest and Redemption Fund" created and established for the payment and redemption of the Subordinate Lien Bonds while the same remain outstanding and, at such time as the Subordinate Lien Bonds are no longer outstanding, such surplus may be deposited in the Bond Fund.

Notwithstanding any provision contained herein to the contrary, the Required Reserve may be funded, in whole or in part, by depositing to the credit of the Reserve Fund (i) cash, (ii) investments, and (iii) one or more Financial Commitments. The term Financial Commitments means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength meeting the requirements below. Such insurance policy or surety bond shall provide for payment thereunder of moneys when other funds available to the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, in the interest and sinking fund maintained for the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, is insufficient on a payment date when interest or principal, or both, is due and payable for such obligations.

The financial strength of the insurance company or association providing the Financial Commitment must be rated on the date of the deposit of the Financial Commitment to be credit of the Reserve Fund in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by A.M. Best. In the event the rating of the financial strength of a provider of a Financial Commitment falls below (i) "Aa2" by Moody's Investors Service, Inc., (ii) "AA" by Standard & Poor's Ratings Services, (iii) "AA" by Fitch Ratings or (iv) if applicable, "A+" by A.M. Best, the City will be required to replace the Financial Commitment with (a) cash and Authorized Securities or (b) a substitute Financial Commitment issued by an insurance company or association that satisfies the ratings requirements summarized above in this paragraph (but in no event less than the ratings described in clauses (i), (ii), (iii) and (iv) of this sentence).

Notwithstanding any provision herein to the contrary, the City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following the substitution of one or more Financial Commitments for cash and securities held in the Reserve Fund, the cash and securities released from the Reserve Fund**,** net of costs incurred with respect to the initial substitution of the Financial Commitment, shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Lien Bonds and Subordinate Lien Bonds in a manner that reduces the principal amount and Maturity Amount of outstanding Prior Lien Bonds and Subordinate Lien Bonds.

(b) Initial Financial Commitment. As permitted in paragraph (a) above, the City has determined to acquire initially a Financial Commitment for the Reserve Fund with coverage in the maximum amount of $30,000,000 to fund in part the Required Reserve from Financial Security Assurance Inc., a New York domiciled insurance company (hereinafter referred to as "FSA"). In accordance with FSA's terms for the issuance of a "Municipal Bond Debt Service Reserve Insurance Policy" (the "Reserve Policy"), an Insurance Agreement by and between the City and FSA has been submitted to the City for approval and execution, and such Insurance Agreement, substantially in the form and content of Exhibit A attached hereto, is hereby approved and authorized to be executed by the City Manager and such Insurance Agreement, as executed and delivered by the City Manager, shall be deemed the Insurance Agreement herein approved by the City Council and authorized for execution.

To the extent the City should make a draw under the Reserve Policy, the City acknowledges and agrees the repayment of "Policy Costs," as defined in the Insurance Agreement, shall constitute a payment of an amount required to be deposited in the Reserve Fund to establish and maintained the Required Reserve, and insofar as the priority of uses of the revenues of (i) Electric Light and Power System and (ii) the Waterworks and Sewer System, such Policy Costs shall be entitled to the same priority of payment identified in the Prior Lien Bond Ordinances for payments required to be deposited in the Reserve Fund to establish and maintain the Required Reserve.

SECTION : Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchasers of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

SECTION : Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

SECTION : Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

SECTION : Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Bonds are Outstanding, the City agrees to maintain insurance, for the benefit of the Holders of the Bonds, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

SECTION : Sale, Lease or Disposal of System Property. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the System. In the event the property, facilities or assets of the System sold or exchanged represents more than 5% of the total assets of the System, the City agrees to notify the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations and bond insurance companies insuring the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations of such sale, exchange or disposal of property and facilities. Prior to the sale or exchange of any assets or properties representing more than 5% of the total assets of the System being completed, a written response shall be obtained from the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations to the effect that such sale or exchange of such assets or properties in and of itself will not result in a rating category change of the ratings then assigned on such obligations. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used either (i) to acquire other property necessary or desirable for the safe or efficient operation of the System, or (ii) to redeem, defease or retire Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations.

SECTION : Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

SECTION : <u>Deficiencies; Excess Net Revenues</u>. (a) If on any occasion there shall not be sufficient Net Revenues of the Systems to make the required deposits into the Interest and Redemption Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the Systems, or from any other sources available for such purpose.

(b) Subject to making the required deposits to (i) all special funds created for the payment and security of the Prior Lien Bonds (including the Reserve Fund) (ii) all special funds created for the payment and security of the Subordinate Lien Bonds (including the Interest and Redemption Fund) and (iii) all funds or accounts created for the benefit of Separate Lien Obligations, the excess Net Revenues of the Systems, either or both, may be used by the City for any lawful purpose.

SECTION : <u>Final Deposits; Governmental Obligations</u>. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

SECTION : Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. 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.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION : Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

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APPENDIX E

FORM OF BOND COUNSEL'S OPINION

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FULBRIGHT
& Jaworski L.L.P.
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IN REGARD to the authorization and issuance of the "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2011" (the "Bonds"), dated November 1, 2011, in the principal amount of $237,530,000, we have examined into the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form only and mature on November 15 in each of the years stated in the pricing certificate (the "Pricing Certificate") executed pursuant to the Ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance" and, collectively with the Pricing Certificate, the "Authorization"), unless redeemed prior to maturity in accordance with the applicable redemption provisions. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Authorization.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes, and none other. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City or the City's Water/Wastewater System (the "System") and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

Our examination into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including a Master Ordinance and the Ordinance (collectively, the "Ordinances"), certificates and opinions of officials of the City; other pertinent instruments authorizing and relating to the issuance of the Bonds; and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been authorized, issued and delivered in accordance with law; that the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Previously Issued Parity Water/Wastewater Obligations, Prior Subordinate Lien Obligations, and Previously Issued Separate Lien Obligations, equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium,

liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinances, the City has reserved the right to issue and incur additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

2. Assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the Bonds for federal income tax purposes (i) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof, of the owners thereof pursuant to section 103 of such Code, existing regulations, published rulings, and court decisions thereunder, and (ii) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

We express no opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

APPENDIX F

SUMMARY OF REFUNDED OBLIGATIONS

	Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Combined Utility System						
Subordinate Lien Revenue Refunding Bonds, Series 1998A	Term (1)	05/15/28	4.250%	$52,345,000	1/6/2012	100.00
Subordinate Lien Revenue Bonds, Series 1998B	Serial	11/15/13	3.550%	$ 650,000	1/6/2012	100.00
	Serial	11/15/14	3.600%	680,000	1/6/2012	100.00
	Serial	11/15/15	3.650%	710,000	1/6/2012	100.00
	Serial	11/15/16	3.700%	735,000	1/6/2012	100.00
	Serial	11/15/17	3.750%	770,000	1/6/2012	100.00
				$ 3,545,000		
Separate Lien Obligations						
Water & Wastewater System Revenue Refunding Bonds, Series 2001A	Serial	05/15/13	5.750%	$ 20,000	1/6/2012	100.00
	Serial	11/15/13	4.750%	215,000	1/6/2012	100.00
	Serial	05/15/14	5.750%	20,000	1/6/2012	100.00
	Serial	05/15/15	5.750%	25,000	1/6/2012	100.00
	Serial	05/15/16	5.750%	25,000	1/6/2012	100.00
	Serial	05/15/17	5.750%	25,000	1/6/2012	100.00
	Serial	05/15/18	5.750%	25,000	1/6/2012	100.00
	Serial	05/15/19	5.750%	30,000	1/6/2012	100.00
	Term	05/15/22	5.250%	90,000	1/6/2012	100.00
	Term	05/15/27	5.125%	8,155,000	1/6/2012	100.00
	Term	05/15/31	5.250%	200,000	1/6/2012	100.00
				$ 8,830,000		
Water & Wastewater System Revenue Refunding Bonds, Series 2001B	Serial	05/15/13	5.750%	$ 10,000	1/6/2012	100.00
	Serial	05/15/14	5.750%	10,000	1/6/2012	100.00
	Serial	05/15/15	5.750%	10,000	1/6/2012	100.00
	Serial	05/15/16	5.750%	10,000	1/6/2012	100.00
	Serial	05/15/17	5.750%	10,000	1/6/2012	100.00
	Serial	05/15/18	5.750%	15,000	1/6/2012	100.00
	Serial	05/15/19	5.750%	15,000	1/6/2012	100.00
	Term	05/15/22	5.250%	45,000	1/6/2012	100.00
	Term	05/15/27	5.125%	7,660,000	1/6/2012	100.00
	Term	05/15/31	5.250%	100,000	1/6/2012	100.00
				$ 7,885,000		
Total: Refunded Obligations				**$72,605,000**		

(1) Indicates a partial refunding of maturity par.

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