OFFICIAL STATEMENT
Dated November 5, 2009

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

NEW ISSUE – Book-Entry-Only

Delivery of the Bonds is subject to the receipt of the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, to the effect that, assuming continuing compliance by the City with certain covenants contained in the Seventeenth 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.

CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
$166,575,000 Water and Wastewater System Revenue Refunding Bonds, Series 2009A

Dated Date: November 1, 2009 **Due: As shown on the inside cover page**

The bonds offered hereby are the $166,575,000 City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2009A (the "Bonds"). The Bonds represent the seventeenth encumbrance to be issued or incurred as "Parity Water/Wastewater Obligations" pursuant to the Master Ordinance (the "Master Ordinance") and are authorized and being issued in accordance with a supplemental ordinance (the "Seventeenth Supplement"). The Master Ordinance contains the terms for the issuance of Parity Water/Wastewater Obligations and the covenants and security provisions related thereto. The City of Austin, Texas (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 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), as provided in the Master Ordinance and the Seventeenth Supplement. **Neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" herein.

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 commence to accrue from the dated date of the Bonds and shall be payable on May 15, 2010 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.

MATURITY SCHEDULE

See Schedule on Inside Cover Page

The City reserves the right, at its option, to redeem Bonds maturing on or after November 15, 2020, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof on November 15, 2019, or any date thereafter, at the par value thereof, plus accrued interest to the date fixed for redemption. In addition, the Term Bonds are subject to mandatory sinking fund redemption on the date and in the amounts described herein. See "DESCRIPTION OF THE BONDS" herein.

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

The Bonds are expected to be available for delivery on or about December 3, 2009.

Morgan Stanley

Barclays Capital **Cabrera Capital Markets, LLC**

Goldman, Sachs & Co. **Morgan Keegan & Company, Inc.** **Rice Financial Products Company**

Siebert Brandford Shank & Co., LLC **Southwest Securities**

$166,575,000 Water and Wastewater System Revenue Refunding Bonds, Series 2009A

MATURITY SCHEDULE
$98,375,000 Serial Bonds

Maturity (November 15)	Principal Amount	Interest Rate	Initial Price or Yield	Maturity (November 15)	Principal Amount	Interest Rate	Initial Price or Yield
2011	$3,330,000	5.000%	0.960%	2021	$5,270,000	4.750%	3.800%*
2012	3,500,000	5.000%	1.300%	2022	5,505,000	4.000%	4.060%
2013	3,680,000	5.000%	1.740%	2023	5,730,000	4.125%	4.140%
2014	3,850,000	4.000%	2.200%	2024	5,975,000	4.125%	4.220%
2015	4,005,000	4.000%	2.630%	2025	6,255,000	5.000%	4.200%*
2016	4,170,000	4.000%	2.930%	2026	6,575,000	5.000%	4.270%*
2017	4,350,000	4.500%	3.140%	2027	6,910,000	5.000%	4.340%*
2018	4,565,000	5.000%	3.330%	2028	7,265,000	5.000%	4.410%*
2019	4,785,000	4.500%	3.480%	2029	7,635,000	5.000%	4.470%*
2020	5,020,000	5.000%	3.610%*				

$8,200,000 5.000% Term Bonds, Due November 15, 2034, Initial Price 101.406%*

$60,000,000 5.000% Term Bonds, Due November 15, 2039, Initial Price 100.777%*

* Priced to the optional redemption date.

The Bonds maturing on or after November 15, 2020, are subject to optional redemption, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof on November 15, 2019, or any date thereafter, at the par value thereof, plus accrued interest to the date fixed for redemption. In addition, the Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts described herein. See "DESCRIPTION OF THE BONDS" herein.

(Interest Accrues from Dated Date)

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CITY OF AUSTIN

Elected Officials

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

Appointed Officials

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

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
The PFM Group
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, 2005 through 2008 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 – "Excerpts From the Annual Financial Report".

Operating Summary

		(000's) Fiscal Year Ended September 30			
	(Unaudited) 12 Months Ended 6-30-09 (2)	2008	2007	2006	2005
Combined Gross Revenues	$1,651,554	$1,628,261	$1,393,344	$1,412,853	$1,260,401
Combined Maintenance and Operating Expenses	1,077,558	1,012,532	846,005	824,870	730,697
Combined Net Revenues	$ 573,996	$ 615,729	$ 547,339	$ 587,983	$ 529,704
Principal and Interest on Revenue Bonds (1)	$ 125,936	$ 112,932	$ 137,553	$ 108,258	$ 131,749
Debt Service Coverage on Revenue Bonds (1)	4.56x	5.45x	3.98x	5.43x	4.02x

(1) Prior First Lien Obligations and Prior Subordinate Lien Obligations only.
(2) 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, 2005 through 2008 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 – "Excerpts From the Annual Financial Report".

Operating Summary

		(000's) Fiscal Year Ended September 30			
	(Unaudited) 12 Months Ended 6-30-09 (4)	2008	2007	2006	2005
Gross Revenues	$397,446	$367,444	$296,475	$309,188	$270,867
Maintenance and Operating Expenditures	165,999	154,215	134,824	129,599	116,478
Net Revenues	$231,447	213,229	$161,651	$179,589	$154,389
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Obligations (1)	$ 33,216	$ 25,205	$ 19,602	$ 19,577	$ 19,805
Net Revenues Available for Water and Wastewater System Separate Lien Obligations	$198,231	$188,024	$142,049	$160,012	$134,584
Principal and Interest on Water and Wastewater System Separate Lien Obligations (2)	$114,062	$110,461	$ 91,304	$ 86,969	$ 82,156
Debt Service Coverage (Separate Lien Obligations) (3)	1.74x	1.70x	1.56x	1.84x	1.64x

(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) See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.

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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 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 IS 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.

Neither the City, The PFM Group, the Financial Advisor to the City, nor 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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OFFICIAL STATEMENT

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

$166,575,000 Water and Wastewater System Revenue Refunding Bonds, Series 2009A

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City" or the "Issuer"), of its $166,575,000 City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2009A (the "Bonds"). The Bonds are authorized to be issued pursuant to authority conferred by the laws of the State of Texas, 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 5, 2009 (the "Seventeenth Supplement"). **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance, the Seventeenth Supplement 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.

PLAN OF FINANCING

Authorization and Purpose

The Bonds are being issued to refund $166,000,000 of the City's outstanding Tax-Exempt Commercial Paper 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 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. Proceeds from the Bonds will also be used to pay costs of issuance of the Bonds. The Bonds represent the seventeenth 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. 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 and Prior Subordinate 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 $458,887,746 million of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of September 30, 2009 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.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows.

Sources:	
Par Amount of Bonds	$166,575,000.00
Net Original Issue Premium	6,682,457.45
Accrued Interest	710,416.11
Total	$173,967,873.56
Uses:	
Payment of Refunded Notes	$166,000,000.00
Deposit to the Reserve Fund	5,794,558.39
Underwriters' Discount	908,958.74
Deposit to the Debt Service Fund	710,416.11
Cost of Issuance	553,940.32
Total	$173,967,873.56

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OBLIGATIONS PAYABLE FROM SYSTEMS REVENUES
(As of September 30, 2009)

Combined Utility Systems Obligations	
Prior First Lien Obligations	$ 217,913,234
Prior Subordinate Lien Obligations	240,974,512
Sub-Total	$ 458,887,746
Parity Electric Utility Obligations	$1,025,940,000
Water & Wastewater System Separate Lien Obligations	
Parity Water & Wastewater Obligations (a)	$1,643,320,000
North Austin MUD No. 1, Series 2003	915,000
Sub-Total	$1,644,235,000
Commercial Paper (b)	$ 174,248,000
General Obligation Bonds (c)	$ 16,759,508
Assumed Bonds and Obligations	
Assumed District Bonds (d)	$ 6,681,368
TOTAL	$3,326,751,622

See "SECURITY FOR THE BONDS".

(a) Includes the Bonds.

(b) 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, the Parity Electric Utility Obligations and the Water/Wastewater System 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 generation needs.

(c) 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.

(d) 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 (a)

Fiscal Year Ending 9/30	Outstanding Prior Lien Obligations	Outstanding Subordinate Lien Obligations	Total Prior & Subordinate Lien Obligations Requirements	The Bonds		Electric Utility System Obligations	Water & WW Separate Lien Obligations Bonds	Assumed MUD Obligations (b)	Total Separate Lien and Combined Utility Systems Requirements
				Principal	Interest				
2010	$ 110,553,144	$ 15,117,876	$ 125,671,020	$ -	$ 4,306,898	$ 85,588,263	$ 106,717,624	$ 911,470	$ 323,195,275
2011	106,530,006	15,912,755	122,442,761	-	7,992,181	90,338,384	97,760,798	914,612	319,448,737
2012	101,218,069	16,861,853	118,079,921	3,330,000	7,908,931	88,546,113	108,397,397	915,777	327,178,140
2013	61,565,588	17,129,078	78,694,665	3,500,000	7,738,181	116,179,726	124,427,051	930,072	331,469,695
2014	5,967,175	18,579,978	24,547,153	3,680,000	7,558,681	157,270,673	153,686,749	1,077,183	347,820,439
2015	6,045,000	30,478,963	36,523,963	3,850,000	7,389,681	107,535,411	135,236,791	1,078,343	291,614,189
2016	6,045,000	31,239,715	37,284,715	4,005,000	7,232,581	70,680,930	139,919,736	1,088,425	260,211,387
2017	42,150,000	21,563,885	63,713,885	4,170,000	7,069,081	72,757,292	114,514,885	947,019	263,172,162
2018	62,050,000	21,805,425	83,855,425	4,350,000	6,887,806	58,885,822	92,942,668	650,355	247,572,075
2019	31,735,000	21,129,813	52,864,813	4,565,000	6,675,806	58,673,873	93,415,490	-	216,194,982
2020	-	23,728,400	23,728,400	4,785,000	6,454,019	58,342,786	100,301,389	-	193,611,593
2021	-	23,806,325	23,806,325	5,020,000	6,220,856	55,609,553	99,356,783	-	190,013,518
2022	-	29,843,513	29,843,513	5,270,000	5,970,194	49,545,005	96,066,206	-	186,694,917
2023	-	28,853,025	28,853,025	5,505,000	5,734,931	49,479,760	97,300,415	-	186,873,131
2024	-	28,640,038	28,640,038	5,730,000	5,506,650	49,384,537	97,408,161	-	186,669,386
2025	-	25,298,938	25,298,938	5,975,000	5,265,234	49,538,386	84,182,823	-	170,260,380
2026	-	9,630,775	9,630,775	6,255,000	4,985,625	49,432,274	84,428,788	-	154,732,461
2027	-	10,046,013	10,046,013	6,575,000	4,664,875	49,464,786	82,599,009	-	153,349,683
2028	-	10,138,313	10,138,313	6,910,000	4,327,750	49,429,511	82,623,069	-	153,428,642
2029	-	-	-	7,265,000	3,973,375	49,237,245	82,209,607	-	142,685,227
2030	-	-	-	7,635,000	3,600,875	36,006,444	74,146,250	-	121,388,569
2031	-	-	-	1,485,000	3,372,875	36,058,063	40,331,058	-	81,246,996
2032	-	-	-	1,555,000	3,296,875	26,217,613	25,994,988	-	57,064,476
2033	-	-	-	1,635,000	3,217,125	26,093,261	26,074,881	-	57,020,267
2034	-	-	-	1,720,000	3,133,250	22,105,631	26,105,875	-	53,064,756
2035	-	-	-	1,805,000	3,045,125	22,043,244	26,070,375	-	52,963,744
2036	-	-	-	11,000,000	2,725,000	21,960,000	17,559,500	-	53,244,500
2037	-	-	-	11,500,000	2,162,500	12,606,000	17,554,250	-	43,822,750
2038	-	-	-	12,000,000	1,575,000	12,590,625	8,743,250	-	34,908,875
2039	-	-	-	12,500,000	962,500	12,576,750	-	-	26,039,250
2040	-	-	-	13,000,000	325,000	-	-	-	13,325,000

(a) Debt outstanding as of 9/30/09.

(b) Includes Assumed MUD's, each payable from City ad valorem taxes and additionally payable from surplus Net Revenues of the Waterworks and Sewer System. See "THE CITY - Annexation Program".

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. 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 seventeenth 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 "Credit Agreements" below. The Master Ordinance and the Seventeenth 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, secured by a 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 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 "Water and Wastewater System 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 obligation 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 Supplements 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 City will fund the Required Reserve Amount for the Bonds with bond proceeds. 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 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 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 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.

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.

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 division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") 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 $106,790,325.15 and is funded with Financial Commitments issued by FSA. 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 Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions contained in the Master Ordinance and any Supplement, 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 Supplement 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 2009-2010 operating budget, the City Council adopted a rate increase, which became effective November 1, 2009. 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 Supplement relating to their issuance.

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and, subject to obtaining the consent of the Credit Providers of the Credit Agreements for the Commercial Paper, 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 – "EXCERPTS FROM THE ANNUAL FINANCIAL REPORT – Note 14f – Swap for the Water & Wastewater System" 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 $8,562,123.91.

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 of the City 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.

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. As of the date of this Official Statement, the net aggregate monthly payments the City has made under the 2008 Swap Agreement equal $5,753,935.76.

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

Moody's, S&P, and Fitch (collectively referred to as 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 and Ambac, the issuers of the surety bonds presently deposited to the credit of the Reserve Fund, are as follows:

	Ambac	FSA	MBIA	XL
Moody's Investors Services	Caa2	Aa3	B3	Ca
Standard & Poor's Rating Services	CC	AAA	BB+	R
Fitch Rating Services	WD	AA	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.

DESCRIPTION OF THE BONDS

The Bonds will be dated November 1, 2009, and interest will accrue from their dated date. Interest will be payable on May 15, 2010, and on each November 15 and May 15 thereafter until maturity or prior redemption. The Bonds will mature on November 15 in the years 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 only 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, 2020, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof on November 15, 2019, or any date thereafter, at the par value thereof, plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing on November 15 in each of the years 2034 and 2039 (the "Term Bonds") are subject to mandatory redemption prior to maturity in part, by lot, selected by the Paying Agent/Registrar, at a price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption on the dates, in the years and principal amounts as follows:

Bonds due November 15, 2034		Bonds due November 15, 2039	
Redemption Date (November 15)	Principal Amount	Redemption Date (November 15)	Principal Amount
2030	$1,485,000	2035	$11,000,000
2031	1,555,000	2036	11,500,000
2032	1,635,000	2037	12,000,000
2033	1,720,000	2038	12,500,000
2034*	1,805,000	2039*	13,000,000

*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 the registered owner of each Bond to be redeemed in whole or in part at the address of the bondholders 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 bondholder.

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 Sates, 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 Wells Fargo Bank, N.A., Austin, 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 act as and perform the duties of Paying Agent/Registrar for the Bonds.

Interest on the Bonds shall 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 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 corporate 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 shall 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 each interest payment date. In the event of a non payment of interest on 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 (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of 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 Seventeenth 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 Seventeenth 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 Seventeenth Supplement authorizing the issuance of the Bonds, 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 Seventeenth 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 Seventeenth 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 Texas 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 Seventeenth 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 required 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.

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BOOK-ENTRY-ONLY SYSTEM

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

Redemption proceeds 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 Direct and Indirect Participants.

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

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 1,679 full-time regular employees as of September 30, 2009. The Water and Wastewater System had approximately 1,057 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	2 Years
Perwez Moheet, CPA	Deputy Director	30 Years
David Anders	Assistant Director, Finance and Business Services	21 Years
Jane Burazer	Assistant Director, Treatment	16 Years
George Calhoun	Assistant Director, Pipeline Operations	20 Years
Gopal Guthikonda, P.E.	Assistant Director, Engineering	22 Years
David Juarez, P.E.	Assistant Director, Water Resource Management	18 Years**
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	13 Years**

* As of September 30, 2009.
**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 450 square miles. The City also has contracted to supply treated water on a wholesale basis to seven municipal utility districts ("MUDs"), one water control and improvement district ("WCID"), five water supply corporations, two private utilities, and the Cities of Manor, Rollingwood, and Sunset Valley.

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 districts. 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).

1982 – 1,356,000 Acre Feet	1991 – 829,700 Acre Feet	2000 – 627,370 Acre Feet
1983 – 587,000 Acre Feet	1992 – 5,419,000 Acre Feet	2001 – 1,371,435 Acre Feet
1984 – 764,000 Acre Feet	1993 – 978,000 Acre Feet	2002 – 1,674,985 Acre Feet
1985 – 751,000 Acre Feet	1994 – 708,200 Acre Feet	2003 – 1,017,294 Acre Feet
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

Using the last twenty-five years from 1984-2008, the average flow was 1,342,577 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 over 3 times the amount of water treated for distribution (53 billion gallons) by the City for the fiscal year ended September 30, 2008.

Water Rights. 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. The City is currently decommissioning 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 3,500 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 167 million gallons, 30,037 fire hydrants and 44 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.

Within the three year period that commenced on October 1, 2008, the City anticipates initiating construction of 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 the additional capacity is expected to come partially from $141 million of bonds for WTP No. 4, the issuance of which was deferred in the late 1980's. Additional costs are anticipated to be funded with current revenue of the Water and Wastewater Utility or by issuing commercial paper.

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 1999 through 2008.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Millions of Gallons)
1999	46,422	(0.0)	216
2000	52,194	12.4	227
2001	50,140	(3.9)	243
2002	50,883	1.5	214
2003	51,111	.4	232
2004	48,469	(5.2)	197
2005	51,374	6.0	247
2006	56,603	10.1	217
2007	45,868	(19.0)	180
2008	53,066	15.7	227

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 total peak day requirements projected by the City.

Fiscal Year	Total Pumpage (Millions of Gallons)	Maximum Day Pumpage (Millions of Gallons)
2009	55,385	245
2010	56,289	249
2011	57,270	254
2012	58,301	258
2013	59,350	263
2014	60,155	268
2015	61,242	272
2016	62,349	277
2017	63,477	281
2018	64,624	286

Source: City's Water and Wastewater Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2004		2005		2006		2007		2008	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		48,468,963		51,373,925		56,602,592		45,867,627		53,065,960
Less: Sales to Other Water Utilities (1)		3,039,726		3,152,488		4,116,576		3,159,689		3,830,477
Thousand Gallons to System		45,429,237		48,221,437		52,486,016		42,707,938		49,235,483
Water Sales:										
Urban	173,445	35,914,748	177,431	37,367,109	182,417	41,300,660	186,888	34,879,586	190,116	40,520,123
Rural	12,787	1,948,996	12,535	2,340,356	12,142	2,763,320	11,504	1,982,539	11,444	2,158,250
	186,232	37,863,744	189,966	39,707,465	194,559	44,063,980	198,392	36,862,125	201,560	42,678,373
City Departments	388	643,073	435	1,005,527	483	1,290,559	491	1,001,864	497	1,195,465
Total Sales to Ultimate Consumer	186,620	38,506,817	190,401	40,712,992	195,042	45,354,539	198,883	37,863,989	202,057	43,873,838
Used by Water Utility		74,597		84,851		103,749		105,645		174,946
Other Unmetered Usage		1,424,988		1,510,393		1,664,116		1,348,508		1,560,139
Loss and Unaccounted For		5,422,835		5,913,201		5,363,612		3,389,796		3,626,560
Thousand Gallons to System		45,429,237		48,221,437		52,486,016		42,707,938		49,235,483
Maximum Daily Consumption		190,784		236,540		241,456		176,979		227,144
Average Daily Consumption		114,031		120,179		135,537		112,355		130,697

(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 (2004 - 2008)

Fiscal Year Ended September 30
(Gallons and Dollars in Thousands) (2)

	2004		2005		2006		2007		2008	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
Samsung	499,627	$ 1,336	499,761	$ 1,440	688,096	$ 1,363	783,881	$ 2,605	1,118,400	$ 4,020
University of Texas	909,593	2,577	893,173	3,337	936,929	3,203	855,424	4,799	1,085,005	3,521
Water District 10	787,407	1,687	844,337	2,030	1,078,395	2,597	775,830	2,011	1,056,852	2,722
Spansion (formerly AMD)	652,030	1,871	635,518	1,852	613,290	1,963	552,661	1,687	749,225	2,024
Freescale, Inc (1)	1,003,329	2,687	927,240	2,694	848,429	2,764	886,402	2,909	748,582	2,696
Wells Branch MUD	503,040	1,016	522,027	1,176	584,127	1,931	429,686	1,052	530,506	1,376
North Austin MUD	323,783	798	352,984	978	433,122	1,096	357,873	962	430,012	1,167
Anderson Mill MUD	484,241	991	474,223	1,040	571,852	1,308	494,179	1,194	423,442	1,045
Lost Creek MUD	276,227	617	286,023	701	346,036	900	251,273	667	316,004	895
Shady Hollow MUD	204,950	511	222,032	589	309,501	887	202,342	586	225,365	672
	5,644,227	$14,089	5,657,318	$15,838	6,409,777	$18,012	5,589,551	$18,472	6,683,393	$20,138

(1) Totals for Freescale, Inc. include their east Austin plant site and their west Austin plant sites.
(2) These columns may not add to the totals provided due to rounding.

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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 six MUDs, one WCID, one private utility, 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 permitted capacity of 150 mgd, one biosolids treatment and disposal facility, over 2,520 miles of sanitary wastewater mains and lines, and 120 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 2004, the City received from the TCEQ renewals of discharge permits (TPDES permits) for all its wastewater treatment plants. The permits are renewable again in 2009 and renewal applications have been filed with the TCEQ.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During fiscal year 2008 average flow was 47 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 2008 average flow was 35 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.

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 1999 through 2008.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
1999	34,298	8.5
2000	30,684	(10.5)
2001	34,289	11.7
2002	33,361	(2.7)
2003	31,815	(4.6)
2004	31,316	(1.6)
2005	31,184	(0.4)
2006	28,399	(8.9)
2007	35,623	25.4
2008	30,265	(15.0)

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Projected Wastewater Flows - TABLE THIRTEEN

The following table summarizes the wastewater flows projected to be received at the City's wastewater treatment plants.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)
2009	33,694
2010	34,191
2011	34,729
2012	35,361
2013	36,007
2014	36,768
2015	37,495
2016	38,238
2017	39,065
2018	39,951

Source: City's Water and Wastewater Utility. Such projections are based on actual operating experience.

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 current approved FY 2010-14 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately $1,399 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 $1,067.4 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements) and (2) the application of $331.6 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.

The City has previously entered into contractual commitments with fourteen municipal utility districts for the construction of improvements to and extensions of the City's Water and Wastewater System. The commitments for the financing of such improvements and extensions exist in the form in which the districts issue bonds and construct the improvements. The City generally becomes the owner of such improvements upon completion of construction. The City makes payments equal to its pro rata share of total debt service on the bonds from the City's user fees charged to customers using such improvements, surplus Net Revenues from the Water and Wastewater System and, if necessary, City ad valorem taxes. The districts pay their pro-rata share of the debt service due on bonds directly to the City.

Some of the contractual commitments of the City with the most recently approved districts vary from the process described above in that the issuance by the districts of bonds for such improvements and extensions creates a lien on and pledge of the Net Revenues of the Water and Wastewater System to cover the City's payments on the total debt service. The lien is known as a Separate Lien Obligation and is on a parity with respect to the lien on and pledge of the Net Revenues of the Water and Wastewater System with the Prior Subordinate Lien Obligations and Parity Water/Wastewater Obligations already issued by the City or to be issued in the future. No pledge of the City's ad valorem taxes is made. The City will own, operate and maintain the facilities after completion of the project. In addition, the City may request that some of the districts finance improvements to the City's water and/or wastewater treatment facilities.

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 MUD's and thereby assumed their outstanding utility system debt.

The City previously consented to the creation of twelve MUDs inside the City's corporate limits, of which ten have been dissolved. Three of the twelve MUDs had their annexation status changed from full purpose to limited purpose. Moore's Crossing MUD also had its annexation status changed from full purpose to limited purpose and Northwest Austin MUD 1 is annexed for full purposes. The creation of the inside City districts was approved by the TCEQ. They receive retail water and wastewater services as well as other services from the City and will issue bonds and levy an ad valorem tax to finance internal water, wastewater and drainage facilities. Under existing law, the City will not have to assume any of the debt issued for these City districts, so long as they are not dissolved.

Water and Wastewater Rates

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.

Texas 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, 2009 – TABLE FOURTEEN

Monthly Customer Charges

Customer Account Charge	Equivalent Meter Charge			
	Customer Account Charge per Month	Meter Size	Retail Meter/Fire Protection Component Charge per Month	Wholesale Meter Charge per Month
Retail Customer Account Charge ($/Month)	$4.69	5/8	$ 2.01	$ 1.29
		3/4	3.22	1.93
Wholesale Customer Account Charge ($/Month)	$4.61	1	4.69	2.83
		1¼	6.80	4.34
		1½	9.83	5.40
		2	16.86	7.97
		3	34.63	19.29
		4	71.35	32.14
		6	147.36	64.28
		8	832.49	96.43
		10	871.25	128.57
		12	894.51	147.85

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Volume Unit Charge (1)

Unit Cost per 1,000 Gallons	
Single-Family Residential (2)	
0 – 2,000 Gallons	$ 1.00
2,001 – 9,000 Gallons	2.62
9,001 – 15,000 Gallons	6.71
15,001 – 25,000 Gallons	9.00
25,001 – Over Gallons	10.00
Multifamily (3)	
Off Peak	$3.50
Peak	3.86
Commercial (3)	
Off Peak	$4.21
Peak	4.63
Large Volume/Industrial (3)	
Applied Materials	
Off Peak	$4.21
Peak	4.63
Freescale	
Off Peak	$4.07
Peak	4.48
Hospira	
Off Peak	$4.21
Peak	4.63
Samsung	
Off Peak	$4.02
Peak	4.43
Sematech	
Off Peak	$3.90
Peak	4.29
Spansion	
Off Peak	$3.86
Peak	4.25
University of Texas	
Off Peak	$4.20
Peak	4.62

(1) Wholesale unit charges vary between $2.86 and $7.33 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, 2009 – TABLE FIFTEEN

Customer Account Charge

	Retail Customers	Wholesale Customers
Customer Account Charge ($/month)	$8.50	$8.50

Volume Unit Charge (1)

	Unit Cost per 1,000 Gallons (2)
Retail	
Single-Family	
0 - 2,000 Gallons	$3.43
2,001 - Over Gallons	7.73
Multifamily	7.19
Commercial	7.22
Large Volume	
Applied Materials	7.22
Freescale	6.64
Hospira	6.87
Samsung	6.26
Sematech	6.25
Spansion	6.42
University of Texas	7.01

(1) Wholesale unit charges vary between $3.72 and $4.94 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 service rates effective November 1, 2009, reflect a 4.5% 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	2004	2005	2006	2007	2008
Inside City (Urban)					
Residential	$ 22.23	$ 25.66	$ 31.16	$ 22.64	$ 31.82
Multi-Family	321.61	366.72	410.58	403.61	449.00
Commercial	201.60	218.37	259.95	231.33	269.13
Industrial	95,841.88	97,646.05	101,314.54	114,819.11	133,215.70
City Departments	464.28	703.57	749.31	524.49	559.07
Outside City (Rural)					
Residential	25.74	30.66	38.01	27.51	39.73
Multi-Family	246.53	311.23	392.34	356.31	481.47
Commercial	206.87	369.57	440.01	266.96	238.10
Average Monthly Bill					
Above Customers	48.91	55.78	69.09	54.48	67.42
Sales to Other Water Utilities*	28,783.44	33,575.67	42,981.04	34,079.94	49,534.41
Average Monthly Bill					
All Customers	$ 51.99	$ 59.30	$ 69.49	$ 57.91	$ 71.58
Average Monthly Use in 1000 Gallons - Water					
Inside City (Urban)					
Residential	7.56	7.90	9.06	6.80	8.27
Multi-Family	128.36	133.34	140.50	130.24	133.12
Commercial	65.40	64.05	71.33	59.26	64.55
Industrial	35,890.31	33,892.48	32,226.37	35,148.39	36,920.25
City Departments	148.19	206.27	222.26	171.02	197.55
Outside City (Rural)					
Residential	8.35	8.81	10.34	7.77	9.63
Multi-Family	93.97	104.33	127.28	124.25	141.63
Commercial	67.59	109.38	115.99	73.32	55.01
Average Monthly Use					
Above Customers	17.01	17.59	19.31	15.91	17.75
Sales to Other Water Utilities*	13,597.73	14,049.02	17,127.23	13,239.38	18,489.52
Average Monthly Use					
All Customers	18.46	19.06	21.06	17.24	19.30
Average Revenue Per 1000 Gallons - Water					
Inside City (Urban)					
Residential	$ 2.94	$ 3.25	$ 3.44	$ 3.33	$ 3.85
Multi-Family	2.51	2.75	2.92	3.10	3.37
Commercial	3.08	3.41	3.60	3.90	4.17
Industrial	2.67	2.88	3.14	3.27	3.61
City Departments	3.13	3.41	3.37	3.04	2.83
Outside City (Rural)					
Residential	3.08	3.48	3.68	3.54	4.12
Multi-Family	2.62	2.98	3.08	2.87	3.40
Commercial	3.06	3.38	3.79	3.64	4.33
Average Revenue					
Above Customers	2.88	3.17	3.37	3.42	3.80
Sales to Other Water Utilities*	2.12	2.39	2.51	2.57	2.68
Average Revenue					
All Customers	$ 2.82	$ 3.11	$ 3.30	$ 3.36	$ 3.71

*Includes all wholesale customers.

Analysis of Wastewater Bills - TABLE SIXTEEN B

	Fiscal Year Ended September 30				
Average Monthly Bill Per Customer - Wastewater	2004	2005	2006	2007	2008
Inside City (Urban)					
Residential	$ 21.47	$ 24.21	$ 26.43	$ 28.25	$ 32.83
Multi-Family	432.29	502.41	540.34	601.92	708.35
Commercial	210.53	235.85	255.75	271.92	313.23
Industrial	112,779.87	116,270.85	119,912.89	130,895.01	160,122.61
City Departments	224.06	257.71	177.19	195.06	218.13
Outside City (Rural)					
Residential	26.76	29.82	32.73	35.78	41.39
Multi-Family	383.09	463.32	599.96	707.28	921.50
Commercial	405.92	475.17	575.54	552.38	670.41
Average Monthly Bill					
Above Customers	50.15	56.06	59.74	64.04	74.50
Sales to Other Utilities*	28,846.49	29,263.88	34,418.20	36,934.27	44,450.94
Average Monthly Bill					
All Customers	$ 51.65	$ 57.55	$ 61.44	$ 66.03	$ 76.85
Average Monthly Use in 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	4.69	4.61	4.68	4.51	4.61
Multi-Family	107.96	108.60	108.69	109.60	111.74
Commercial	47.01	46.02	46.76	45.19	45.81
Industrial	28,993.95	26,468.38	24,063.62	24,676.79	25,903.39
City Departments	57.44	56.58	35.48	30.04	30.87
Outside City (Rural)					
Residential	5.12	5.12	5.26	5.28	5.44
Multi-Family	96.08	99.67	120.67	129.58	143.31
Commercial	92.21	89.69	102.00	94.60	96.83
Average Monthly Use					
Above Customers	11.58	11.28	11.13	10.84	11.02
Sales to Other Wastewater Utilities*	9,362.28	9,112.44	9,455.98	9,649.13	9,708.18
Average Monthly Use					
All Customers	12.07	11.75	11.60	11.36	11.53
Average Revenue Per 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	$ 4.58	$ 5.25	$ 5.65	$ 6.26	$ 7.13
Multi-Family	4.00	4.63	4.97	5.49	6.34
Commercial	4.48	5.12	5.47	6.02	6.84
Industrial	3.89	4.39	4.98	5.30	6.18
City Departments	3.90	4.55	4.99	6.49	7.07
Outside City (Rural)					
Residential	5.23	5.82	6.22	6.78	7.61
Multi-Family	3.99	4.65	4.97	5.46	6.43
Commercial	4.40	5.30	5.64	5.84	6.92
Average Revenue					
Above Customers	4.33	4.97	5.37	5.91	6.76
Sales to Other Utilities*	3.08	3.21	3.64	3.83	4.58
Average Revenue					
All Customers	$ 4.28	$ 4.90	$ 5.30	$ 5.81	$ 6.67

*Includes all wholesale customers.

THE ELECTRIC UTILITY SYSTEM
"AUSTIN ENERGY"

Management

Name	Title	Length of Service with City*
Roger Duncan	General Manager	19 Years
Cheryl Mele	Chief Operating Officer	17 Years
Kerry Overton	Deputy General Manager	9 Years
Elaine Hart, CPA	Senior Vice President, Finance and Corporate Services	20 Years**
Pat Sweeney	Acting Senior Vice President, Power Production	18 Years
Greg Troxell	Acting Senior Vice President, Electric Service Delivery	24 Years
JJ Gutierrez	Vice President, Customer Care	15 Years
Karl Rabago	Vice President, Distributed Energy Services	.5 Years

* As of September 30, 2009.
**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 TXU 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 the Period of July 1, 2008 through June 30, 2009	Average Monthly Number of Customers	Percent
Residential	361,255	89.00%
Commercial	42,984	10.59%
Industrial	80	0.02%
Public Street & Highway	4	0.00%
Sales to Governmental Authorities	1,568	0.39%
Total Service Area Customers	405,891	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.

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	325.0	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
Combined Cycle	2004	300.0	Gas
Domain Combined Heat & Power	2004	4.5	Gas
RMEC 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		2,389.1	
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	165.0	Wind
Gas Recovery System, Inc	1994-2003	4.0	Landfill Methane
Ecogas Inc. and Energy Developments, Inc	2002-2003	7.8	Landfill Methane
Total Capability including Purchased Power		2,840.6	

(1) The City has also signed contracts to purchase electric energy to be provided in future years or in certain months each year during the term of the contract. See "CUSTOMER STATISTICS - Power and Energy Purchase Contracts".

See "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

% Generation	2004	2005	2006	2007	2008
Coal	37.8%	34.6%	29.7%	32.2%	31.2%
Natural Gas & Oil	20.2%	25.2%	27.9%	27.3%	26.7%
Nuclear	31.2%	27.9%	27.3%	25.8%	25.8%
Renewable Energy	2.6%	4.3%	5.7%	5.1%	6.3%
Purchased Power	8.2%	8.0%	9.4%	9.6%	10.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Fuel Type

Coal . . . Coal supplies are procured through a portfolio of contracts with transportation specifically managed to minimize cost. Typically several months of coal inventory are maintained to protect against disruptions. As of September 2009, coal inventories are larger than targeted and rail cars have been removed from service because rail service is sufficient to maintain coal inventory with fewer cars in operation.

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 Decker Power Station. Austin Energy maintains an oil reserve equivalent to several days of operation.

Nuclear . . . The South Texas Project Nuclear Operating Company, a Texas non-profit corporation ("STPNOC"), on behalf of the owners of the South Texas Project (see "South Texas Project Ownership" below), is responsible for the supply of nuclear fuel and for the disposal of spent fuel for the South Texas Project Electric Generation 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 ("NUF6").

Fayette Power Project

The Fayette Power Project (FPP) is a joint power project owned by the LCRA and Austin Energy. Austin Energy is a 50% owner in Units 1 & 2 of the Fayette Power Project. A third unit is also at the facility, but it 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 is in the process of installing scrubbers on Units 1 & 2. It is estimated that the project cost will be in the range of $225 million for Austin Energy's share. The Design Phase was completed in February of 2006. Procurement of equipment and Phase II Engineering and Construction are currently underway. Project completion is scheduled for late 2010.

Austin Energy Gas Generation Facilities

All four (4) 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. Currently, a project is underway to add two General Electric LM6000 aeroderivative gas turbines at the Sand Hill Energy Center. The two new units (45 MW each) will be similar to the four existing peaking units installed at Sand Hill Energy Center in 2001. The new units will help Austin Energy meet generation capacity requirements after the October 1, 2007 closure of the Holly Street Power Plant. The project, estimated to be completed in mid 2010 and to cost $70 million, will be equity funded.

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.

South Texas Project Electric Generation Station ("STP")

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	410.0
NRG South Texas LP	44.0	1,127.5
CPS Energy	40.0	1,025.0
Total	100.0	2,562.5

STP is operated by STPNOC, financed and controlled 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 process is underway for Units 1 and 2. Completion of the license review process by STPNOC is expected in the fourth quarter of 2010 and submission to the NRC in 2011. Austin Energy currently anticipates receiving NRC approval in 2012.

On November 13, 2008, NRG 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, 2007, the STP capacity factor for Unit 1 was 107.7%, and for Unit 2 the capacity factor was 94.4%, resulting in a total capacity factor of 101.5%. 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 will be the replacement of the reactor vessel heads in 2009 and 2010. This is a proactive move to eliminate reactor head corrosion issues found throughout the industry and reported at other facilities. This project will be performed during regular scheduled refueling outages and the cost of the project is estimated to be in the range of $100 million. Austin Energy's share of this total will be approximately $16 million, and is anticipated to be funded from current revenue.

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.

Texas 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. In December 1996, the Austin City Council approved changes to offer customers more choices, although the existing base electric rates did not change. TABLE THREE shows the current Electric Utility System rates by customer class.

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.

Typical Residential Electric Bills of Seven Largest Texas Cities

City	Electric Bill*
San Antonio	$ 89.15
Austin	94.88
El Paso	124.31
Dallas/Fort Worth	150.20
Houston	154.64
Corpus Christi	171.62

*Average Residential Bill for 1,000 KWh during the period July 2008 – June 2009 including fuel costs. The cities shown, other than Austin and San Antonio, are served by investor owned utilities.
Source: Public Utility Commission of Texas publications Electric Utility Bill Comparisons, and Retail Electric Service Rate Comparisons.

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CUSTOMER STATISTICS

TABLE TWO shows service area billed customer sales since the year ended September 30, 2005. 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

	Fiscal Year Ended September 30				
	2005	2006	2007	2008	12 Months Ended 6-30-09
Revenue (000's)					
Residential	$ 348,281	$ 387,540	$ 356,143	$ 416,808	$ 419,418
Commercial	335,859	367,017	365,991	408,808	422,030
Industrial	93,448	108,491	113,248	138,901	144,160
Public Street & Highway	7,578	8,128	8,106	8,403	8,607
Sales to Government Authorities	74,110	80,334	76,358	86,069	87,487
Total	$ 859,278	$ 951,510	$ 918,846	$1,058,989	$1,081,702
MWH					
Residential	3,879,940	4,079,909	3,908,318	4,226,036	4,119,449
Commercial	4,195,212	4,287,176	4,350,912	4,530,470	4,459,733
Industrial	1,662,458	1,779,333	1,930,289	2,233,904	2,230,909
Public Street & Highway	46,366	46,873	47,230	47,657	47,800
Sales to Government Authorities	1,081,420	1,103,589	1,088,320	1,147,973	1,136,470
Total	10,865,396	11,296,880	11,325,069	12,186,040	11,994,361
Average Monthly Number of Customers					
Residential	331,490	338,184	345,197	352,574	361,255
Commercial	39,691	40,934	41,825	42,585	42,984
Industrial	68	75	75	78	80
Public Street & Highway	4	4	4	4	4
Sales to Government Authorities	1,482	1,501	1,519	1,549	1,568
Total	372,735	380,698	388,620	396,791	405,891
Average Monthly KWH per Customer					
Residential	975	1,005	943	999	950
Commercial	8,808	8,728	8,669	8,866	8,646
Industrial	2,037,325	1,974,842	2,135,275	2,384,102	2,323,864
Public Street & Highway	965,967	976,519	983,969	992,844	995,827
Sales to Government Authorities	60,809	61,283	59,712	61,749	60,399
Average Monthly Bill per Customer					
Residential	$ 87.55	$ 95.30	$ 85.98	$ 98.52	$ 96.75
Commercial	705.15	747.17	729.21	799.98	818.19
Industrial	114,519.75	120,411.70	125,274.28	148,240.41	150,166.31
Public Street & Highway	157,883.58	169,328.09	168,883.61	175,066.04	179,303.36
Sales to Government Authorities	4,167.25	4,460.99	4,134.63	4,629.61	4,649.61
Average Revenues per KWH					
Residential	$0.08976	$0.09499	$0.09112	$0.09863	$0.10181
Commercial	0.08006	0.08561	0.08412	0.09024	0.09463
Industrial	0.05621	0.06097	0.05867	0.06218	0.06462
Public Street & Highway	0.16345	0.17340	0.17164	0.17633	0.18005
Sales to Government Authorities	0.06853	0.07279	0.06924	0.07497	0.07698

Source: Austin Energy.

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Electric Rates – TABLE THREE

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

				Energy Charge	
				Winter	Summer
Customer Class	Fuel Adjustment Clause (2)	Customer Charge	1st 500 kWh	November – April	May - October
Residential Service (E01)	All kWh	$6.00	$.0355 Per kWh	$.0602 All kWh	$.0782 All kWh
				Above 500 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 projected to total approximately $60 million in 2009. 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 competitive renewable energy zones (CREZ) and promulgates plans to construct approximately $5 billion in new transmission plant. This new transmission plant should be completed before 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.

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 a renewable energy charge in lieu of the fuel adjustment factor 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 six 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 up to 15 years, based on Austin Energy's contracts for wind-generated power.

	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 (through August)	510,426,436

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 Texas wholesale power market.

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Generation And Use Data – TABLE FOUR

	Fiscal Year Ended September 30									
	2005		2006		2007		2008		12 Months Ended June 30, 2009	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		10,734,106,000		10,730,704,000		10,999,758,000		11,446,861,000		11,067,951,000
kWh Received from ERCOT		1,272,416,000		1,472,202,000		1,661,154,000		2,067,170,000		2,507,404,000
Less: kWh Delivered to ERCOT		(223,536,000)		(196,935,000)		(571,210,000)		(355,061,000)		(423,442,000)
Less: kWh Delivered to Other Utilities		(318,678,000)		(207,998,000)		(151,020,000)		(369,236,000)		(544,491,000)
Total kWh Delivered to Service Area		11,464,308,000		11,797,973,000		11,938,682,000		12,789,734,000		12,607,422,000
Service Area Energy Use:										
Residential	331,490	3,879,940,471	338,184	4,079,909,225	345,197	3,908,317,955	352,574	4,226,036,265	371,539	4,119,448,776
General Service (Less UT & ENW)	40,380	6,620,136,778	41,650	6,829,923,758	42,559	7,042,867,290	43,342	7,566,322,558	33,472	7,479,545,763
	371,870	10,500,077,249	379,834	10,909,832,983	387,756	10,951185,245	395,916	11,792,358,823	405,011	11,598,994,539
Public Street Lighting	4	33,713,031	4	34,145,561	4	34,486,701	4	35,142,877	4	35,416,687
City Utility Departments	173	200,818,623	172	213,515,923	180	200,560,827	179	210,643,582	186	214,541,345
Other City Departments	687	118,133,880	687	126,657,490	679	126,263,735	690	133,769,398	689	131,423,882
	864	352,665,534	863	374,318,974	863	361,311,263	873	379,555,857	879	381,381,914
Total Service Area Sales	372,734	10,852,742,783	380,697	11,284,151,957	388,619	11,312,324,408	396,790	12,171,914,680	405,890	11,980,376,453
Sales to UT & ENW (Nightwatchman)	1	12,653,375	1	12,727,340	1	12,743,795	1	14,124,875	1	13,984,205
Loss and Unaccounted For		598,911,842		501,093,703		613,613,797				613,061,342
Total kWh Delivered to Service Area	372,735	11,464,308,000	380,698	11,797,973,000	388,620	11,938,682,000	396,791	12,789,734,000	405,891	12,607,422,000
System Peak Demand (kW)		2,445,000		2,430,000		2,391,000		2,514,000		2,602,000

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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. See "INVESTMENTS – Legal Investments".

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of June 30, 2009, the netting of Austin Energy's options, futures, and basis swaps, valued at mark-to-market, resulted in an unrealized loss of $62,270,496. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the City's financial statements. For further information, refer to the footnotes from the Comprehensive Annual Financial Report for the fiscal year ended September 30, 2008 (APPENDIX B).

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.

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 20-year contract with Renewable Energy Systems ("RES") America Development, Inc. to purchase the output of a 60 MW wind energy project located in Floyd County, Texas. On October 10, 2006, RES assigned the contract to Whirlwind Energy LLC. 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 September 2007, Austin Energy signed a 20-year contract with Sun Edison LLC to purchase the output of a 710 KW solar energy project to be located on Austin Energy's Decker Creek Power Station property in eastern Travis County. The project was subsequently cancelled due to an inability to secure financing.

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 streams 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. The project is located on an Austin Energy site just east of Austin and is expected to commence commercial operation in December 2010.

Transmission and Distribution System

The transmission and distribution plant statistics of Austin Energy as of September 28, 2009, are as follows:

Electric Transmission & Distribution System Statistics

	Number of Substations	Miles of Lines	Kilovolts
Transmission	11	636	345/138/69
Distribution	56	11,279	35/12.5/7.2
Overhead Primary		2,366	
Overhead Secondary		3,127	
Underground Primary		2,866	
Underground Secondary		2,920	

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 Texas 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 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. 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.

Conventional System Improvements

In September 2009, the 2010-2014 Capital Improvements Spending Plan was approved by the City Council in the amount of $1,124,198,000. 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 commercial paper.

RESPONSE TO COMPETITION

Austin Climate Protection Plan

On February 7, 2007, then Austin Mayor Will Wynn presented an aggressive plan to address global warming from a City perspective. The Austin Climate Protection Plan is intended to eliminate carbon dioxide emissions from virtually all municipal activities by the year 2020. This includes powering all City facilities with 100% renewable energy by 2012, converting the entire city fleet of vehicles to alternative fuels and electric power by 2020, and implementing greenhouse gas reduction plans in every City department. The Plan calls for Austin Energy to aggressively ramp up its clean energy programs, achieving 700 megawatts of new conservation and efficiency savings and having 30 percent of its energy needs come from renewable resources by 2020. It also calls for making all new single-family homes zero net-energy capable by 2015 and increasing efficiency in all new commercial buildings by 75 percent in the same period. This plan was adopted by City Council on February 15, 2007. In response Austin Energy's Strategic Plan has been revised to reflect these new goals.

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 carefully manage its exposure when considering future courses of action. This approach allows Austin Energy to prepare for future options without prematurely investing and allows 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 will support economic development and maintain exceptional system reliability as well.

Third, an Energy Resource strategy directs Austin Energy to first 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 intends not to commit prematurely to unproven technologies; however, Austin Energy intends to pursue a leading-edge position that will allow Austin Energy to readily identify, evaluate and deploy emerging renewable technologies.

Five objectives were identified to support the strategies including:

- Maintain Financial Integrity - Austin Energy's goal is to achieve an "AA" (Standard & Poor's) Credit Rating by 2010 on its separate lien revenue bonds. Austin Energy has achieved an "A+" rating in 2007-2008. Austin Energy provides a return to its citizen owners in the form of financial support for local government.

- Create and Sustain Economic Development - Austin Energy will create and sustain economic development by providing contract opportunities for local businesses, attracting new businesses, and supporting the development of a clean energy industry.

- Customer Satisfaction - Austin Energy will develop a better understanding of its customers by monitoring indicators and conducting customer surveys. Austin Energy's target is a customer satisfaction score of 83/100 by 2010.

  Additionally, Austin Energy understands the link between customer satisfaction and employee satisfaction, and includes an Employee Satisfaction goal in this strategy. Austin Energy will prepare its employees to work successfully in a competitive environment by providing the skill development and information necessary to make informed business decisions. Austin Energy targets an employee satisfaction index showing a 10% improvement in positive responses on the City's Listening to the Workforce Survey by 2010.

- Exceptional System Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages.
  - SAIFI (system average interruption frequency index) = 0.8 interruptions per year
  - SAIDI (system average interruption duration index) = 60 minutes per year

- Renewable Portfolio Standard - Austin Energy intends to continue its nationally recognized renewable resources and Green Building programs. By 2020, Austin Energy will own or have contracts for a Renewable Portfolio equal to 30% of its sales, as well as 15% increase in demand side management impacts. Austin Energy will demonstrate its commitment to solar energy by achieving a goal of 100 MW of solar generation by 2020.

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The Strategic Plan is reviewed and updated annually. The following table outlines the results over the last 4 years:

STRATEGIC PLANNING PERFORMANCE MEASURES 2005-2008

This table reflects actual performance which is measured after the fiscal year ends on September 30.

STRATEGY	OBJECTIVE	TARGET			2004 – 2005		2005 – 2006		2006 - 2007		2007 - 2008	
Risk Management	Maintain Financial Integrity	"AA" (S&P) credit rating by 2010 – Separate lien electric utility system revenue bonds			"A"		"A+"		"A+"		"A+"	
Excellent Customer Service	Create and Sustain Economic Development	Exceed M/WBE Goals by 2008	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)
		Construction	12.90	12.60	6.86	9.62	1.07	5.48	6.58	0	NA	NA
		Commodity	3.50	6.20	2.53	5.00	0.87	6.20	0.92	2.49	1.22	4.39
		Non-Professional	14.10	15.00	7.83	3.07	4.24	3.37	5.82	0.40	7.33	5.11
		Professional	16.50	14.20	0.00	0.04	0.08	0.00	0.00	0.00	NA	NA
	Customer Satisfaction	Employee Satisfaction target of 10% improvement on LTW Survey by 2010, i.e. 70% positive rating overall			55.25%		58%		61%		59%	
		Customer Satisfaction target of 83/100 by 2010			79/100		80/100		80/100		82/100	
	Exceptional System Reliability	SAIDI @ 60 minutes by 2005			79.06		86.10		82.13		48.29	
		SAIFI of 0.8 interruptions/yr by 2005			1.05		0.99		1.02		0.66	
		SATLPI of 4.1 average/yr by 2005			4.10		4.20		4.10		3.60	
		Intermediate/Peaking Peak Season EAF greater than or equal to 95% STP			94.9%		93.2%		95.9%		96.3%	
		STP EAF of 94.8%			89.5%		95.3%		90.6%		96.1%	
		FPP EAF of 94.2%			97.3%		87.0%		93.1%		91.1%	
Energy Resource	Renewable Portfolio Standard & Energy Efficiency	30% renewable energy by 2020			3.8%		6.0%		5.8%		6.6%	
		15% energy efficiency by 2020			6.7%		7.3%		8.2%		8.8%	
		100MW solar generation by 2020			0.85 MW		1.00 MW		1.60 MW		2.603 MW	
		700 MW peak demand savings by 2020*							65.4 MW		129 MW	

*Amended in City Council Resolution No. 20070215-023 establishing the Austin Climate Protection Plan.

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 adopted 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.

- 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 operating cash.
  - Up to a maximum of 60 days additional operating cash set aside as a Contingency Reserve.
  - Any additional funds over the maximum 120 days of operating cash 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 stabilizes 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 (2) years. The Competitive Reserve may be used to improve the strategic position of Austin Energy including, but not limited to, funding capital needs in lieu of debt issuance, reduction of outstanding debt, rate reductions, acquisitions of new products and services, and new technologies. Funding may be provided from net revenue available after meeting the General Fund Transfer (described below), 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. (Actual percentage has been 9.1% for the last 8 years, with the exception of 2002 at 8.9%.)

- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments. See "INVESTMENTS – Legal 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 (4) 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/08-09/downloads/Performance_FINAL_reduced.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's rates, except for wholesale transmission rates, are regulated by the City Council. Ratepayers can appeal 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. Texas 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.

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, a 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 ERCOT as a part of the rules that were adopted by the PUCT to ensure open access to the wholesale electric market in Texas 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 Texas 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 Texas. SB 7 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 of Austin has not opted in to competition. As a result, retail competition is not allowed inside Austin Energy's service territory. Austin Energy participates in ERCOT'S 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 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 will allow Austin Energy to hedge congestion risk in the new market. On February 23, 2006, the PUCT voted to approve the nodal Protocols for the ERCOT region. The nodal market will begin operation on December 1, 2010. In anticipation of the opening of the nodal market, Austin Energy employees are 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 are taking steps to modify key systems and processes to assure Austin Energy's capability to participate fully in the ERCOT Nodal 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 Texas law that is similar to the RTOs envisioned in the Order 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 Corporation ("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 Environmental Policy commits that Austin Energy shall maintain its status as a leader in environmental stewardship and continually improve its environmental performance. 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 Care and Protection 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 Care and Protection 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 Care and Protection 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

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 1999, as part of SB7, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 Texas Administration Code ("TAC") 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). All of Austin Energy's then operational units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. The SB7 permitting program instituted a "cap and trade" program for NOx emissions. "Grandfathered" units were allocated allowances of NOx based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit. Austin Energy's SB7 permitted units must have enough SB7 emission allowances available to cover the actual emissions from these units on a yearly basis. If the total NOx emissions from these plants exceed the total system allocation, Austin Energy must purchase the additional allowances needed to cover its emissions. The emission-trading program will also allow Austin Energy to sell in the open market emission allowances derived from excess NOx reductions. Since the NOx emission rate from the Decker Unit 2 is considered very low compared to similar units, this unit was voluntarily included in this same permitting program. By making this voluntary move, Austin Energy significantly reduced the costs of complying with this program. A total of 1,741 tons of NOx were allocated to the "grandfathered" units and Decker Unit 2.

In addition to the NOx reductions made to comply with SB7, Austin Energy has made voluntary commitments to cap the emissions of NOx from Decker, Holly Street (now closed) and the new units at the Sand Hill Energy Center to a total of 1,500 tons per year. This commitment was made in order to assist with the Early Action Compact or EAC made between the governmental bodies of the Austin Area and USEPA. Austin Energy's total NOx emissions were 1,017 tons for the latest compliance reporting year ending April 30, 2008.

The TCEQ has also implemented further NOx reduction rules under 30 TAC 117. The TCEQ now requires that coal-fired units that were placed into service prior to December 31, 1995 and located in the east side of Texas (east of I-35) have a yearly average NOx emission rate of 0.165 lb/mmBtu or less. This rule also requires that gas-fired boilers and gas turbines in this same geographic region that were placed into service prior to December 31, 1995 (i.e., all of Austin Energy's currently operational Decker units) have a yearly average NOx emission rate of 0.14 lb/mmBtu or less. Modifications made to the Decker units resulted in an average emission rate of 0.097 lb/mmBtu for 2008. Modifications have been made to the Fayette Power Project Units 1 & 2 (which Austin Energy co-owns with the LCRA) and current emission rates are averaging approximately 0.107 lb/mmBtu. All the Decker units will be in compliance with their emission limits. All the Decker gas turbine units fall under an exemption from this rule due to their limited run times.

Austin Energy and the co-owner, LCRA are now in the process of installing scrubbers for Fayette Power Project Units 1 & 2. These scrubbers will reduce the emissions of SO2 from these units by at least 95%. These scrubbers should also reduce the emissions of mercury from these units as well.

Austin Energy has joined the California Climate Action Registry which requires Austin Energy to report green house gases emissions from its point and non-point sources. The emissions will be reported each year and will be certified by a third party auditor.

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, Holly Street and Sand Hill Energy Center, have TPDES and Stormwater Permits, which require monitoring and limitations of discharges. USEPA has also finalized regulations for cooling water intake structures on existing facilities. These regulations will affect Decker and Sand Hill Energy Center. Austin Energy will conduct studies over the next several years to determine the most cost effective methods for compliance with these new regulations.

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

Since 2001, Austin Energy has funded a program for removing distribution electrical equipment at risk for having polychlorinated biphenyls ("PCBs") from its service area beyond what is ordinarily removed due to equipment failures or line improvements. Austin Energy crews inspect and test overhead transformers and remove equipment at risk for having PCBs. Austin Energy has increased the inspections of its underground distribution system and is replacing rusted pad-mounted transformers that pose a risk for spills. Furthermore, substation equipment and soils are routinely tested prior to construction activities in the event that there is contamination from historical activities. Austin Energy has completed the decommissioning and remediation of the Seaholm Power Plant ("Seaholm"), and has been recognized by USEPA that Seaholm will be the first facility in the nation to receive a certificate of Ready for Reuse under the Toxic Substance Control Act related to PCBs. This certification is given to contaminated industrial facilities that have been cleaned and made available for public use. Additionally, Austin Energy has been selected by the TCEQ to receive its annual Environmental Excellence Award for Innovative Technology in the methods employed for the remediation activities performed during the decommissioning.

The Decker Power Plant is a "Gold" level member of Clean Texas. Clean Texas is a voluntary environmental leadership program to protect air, water, and land resources in Texas. Clean Texas recognizes organizations for creative approaches in resolving environmental challenges and setting goals that exceed compliance levels under existing regulations.

Austin Energy will continue to make the necessary changes to assure future compliance with the evolving regulatory requirements. Non-compliance with environmental standards or deadlines could result in reduced operating levels. Further compliance with environmental standards or deadlines could increase capital and operating costs.

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. 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 $12.52 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $174.95 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 will increase 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. The $2.75 billion of 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 $29.9 million during any one-policy year, based on current premium structure.

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. As required 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 June 30, 2009 was $153.9 million. For Fiscal Year 2010, 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".

COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS OCTOBER 1, 2003 TO JUNE 30, 2009

(in thousands rounded)

	(Unaudited) 12 Months Ended 6-30-09 (e)	Fiscal Year Ended September 30 2008	2007	2006	2005	2004
INCOME						
Revenue	$1,651,554	$1,628,261	$1,393,344	$1,412,853	$1,260,401	$1,076,511
Operating Expense	(1,077,559)	(1,012,532)	(846,005)	(824,870)	(730,697)	(626,412)
Balance Available for Debt Service	573,995	615,729	547,339	587,983	529,704	450,099
Depreciation and Amortization Expense	(221,108)	(192,726)	(190,203)	(193,517)	(167,150)	(149,578)
Earnings Before Interest Expense	352,887	423,003	357,136	394,466	362,554	300,521
Interest Incurred on Debt	(180,502)	(175,301)	(180,957)	(169,818)	(173,391)	(181,570)
Other	(4,812)	(10,868)	(16,530)	(9,840)	(10,640)	(51)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	$ 167,573	$ 236,834	$ 159,649	$ 214,808	$ 178,523	$ 118,900
PERCENTAGES						
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	(65.25%)	(62.18%)	60.72%	(58.38%)	(57.97%)	(58.19%)
Balance Available for Debt Service	34.75%	37.82%	39.28%	41.62%	42.03%	41.81%
Depreciation and Amortization Expense	(13.39%)	(11.84%)	(13.65%)	(13.70%)	(13.26%)	(13.89%)
Earnings Before Interest Expense	21.37%	25.98%	25.63%	27.92%	28.76%	27.92%
Interest Incurred on Debt	(10.93%)	(10.77%)	(12.99%)	(12.02%)	(13.76%)	(16.87%)
Other	(0.29%)	(0.67%)	(1.19%)	(0.70%)	(0.84%)	0.00%
INCOME BEFORE EXTRAORDINARY GAIN (LOSS)	10.15%	14.55%	11.46%	15.20%	14.16%	11.04%

(a) Income before transfers to the General Fund and Other Funds, for 12 months ended June 30, 2009, which are as follows (in thousands rounded):

Transfer to General Fund	$120,036
Transfers to Other Funds	3,724

(b) Excludes Combined Utility Funds' deferred costs recovered in future years of ($8,635) for twelve months ended June 30, 2009.

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

(d) Excludes capital contributions of $43,062 for twelve months ended June 30, 2009.

(e) See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.

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

	(Unaudited) 12 Months Ended 6-30-09 (1)	Fiscal Year Ended September 30 2008	2007	2006	2005	2004
REVENUE						
ELECTRIC UTILITY						
Domestic and Rural Residential	$ 411,669	$ 408,827	$ 351,207	$ 379,728	$ 345,623	$ 296,099
Commercial General	632,355	613,858	537,180	531,440	479,816	422,794
City Utility Departments	18,943	17,839	15,280	17,168	15,214	13,407
Public Street Lighting	6,539	6,365	6,056	6,023	5,556	5,703
City General Government Departments	8,846	8,647	7,691	8,363	8,694	7,595
Sales to Other Utilities	24,502	45,511	19,314	23,041	21,655	11,812
Transmission	56,513	56,004	57,237	46,864	40,063	36,230
Rent from Electric Property	2,729	2,485	2,405	2,472	1,656	1,805
Customers' Forfeited Discounts and Penalties	5,103	5,114	4,771	4,951	4,161	3,823
Miscellaneous	58,448	53,086	55,347	50,556	50,408	29,750
Total Electric Utility	$1,225,647	$1,217,736	$1,056,488	$ 1,070,606	$ 972,846	$ 829,018
WATER UTILITY						
Urban	$ 175,674	$ 158,603	$ 120,766	$ 141,267	$ 120,864	$ 103,547
Rural	9,696	8,853	6,967	9,854	8,606	6,436
Sales to Other Water Utilities	10,976	10,381	7,755	10,387	8,202	6,889
Water Connections	470	463	474	493	458	420
Customers' Forfeited Discounts and Penalties	898	818	752	787	611	578
Miscellaneous	2,282	2,396	1,636	1,773	1,615	1,383
Total Water Utility	$ 199,996	$ 181,514	$ 138,350	$ 164,561	$ 140,356	$ 119,253
WASTEWATER UTILITY						
Urban	$ 176,327	$ 164,987	$ 137,243	$ 125,349	$ 114,764	$ 100,604
Rural	6,245	5,890	4,723	4,549	4,058	3,566
Service to Other Utilities	5,560	5,123	4,582	3,831	3,172	3,142
Wastewater Connections	470	452	435	452	420	385
Customers' Forfeited Discounts and Penalties	1,052	990	867	787	649	593
Industrial Waste Surcharge	3,865	3,801	3,662	3,728	3,657	3,607
Miscellaneous	2,270	2,366	2,606	2,980	2,594	2,814
Total Wastewater Utility	$ 195,789	$ 183,609	$ 154,118	$ 141,676	$ 129,314	$ 114,711
Interest	$ 30,122	$ 45,402	$ 44,388	$ 36,010	$ 17,885	$ 13,529
TOTAL REVENUE	$1,651,554	$1,628,261	$1,393,344	$1,412,853	$1,260,401	$1,076,511

(1) See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.

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

EXPENSE	(Unaudited) 12 Months Ended 6-30-09 (2)	Fiscal Year Ended September 20 2008	2007	2006	2005	2004
ELECTRIC UTILITY						
Production	$ 407,855	$ 391,628	$316,182	$340,316	$297,727	$207,783
Joint Facility Production	186,229	180,673	142,194	133,493	119,462	116,996
System Control	12,989	12,120	11,628	9,912	8,177	6,470
Transmission and Distribution	103,914	92,558	84,713	75,798	69,090	68,406
Jobbing and Contract Work	(195)	(675)	56	594	(761)	17
Customer Accounting and Collection	15,896	15,813	15,988	14,506	14,744	16,062
Customer Services	20,063	18,300	19,214	17,134	15,543	10,949
Administrative and General	164,808	147,900	121,206	103,518	90,237	90,174
Total Electric Utility	$ 911,559	$ 858,317	$711,181	$695,271	$614,219	$516,857
WATER UTILITY						
Purification	$ 23,121	$ 21,806	$ 20,951	$ 26,463	$ 18,257	$ 17,217
Distribution	27,243	24,946	23,971	23,607	19,859	19,590
Customers' Accounting and Collection	7,890	6,922	6,272	6,315	6,096	6,035
Jobbing and Contract Work	(73)	5	3	24	21	(9)
Design Engineering	1,997	1,760	1,764	1,671	1,137	823
Administrative and General	31,545	28,454	20,594	17,425	17,204	15,592
Total Water Utility	$ 91,723	$ 83,893	$ 73,555	$ 75,505	$ 62,574	$ 59,248
WASTEWATER UTILITY						
Wastewater Lines	$ 9,169	$ 8,342	$ 8,436	$ 7,484	$ 5,788	$ 5,788
Sewage Treatment Plant	29,853	27,759	26,041	23,902	22,787	21,239
Customers' Accounting and Collection	3,904	3,464	3,074	3,160	3,236	2,911
Jobbing and Contract Work	0	0	0	8	1	3
Design Engineering	11,821	11,746	10,312	9,674	8,434	7,925
Administrative and General	19,529	19,011	13,406	9,866	13,658	12,441
Total Wastewater Utility	$ 74,276	$ 70,322	$ 61,269	$ 54,094	$ 53,904	$ 50,307
TOTAL EXPENSE (1)	$1,077,558	$1,012,532	$846,005	$824,870	$730,697	$626,412
NET REVENUE AVAILABLE FOR DEBT SERVICE	$ 573,996	$ 615,729	$547,339	$587,983	$529,704	$450,099
Electric Customers	406,435	392,167	392,143	380,698	372,735	365,874
Water Customers	209,602	202,533	199,671	197,511	192,511	187,551
Wastewater Customers	196,175	188,958	186,675	184,022	178,574	174,593

(1) Interest expense, depreciation, amortization and other non-operating items are not included in total expense.
(2) See "OTHER RELEVANT INFORMATION – Independent Auditors".

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years ("FY") ended September 30, 2004 through September 30, 2008 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 FY04 through FY08 were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY04 through FY08 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 FY04 through FY08 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)

	(Unaudited) 12 Months Ended 6-30-09 (3)	Fiscal Year Ended September 30 2008	2007	2006	2005	2004
Plant Cost						
Utility Systems						
Electric	$4,241,766	$4,084,559	$3,843,739	$3,730,305	$3,618,416	$3,547,908
Water	1,715,049	1,746,414	1,529,445	1,468,913	1,419,403	1,346,938
Wastewater	1,899,906	1,822,136	1,673,671	1,573,490	1,463,061	1,328,064
Total Cost	$7,856,721	$7,653,109	$7,046,855	$6,772,708	$6,550,880	$6,222,910
Allowance for Depreciation:						
Electric	$1,788,834	$1,705,518	$1,614,321	$1,553,865	$1,444,715	$1,374,273
Water	474,326	472,469	415,920	381,364	350,376	323,568
Wastewater	552,675	514,634	473,751	437,373	413,175	383,687
Total Depreciation	2,815,835	2,692,621	2,503,992	2,372,602	2,208,266	2,081,528
Cost after Depreciation	$5,040,886	$4,960,488	$4,542,863	$4,400,106	$4,292,614	$4,141,382
Equity in Utility Systems						
Utility Systems	$7,856,721	$7,653,109	$7,046,855	$6,772,708	$6,550,880	$6,222,910
Plus: Inventories, Materials and Supplies (1)	46,405	45,849	44,409	41,358	38,298	35,813
Net Construction Assets and Unamortized Bond Issue Cost	89,503	36,622	43,015	62,412	16,913	12,640
	$7,992,179	$7,735,580	$7,134,279	$6,876,478	$6,556,091	$6,271,363
Less:						
Allowance for Depreciation	$2,815,835	$2,692,621	$2,503,992	$2,372,602	$2,208,266	$2,081,528
Construction Contract Payable	0	0	0	0	0	0
Total	$2,815,835	$2,692,621	$2,503,992	$2,372,602	$2,208,266	$2,081,528
Utility Systems, Net	$5,176,344	5,042,959	4,630,287	4,503,876	4,347,825	4,189,835
Revenue Bonds and Other Debt Outstanding (2)	$3,216,789	$3,107,434	$2,976,746	$2,912,616	$2,853,419	$2,763,009
Less: Bond Retirement and Reserve Funds	0	0	0	0	0	0
Net Debt	$3,216,789	$3,107,434	$2,976,746	$2,912,616	$2,853,419	$2,763,009
Equity in Utility Systems	$1,959,555	$1,935,525	$1,643,541	$1,591,260	$1,494,406	$1,426,826
Percentage of Equity in Utility Systems	37.86%	38.38%	35.71%	35.33%	35.12%	34.05%

(1) Does not include fuel oil or coal inventories of approximately $46.4 million at June 30, 2009. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of $2.921 billion (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of $0.910 million (net of discounts); Capital Lease Obligations of $1.2 million; Commercial Paper of $278 million (net of discounts); General Obligation Bonds of $3.331 million; and Contractual Obligations of $12.5 million.

(3) See "OTHER RELEVANT INFORMATION – Independent Auditors".

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, 2008.

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. The City has appealed. The City is unable to predict the outcome of the appeal.

Water and Wastewater Utility System Litigation

On October 1, 2009 Council approved a Settlement Agreement with Archer Western Contractors, Ltd (AWC) resolving a suit filed on June 14, 2007, against the City in the 201st Judicial District Court of Travis County, Texas, under Cause No. D-1-GN-07-001790, Archer Western Contractors, Ltd. v. City of Austin, Texas, seeking damages of $19,666,890.00. The Agreement stipulates that the City will make a one-time $6,300,000 lump sum payment to AWC after receipt of $1,055,000 million settlement dollars from all other parties to the law suit. The Settlement Agreement is in the process of being executed by all parties. The City anticipates making final payment to AWC by end of November 2009. Once all terms of the settlement agreement have been met and final payment has been made the project will be considered complete.

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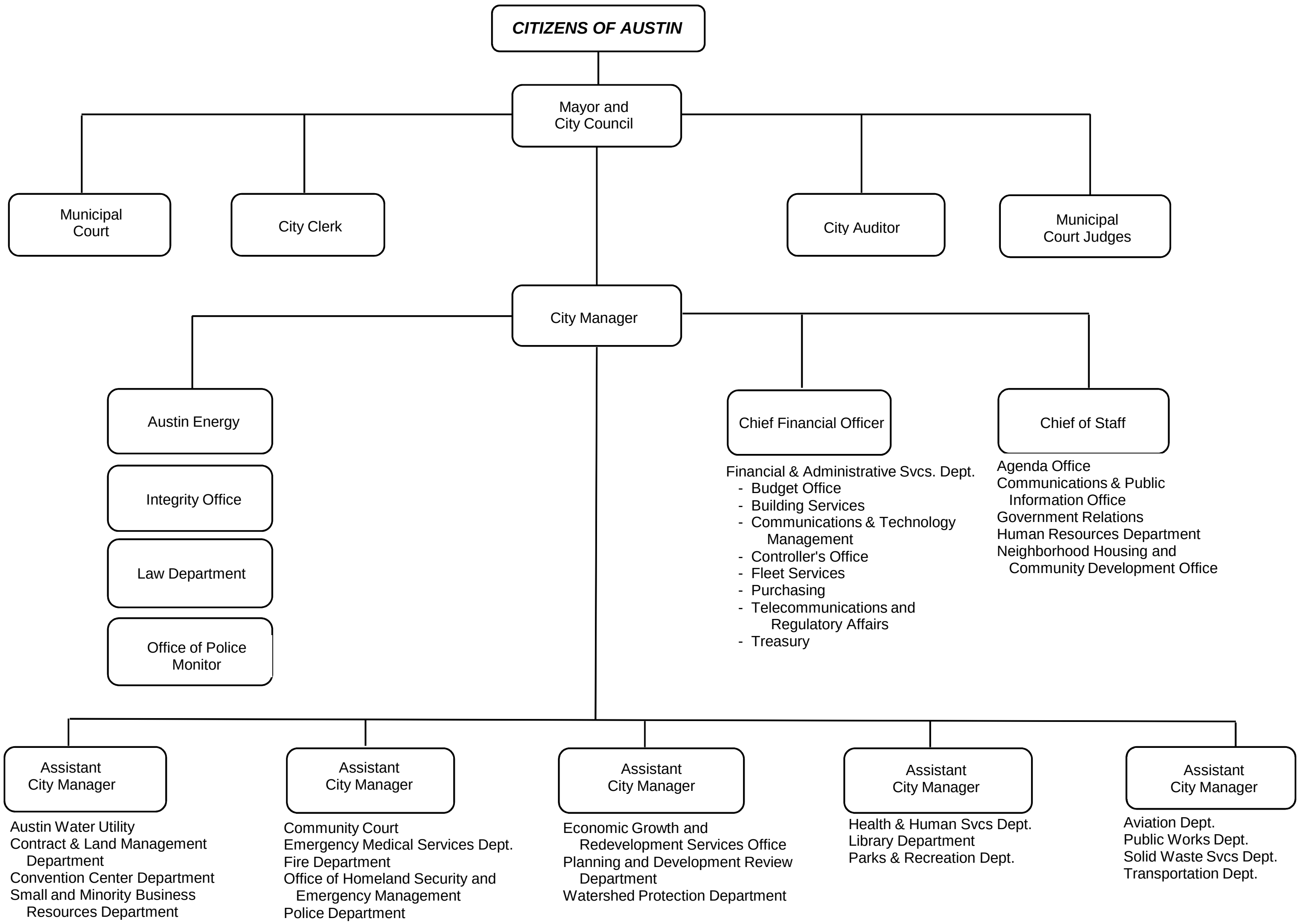
CITY OF AUSTIN, TEXAS

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

Chief Financial Officer – Leslie Browder, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

The City annexes territory on a regular basis. Chapter 43 of the Texas Local Government Code regulates annexation of territory by the City. 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 Texas 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. Texas 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.

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The following table sets forth (in acres) the annual results of the City's annexations since 1999.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
1999	90	588
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

(1) Includes acres converted from limited purpose to full purpose status.

Recent Annexation

In accordance with the terms of a Strategic Partnership Agreement ("SPA") between the City and the River Place Municipal Utility District ("MUD"), all of the territory in the 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 this year and the City's estimated population grew to 782,967 people. Austin remains the 15th largest 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 subdivisions are scheduled to be annexed under this year's annual program. However, in the next several years, several special districts are scheduled for annexation under proposed or approved agreements, as described below:

- Whisper Valley and Indian Hills – proposed new Public Improvement Districts tentatively scheduled for limited purpose annexation in 2010 with full purpose annexation deferred for up to 45 years per the terms of the development agreement; includes over 2,400 acres north of FM 969 on either side of State Highway 130.
- Springwoods MUD – full purpose annexation will take place in December 2010 per terms of the amended SPA; includes assumption of debt for drainage improvements and completion/maintenance of drainage projects.
- Springwoods Non-MUD area – northwest Austin area adjacent to Springwoods MUD added to the MAP in 2007 with full purpose annexation scheduled for December 2010.
- Lost Creek MUD – commercial area was annexed in 2008 while annexation of the remaining residential property will take place in 2015 under the terms of the SPA.
- River Place MUD – full purpose annexation will take place in December 2017 in accordance with the term 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 18.25% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 15.7% of payroll, and the City contributes 18.05%.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund over 35.4 years as of December 31, 2008. As of December 31 2008, the amortization period of the unfunded actuarial accrued liability for the Municipal Employees Fund was 30 years. As of December 31, 2007, the amortization period of the unfunded actuarial accrued liability for the Firefighters Fund was 0.6 years.

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

As reported in the actuarial valuation of the Municipal Employees Fund prepared for the period ending December 31, 2008, current contributions to the Municipal Employees Fund are not sufficient to adequately fund the current benefit structure. Although the Municipal Employees Fund has had a 30-year funding period since December 31, 2002, investment losses in 2008 of -25.9% led to a significant decrease in the actuarial funded ratio and a significant increase to the unfunded actuarial accrued liability. Although a Supplemental Funding Plan ("SFP") was implemented in 2005 to address the previous infinite funding period, it is no longer sufficient to address the losses incurred in 2008. For FY 2009, the City is contributing an additional 2% pursuant to the terms of the SFP; and is obligated to increase the rate to 3% in FY 2010. However, due to the financial status of the Municipal Employees Fund, the City has approved the acceleration of the SFP to the maximum contribution rate of 4%. Additionally, the City is evaluating future benefits to ensure adequate funding for the future.

See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

Other Post-Employment Benefits

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

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

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

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

Insurance

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

INVESTMENTS

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

Legal Investments

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

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

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

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

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

Investment Policies

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

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

Additional Provisions

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

Current Investments

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

Type of Investment	Percentage
U. S. Treasuries	7%
U. S. Agencies	50%
Money Market Funds	4%
Local Government Investment Pools	39%

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

TAX 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 Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is attached 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 Seventeenth Supplement subsequent to the issuance of the Bonds. The Seventeenth 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 would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

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

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

Tax Accounting Treatment of Discount and Premium Bonds

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

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Seventeenth 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 specified material events, to the Municipal Securities Rulemaking Board ("MSRB") who will make such information available to the general public, without charge, through its Electronic Municipal Markets 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 United States Securities and Exchange Commission (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.

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

Availability of Information - Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule approving the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the Bonds will be made 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.

Other obligations of the City were issued prior to the EMMA Effective Date and, as a result, the City is obligated to voluntarily provide certain updated financial information and operating data, as well as timely notice of specified material events, to certain information vendors. This information is available to securities brokers and others who subscribe to receive the information from the vendors. The City will continue to make information filings relating to these other obligations, including material event notices, with the Texas state information depository (the "SID") so long as it is required to do so pursuant to the terms of any undertakings made under the Rule prior to the EMMA Effective Date.

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

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

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the 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 (5) 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 "Aa3" 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 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 of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the PFIA, Chapter 2256, Texas Government Code, 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 at 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 (as defined in the Master Ordinance), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Seventeenth 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" and "APPENDIX D" to verify that the information relating to the Bonds, the Master Ordinance and the Seventeenth Supplement contained under such captions and in APPENDICES C and 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 certificate 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, Andrews Kurth LLP. 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

The PFM Group ("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, 2009 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.

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 $908,958.74. 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.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

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.

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 Seventeenth Supplement approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes 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

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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 746,000 in 2008. Over the past ten years, Austin's population has increased by approximately 127,000 residents, or 20.5 percent. Geographically, Austin consists of approximately 298 square miles. The current estimated median household income and per capita income for the Austin-Round Rock Metropolitan Statistical Area (MSA) is $46,340 and $39,010, respectively.

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

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

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

Recent Economic Performance

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

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

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

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

Economic Outlook

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

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

Long-term Financial Planning

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

The FY 2009-2010 Proposed Budget for the General Fund eliminated a shortfall of $31.7 million which was slightly higher than the projected shortfall in the five-year financial forecast of $29.6 million. In order to achieve a balanced budget, savings were generated from the deferral of contractual pay increases for Police and EMS uniformed employees as well as eliminating 45.25 General Fund positions. In the forecast, an 8% increase in health insurance costs was projected based on industry trends, but the proposed budget contributions were kept flat. General Fund transfers were reduced or eliminated for non-General Fund departments such as Transportation, Capital Projects Management and Neighborhood Housing & Community Development. During the financial forecast, projected FY 2010 revenue was $5.7 million lower than the 2009 Amended Budget, due to further declines in sales tax revenue, development revenue and interest income. Overall revenue projections have declined an additional $2.1 million. Added to the $29.6 million shortfall at forecast, this resulted in necessary expenditure reductions of $31.7 million.

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

The City enterprise activities also include the Austin Water Utility, which provides water and wastewater services. The FY 2009-2010 operating expense budget of $435.7 million provides for funding increases for required capital improvements to replace aging infrastructure, capacity improvements and service extensions. The approved 2010 budget includes a 4.5% system-wide water and wastewater rate increase. The proposed rate increase is consistent with the Utility's 5-year plan provided in the 2010 financial forecast.

Other enterprise funds and their FY 2009-2010 expense budgets include Aviation ($79.7 million), Convention Center ($55.4 million), and Solid Water Services ($66.1 million).

Major Initiatives

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

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

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

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

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

<u>Zero Waste Initiative.</u> Following the guiding principles for the delivery of solid waste services, first adopted by the City Council in 2006, a Zero Waste Strategic Plan was drafted for City Council's consideration. The plan development process began with hiring an independent consultant to develop the plan and, working with City staff, included obtaining public input over a four-month period, performing additional research and visiting peer sites. In May 2008, the City also received support for the initiative from the Capital Area Council of Government, Solid Waste Advisory Committee, and the Travis County Commissioners Court. Also during FY 2007-2008, the Solid Waste Services Department prepared for the roll-out of the Single Stream Recycling Service. The implementation, that began in early FY 2008-2009, is another step towards reaching the City's Zero Waste goal and increasing individual participation in the City's recycling programs.

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

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

Progress made during FY 2007-2008 included the following:

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

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

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

OTHER

Financial Policies

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

Internal Controls

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

Budgetary Control

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

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

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

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

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

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

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

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

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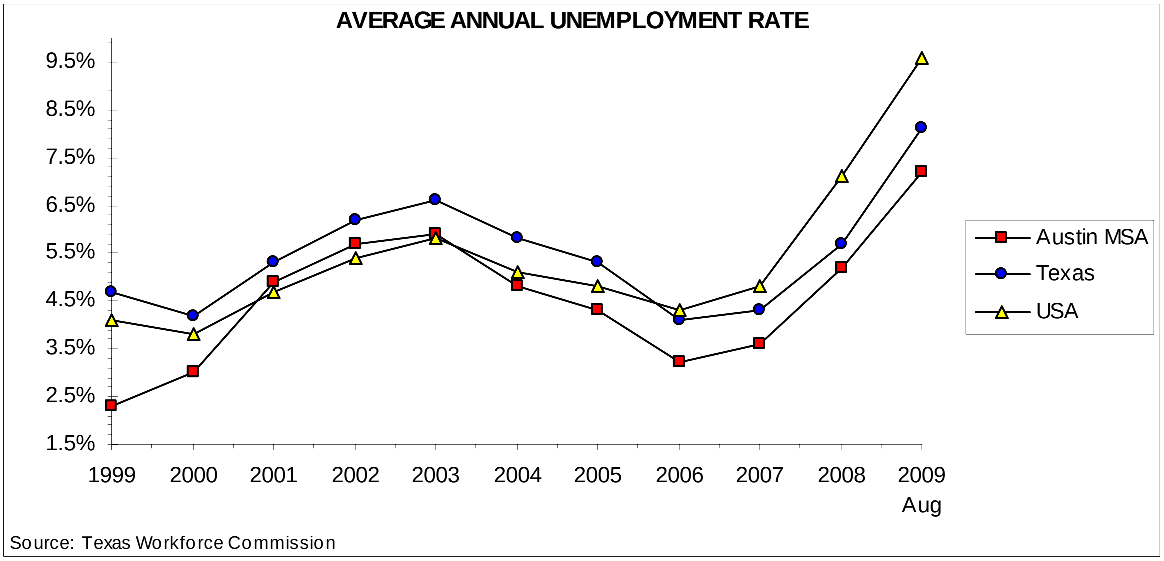
Average Annual Unemployment Rate



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

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

City Sales Tax Collections (In Millions)

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

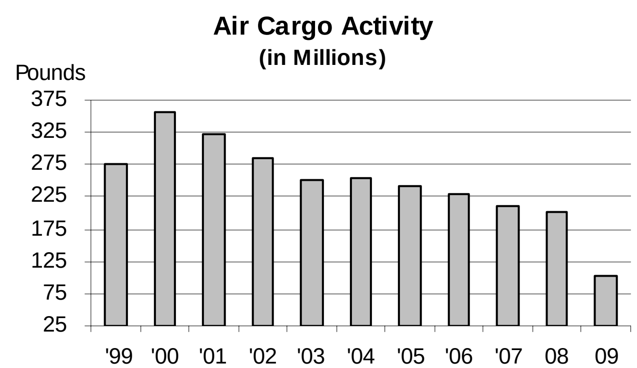
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2008)

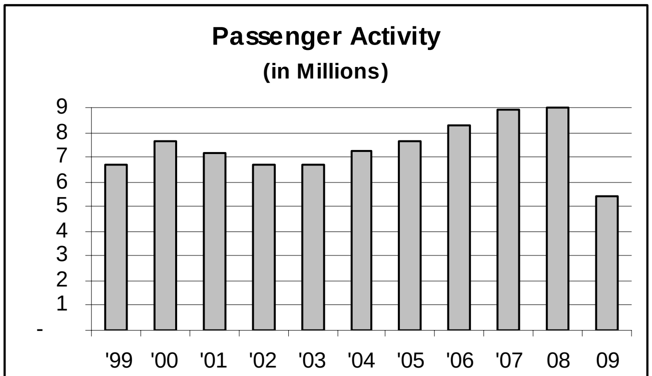
Employer	Product or Service	Employees
State Government	State Government	37,192
The University of Texas at Austin	Education	24,527
Dell Computer Corporation	Computers	17,000
City of Austin	City Government	12,236
Austin Independent School District	Education	11,102
Federal Government	Federal Government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

Source: 2008 Comprehensive Annual Financial Report.

Transportation



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



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

Austin-Bergstrom International Airport

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

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

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

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

Wealth Indicators

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

Demographic and Economic Statistics - Last Ten Years

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

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

Connections and Permits

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

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

Housing Units

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

Residential Sales Data

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

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

City-Wide Austin Office Occupancy Rate

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

Source: Oxford Commercial.

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Education

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

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

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

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

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

Tourism

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

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

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

The information contained in this APPENDIX consists of excerpts from the City of Austin, Texas Annual Financial Report for the Year Ended September 30, 2008, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

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

Deloitte & Touche LLP

April 28, 2009

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The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

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

FINANCIAL HIGHLIGHTS

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

<u>OVERVIEW OF THE FINANCIAL STATEMENTS, continued</u>

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

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

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

b -- Fund financial statements

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

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

c -- Notes to the financial statements

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

d -- Other information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net assets

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

Net Assets
as of September 30
(in thousands)

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

b -- Changes in net assets

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

Changes in Net Assets
September 30
(in thousands)

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

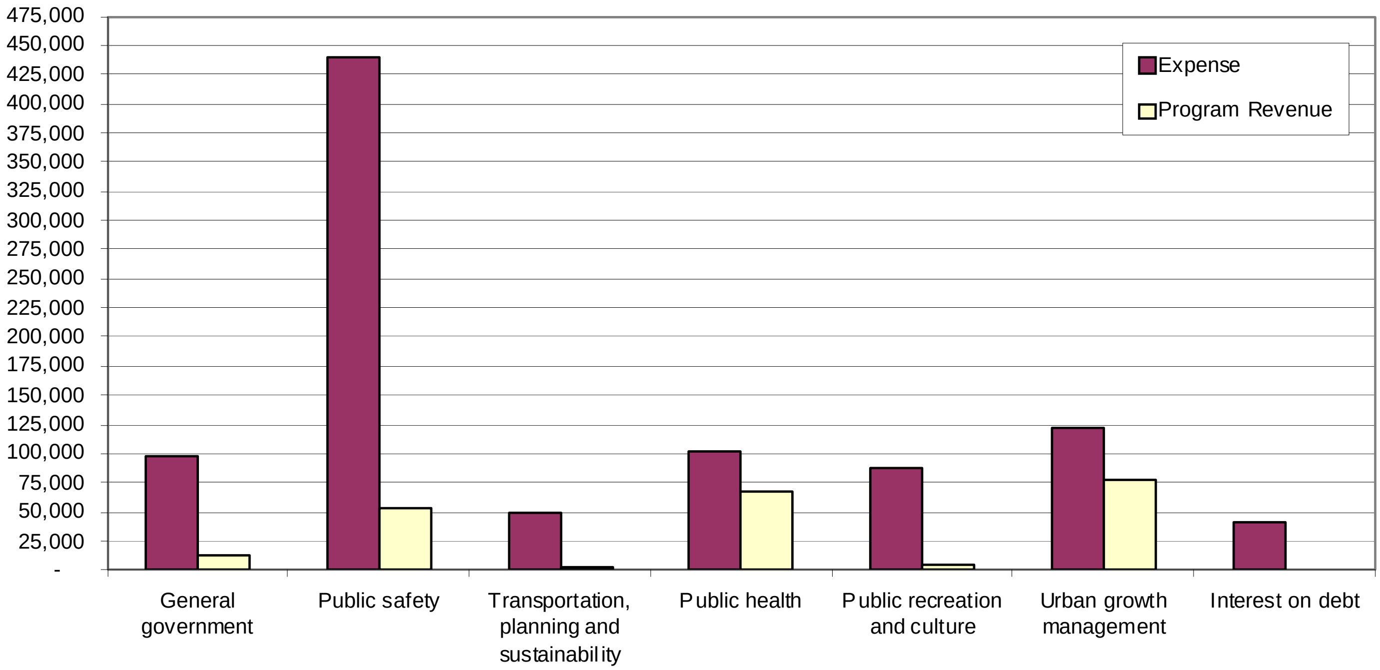
c -- Program revenues and expenses -- governmental activities

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

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

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

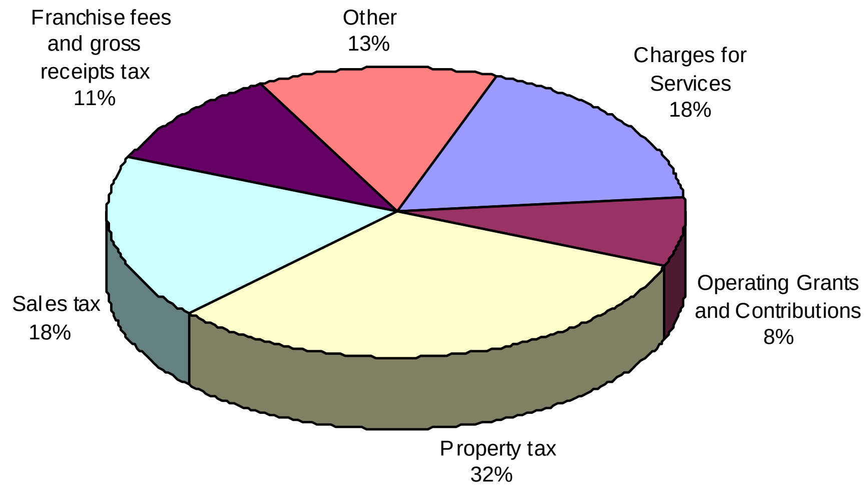
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



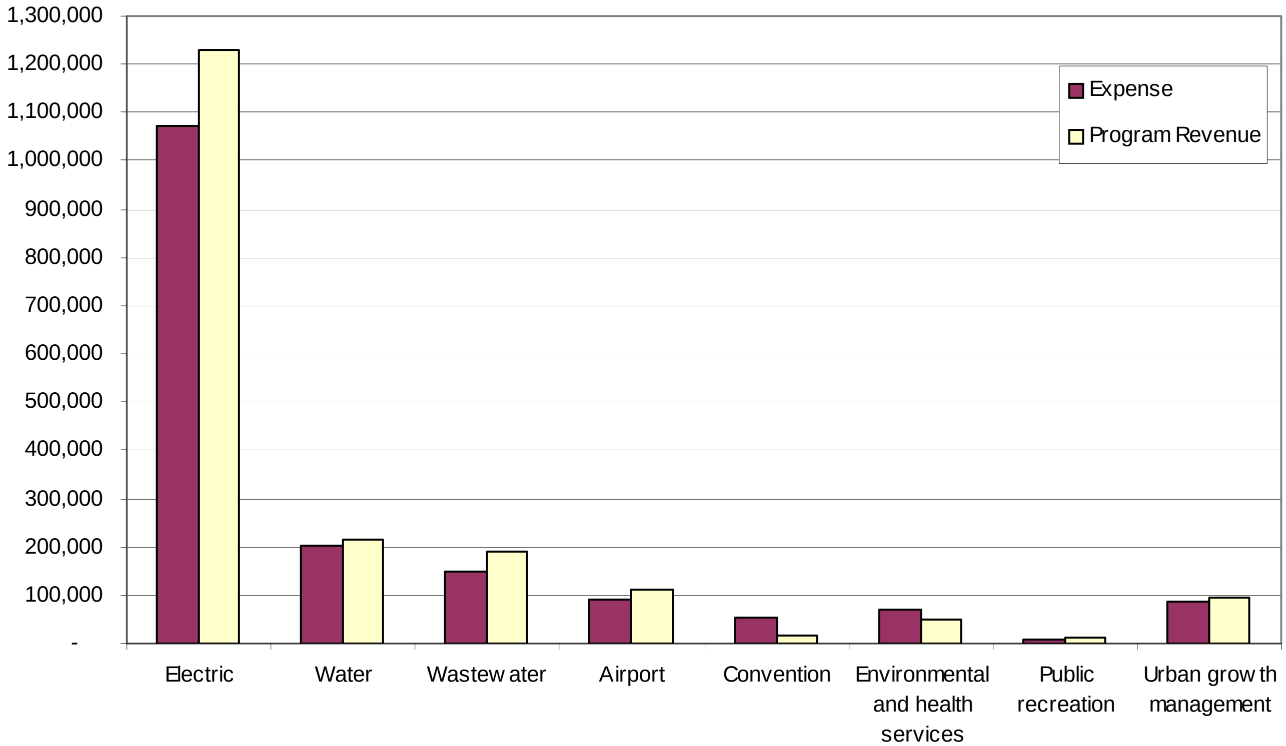
d -- Program revenues and expenses -- business-type activities
Business-type activities increased the City's net assets by approximately $178 million, accounting for a 4.1% increase in the City's total net assets. Key factors include:

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

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

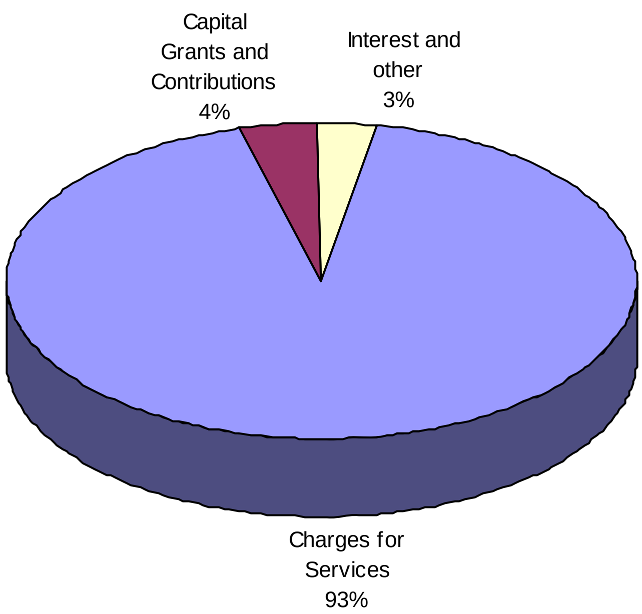
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



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

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

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

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

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

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

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

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

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

OTHER INFORMATION

a -- General Fund budgetary highlights

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

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

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

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2008, total $8.3 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, nuclear fuel, plant held for future use, and intangible assets. The total increase in the City's capital assets for the current fiscal year was $457 million (5.8%), with an increase of 4.2% for governmental activities and an increase of 6.5% for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land and improvements	$ 302	261	442	365	744	626
Other assets not depreciated	19	19	1	1	20	20
Building and improvements	426	425	1,419	1,367	1,845	1,792
Equipment	79	81	3,367	3,071	3,446	3,152
Vehicles	36	32	58	52	94	84
Infrastructure	1,194	1,167	--	--	1,194	1,167
Construction in progress	203	183	612	680	815	863
Nuclear fuel, net of amortization	--	--	33	28	33	28
Plant held for future use	--	--	28	28	28	28
Intangible assets, net of amortization	--	--	78	80	78	80
Total net capital assets	$ 2,259	2,168	6,038	5,672	8,297	7,840

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

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

OTHER INFORMATION, continued

c -- Debt administration
At the end of the current fiscal year, the City reported $4.58 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 10.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
General obligation bonds and other tax supported debt, net	$ 830	787	96	101	926	888
Commercial paper notes, net	--	--	213	309	213	309
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,409	3,194	3,409	3,194
Capital lease obligations	--	--	2	4	2	4
Total	$ 830	787	3,748	3,636	4,578	4,423

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

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

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

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

(1) No underlying rating

OTHER INFORMATION, continued

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

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

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

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

e -- Requests for Information

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

(In thousands)

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

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

(Continued)

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

(In thousands)

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

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

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

Statement of Activities **City of Austin, Texas**
For the year ended September 30, 2008 **Exhibit A-2**
(In thousands)

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

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

(In thousands)

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

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

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

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

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended September 30, 2008
(In thousands)

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

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

Net change in fund balances - Governmental funds	$	18,632
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		43,222
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		34,859
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(42,260)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		(76,225)
The net revenue of certain activities of internal service funds is reported with governmental activities.		(1,937)
Change in net assets - Governmental activities	$	(23,709)

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

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

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

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

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

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

(Continued)

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

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

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

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

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

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the year ended September 30, 2008
(In thousands)

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

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

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

Reconciliation to government-wide Statement of Activities		
Change in net assets	11,777	180,136
Adjustment to consolidate internal service activities	(1,778)	(1,998)
Change in net assets - Business-type activities	9,999	178,138

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

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

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

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

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

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

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

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

(In thousands)

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

a -- Reporting Entity

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

a -- Reporting Entity, continued

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

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

b -- Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

The City reports the following major governmental fund:

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

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

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

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

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

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

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

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

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

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

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

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

d -- Budget

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

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

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

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

e -- Financial Statement Elements

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

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2008. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Includes internal service funds

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

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

Intangible assets include the amortized cost of a $100 million contract, net of accumulated amortization of $22 million between the City and the Lower Colorado River Authority (LCRA) for a fifty-year assured water supply agreement, with an option to extend another fifty years. The City and LCRA entered into the contract in 1999. The asset amortization period is 40 years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred or in future months. The City reported fuel costs on the same basis as it recognized revenue in 2008 and prior years. Unbilled revenue was recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2008. The amount of unbilled revenue recorded, as of September 30, 2008, for the Electric Fund was $40.3 million. The Water and Wastewater Fund recorded unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2008. The amount of unbilled revenue recorded as of September 30, 2008 was $13.9 million for water and $11.5 million for wastewater.

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

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

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

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

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

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

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

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

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

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

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

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

f -- Comparative Data

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

g -- Use of Estimates

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

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balance reported in the City's fund-level governmental funds balance sheet ($329.4 million) differs from the net assets reported in governmental activities within the government-wide financial statements ($1.6 billion). The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

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

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

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

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

Net change in fund balances - Governmental funds		$ 18,632
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of assets is allocated over the estimated useful life of the asset and reported as depreciation expense.		
Capital outlay	126,928	
Depreciation expense	(83,544)	
Loss on disposal of capital assets	(162)	
Total		43,222
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(9,084)	
Charges for services	731	
Interest and other	371	
Capital assets contribution	42,841	
Total		34,859
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(104,060)	
Principal repayment on long-term debt	61,800	
Total		(42,260)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(10,225)	
Pension obligation	(12,791)	
Other post employment benefits	(54,882)	
Interest and other	1,673	
Total		(76,225)
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		(1,937)
Change in net assets - Governmental activities		$ (23,709)

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

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

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

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

4 – POOLED INVESTMENTS AND CASH

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

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

5 – INVESTMENTS AND DEPOSITS
a -- Investments

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

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

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

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

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

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

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

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7- like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2008, TexPool and TexasDAILY had a weighted average maturity of 42 days and 40.7 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

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

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

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

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

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

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

b -- Investment categories

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

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

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

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

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

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

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

LGIPs	28%	AAAm
US Agencies - Rated	67%	AAA

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

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

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

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

At September 30, 2008, slightly more than a quarter of the Investment Pool was invested in AAAm rated LGIPs (2(a) 7-like pools), with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity for all securities was 351 days, which was less than the threshold of 365 days.

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

Debt Service Funds
As of September 30, 2008, the City's debt service funds had the following investments:

	Fair Value (in thousands)		
	Governmental Activities	Business-type Activities	Final Maturity
General Obligation Debt Service			
TexPool (LGIPs)	$ 18,489	--	N/A
Enterprise-Utility (1)			
TexPool (LGIPs)	--	158,243	N/A
Enterprise-Airport			
TexPool (LGIPs)	--	14,344	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	14,525	N/A
Total	$ 18,489	187,112	

(1) Includes combined pledge debt service

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

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

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

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

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

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

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

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

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

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

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

Credit Risk
At September 30, 2008, the Electric Utility Department Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard and Poor's rated the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

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

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

At September 30, 2008, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 716 days (1.96 years).

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

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

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

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

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

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2008, the dollar weighted average maturity was 3.54 years.

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

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

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

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

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

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2008.

6 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2007, upon which the 2008 levy was based, was $68,736,790,926.

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

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

6 – PROPERTY TAXES, continued

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

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2008, was $.2730 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7270 per $100 assessed valuation, and could levy approximately $499,716,470 in additional taxes from the assessed valuation of $68,736,790,926 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

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

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

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

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

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

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

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

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

(2) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

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

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

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

(2) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

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

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

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

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

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

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

8 – RETIREMENT PLANS

a -- Description

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

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

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

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

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

8 – RETIREMENT PLANS, continued

b -- Funding Policy

	City of Austin Employees' Retirement and Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	13.0%	15.7%
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

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

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

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

c -- Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost of $91,555,000 for fiscal year ended September 30, 2008, was $23,902,000 more than the City’s actual contributions. Three-year trend information is as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):				
2006	$ 40,988	18,047	12,976	72,011
2007	49,818	18,047	11,737	79,602
2008	56,848	19,872	14,835	91,555
Percentage of APC contributed:				
2006	73%	100%	92%	N/A
2007	63%	100%	106%	N/A
2008	65%	100%	87%	N/A
Net Pension Obligation:				
2006	$ 24,061	--	1,609	25,670
2007	43,334	--	1,737	45,071
2008	63,740	--	3,709	67,449

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

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

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

The latest actuarial valuations were completed as of December 31, 2007. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	20% of market value plus 80% of expected actuarial value
Inflation Rate	3.25%	4%	3.5%
Projected Annual Salary Increases	5% to 6%	6.8% average	4.5% to 16.6%
Post retirement benefit increase	None	None	None
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	23.8 years	30 years

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

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

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

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

9 – SELECTED REVENUES
a -- Major enterprise funds

Electric and Water and Wastewater
The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 9, 2006, the PUC approved the City's most recent wholesale transmission rate of $1.002466/kW. Transmission revenues totaled approximately $58 million in 2008. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations and a debt service coverage approach.

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

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

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

Airport
The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2008, the Airport Fund revenues included minimum concession guarantees of $8,441,659.

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to thirty years for the Airport Fund as of September 30, 2008 (in thousands):

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

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

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

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

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

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

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

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

a -- Long-Term Liabilities, continued

Business-type activities (continued):

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

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

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

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2008, including those reported in certain proprietary funds (in thousands):

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

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

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

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

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

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

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

General obligation bonds authorized and unissued amounted to $544,810,000 at September 30, 2008. Bond ratings at September 30, 2008, were Aa1 (Moody’s Investor Services, Inc.), AAA (Standard & Poor’s), and AA+ (Fitch).

c -- Business-Type Activities Long-Term Liabilities

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

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

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

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

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

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

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

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2008 (in thousands):

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Airport -- Revenue Bonds - The City's Airport Fund issues airport system revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2008, the total airport system obligation for prior lien bonds is $333,765,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $146,293,789 at September 30, 2008. Revenue bonds authorized and unissued amount to $735,795,000.

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

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

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

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

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue airport system variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2008, the airport system had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $11,060,171 including accrued interest, at September 30, 2008, and was restricted within the airport system. During fiscal year 2008, interest rates on the notes ranged from 1.26% to 3.95%, adjusted weekly at market rates, with the exception on one week when rates were 8.09%; subsequent rate changes cannot exceed the maximum rate of 15%. Subsequent to year-end, the rates have ranged from 5.89% on October 1, 2008 to .65% on March 4, 2009. Principal and interest on the notes are payable from the net revenues of the airport system.

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

Variable Rate Demand Bonds

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

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

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

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

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

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

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

Nonmajor fund:

Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues convention center revenue bonds and hotel occupancy tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2008, the total convention center obligation for prior and subordinate lien bonds is $236,950,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $233,677,738 at September 30, 2008. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2008.

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

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

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

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

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

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

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

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

Governmental Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2009	$ 45,289	33,556	6,405	3,234	5,603	1,130
2010	46,922	31,381	6,625	2,926	5,312	955
2011	47,407	29,192	6,982	2,617	4,528	783
2012	46,499	26,939	7,030	2,290	3,014	634
2013	49,726	24,736	2,728	1,967	1,370	546
2014-2018	229,954	90,381	15,595	7,768	5,065	2,064
2019-2023	166,189	39,167	19,044	4,128	3,785	1,145
2024-2028	79,135	10,129	7,504	678	2,734	248
	711,121	285,481	71,913	25,608	31,411	7,505
Less: Unamortized bond discounts	(1,253)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(14,327)	--	--	--	--	--
Add: Unamortized bond premiums	31,137	--	12	--	2	--
Net debt service requirements	726,678	285,481	71,925	25,608	31,413	7,505

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Governmental Debt Service Requirements Principal	Total Governmental Debt Service Requirements Interest	Total Governmental Debt Service Requirements Total
2009	166	12	57,463	37,932	95,395
2010	316	5	59,175	35,267	94,442
2011	--	--	58,917	32,592	91,509
2012	--	--	56,543	29,863	86,406
2013	--	--	53,824	27,249	81,073
2014-2018	--	--	250,614	100,213	350,827
2019-2023	--	--	189,018	44,440	233,458
2024-2028	--	--	89,373	11,055	100,428
	482	17	814,927	318,611	1,133,538
Less: Unamortized bond discounts	--	--	(1,253)	--	(1,253)
Unamortized gain(loss) on bond refundings	--	--	(14,327)	--	(14,327)
Add: Unamortized bond premiums	--	--	31,151	--	31,151
Net debt service requirements	$ 482	17	830,498	318,611	1,149,109

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest
2009	$ 14	57	146	11	35,182	927
2010	62	56	152	6	--	--
2011	73	53	79	1	--	--
2012	78	49	--	--	--	--
2013	125	45	--	--	--	--
2014-2018	616	131	--	--	--	--
2019-2023	168	13	--	--	--	--
	1,136	404	377	18	35,182	927
Less: Unamortized bond discount	(3)	--	--	--	(34)	--
Add: Unamortized bond premium	77	--	--	--	--	--
Net debt service requirements	1,210	404	377	18	35,148	927

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

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

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

Water and Wastewater Business-Type Activities
(in thousands)

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

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

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

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

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

Water and Wastewater Business-Type Activities
(in thousands)

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

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

Airport Business-Type Activities
(in thousands)

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

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

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

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

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

Nonmajor Business-Type Activities
(in thousands)

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

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

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

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

Business-Type Activities
(in thousands)

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities (in thousands)

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

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

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

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

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

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

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

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997, the City issued several series of bonds. The aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Subsequent to September 30, 1997, the City has issued $104.2 million in various series of housing revenue bonds that have an outstanding balance of $102.6 million as of September 30, 2008.

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

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

12 – INTERFUND BALANCES AND TRANSFERS

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

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

Interfund receivables and payables reflect loans between funds. Of the above current amount, $15.8 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $20.9 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

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

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

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

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2008. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

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

Austin Energy's investment is financed with city funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was $134.1 million as of September 30, 2008. The increase in the pro-rata interest from 2007 is primarily due to the scrubbers. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies. Each participant issued its own debt to finance its portion of construction costs. The City's portion was financed through utility revenue bonds. In addition, each participant has the obligation to finance its portion of any operating and capital costs, as well as its deficits.

b -- South Texas Project

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

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

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

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

14 – COMMITMENTS AND CONTINGENCIES, continued
c -- South Texas Project Decommissioning

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

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

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

d -- Energy Risk Management Program

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

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

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

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

Fuel Derivative Transactions as of September 30, 2008

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

*Volumes are presented net of long and short positions

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

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

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

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

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

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

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

e -- Purchased Power

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

f -- Derivative Instruments

Swap for the Water & Wastewater System

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

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

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

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

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

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

Fair value. The swap with JPM had a negative fair value as of September 30, 2008 of $5,913,047. The swap with GSCM had a positive fair value as of September 30, 2008 of $1,351,849. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

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

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

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

The swap agreement with GSCM contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears basis risk on its swap with JPM. The Swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less

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

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

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

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

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

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

Swap payments and associated debt. As of September 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

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

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

Swap for the Airport System

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

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

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

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

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

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

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

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

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

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

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

Termination risk. The City or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to non-issuance of the Series 2005 Bonds and credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased swap insurance to further reduce the possibility of termination risk.

Swap payments and associated debt. As of September 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Airport Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Net Interest
2009	$ 10,475	15,657	(4,597)	11,060
2010	10,975	15,034	(4,415)	10,619
2011	11,500	14,380	(4,222)	10,158
2012	12,050	13,696	(4,022)	9,674
2013	6,125	13,274	(3,898)	9,376
2014-2018	54,075	54,326	(15,357)	38,969
2019-2023	104,875	34,517	(10,490)	24,027
2024-2025	71,225	5,391	(1,824)	3,567
Total	$ 281,300	166,275	(48,825)	117,450

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

Swaps for the Hotel Occupancy Tax

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

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

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

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

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

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

Credit risk. As of September 30, 2008, the City was not exposed to credit risk on the swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of MKFP are Aa3/AA-/AA- by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement. The credit support provider of MKFP is Deutsche Bank AG, New York Branch ("DBAG"). The swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears no basis risk until November 15, 2009. Afterward, the swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City bears tax risk only after November 15, 2009. The City is receiving 67% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

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

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

Swap payments and associated debt. As of September 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

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

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

g -- Federal and State Financial Assistance Programs

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

h -- Arbitrage Rebate Payable

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

i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2008 Capital Budget includes new appropriations of $831.7 million for the City's enterprise funds and $142.3 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

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

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

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

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. The amount of costs reported is based on landfill capacity as of the City's fiscal year-end. The $15.7 million reported as accrued landfill closure and postclosure costs at September 30, 2008, represents the cumulative amount reported to date based on the use of 99% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $153 thousand as the remaining estimated capacity is filled over the next year. Closure is estimated to be September 2009. The total estimated costs of $15.8 million include costs of closure of $7.9 million to be spent in the first year of closure and postclosure costs over the subsequent thirty years of $7.9 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

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

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

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

The City purchases stop-loss insurance for the City's PPO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $1 million. In fiscal years 2008, 2007, and 2006, no claims exceeded the stop-loss limit of $500,000; during fiscal year 2005, two claims exceeded the stop-loss limit of $500,000. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

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

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from $26.4 to $41.8 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2008	2007	2008	2007	2008	2007
Liability balances, beginning of year	$ 4,382	4,382	5,646	6,862	12,193	9,965
Claims and changes in estimates	4,658	4,024	3,727	882	5,303	4,899
Claim payments	(4,244)	(4,024)	(1,525)	(2,098)	(3,678)	(2,671)
Liability balances, end of year	$ 4,796	4,382	7,848	5,646	13,818	12,193

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

14 – COMMITMENTS AND CONTINGENCIES, continued

l -- Decommissioning and Environmental Remediation Contingencies

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

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

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

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

m -- Redevelopment of Robert Mueller Municipal Airport

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

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

n -- Other Commitments and Contingencies

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

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

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

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

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

15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

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

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

Other post-employment benefits are funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund. Medical, dental and life insurance claims and premiums are reported in the Employee Benefits Fund. The estimated pay-as-you-go cost of providing these benefits for 2,956 retirees was $21.0 million in 2008 and $16.9 million in 2007 for 2,800 retirees.

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

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

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

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

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

Schedule of Funding Progress (in thousands):

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

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

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

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

16 – SUBSEQUENT EVENTS
a -- General Obligation Bonds Issues

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

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

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

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

b -- Water and Wastewater System Revenue Bond Refunding Issue

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

(In thousands)

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

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

1 – BUDGET BASIS REPORTING

a -- General

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

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

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

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

c -- Budget Amendments

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

2 – RETIREMENT PLANS-TREND INFORMATION

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

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

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

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

3 – OTHER POST EMPLOYMENT BENEFITS-TREND INFORMATION

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

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

APPENDIX C

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.
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> 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.
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> 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
Mayor

ATTEST:

SHIRLEY A. BROWN
City Clerk

(City Seal)

APPROVED:

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.

© 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.

© 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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IN REGARD to the authorization and issuance of the "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2009A" (the "Bonds"), dated November 1, 2009, in the principal amount of $166,575,000, 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 Ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), 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 Ordinance.

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 (identified and defined in the Ordinances) and Previously Issued Separate Lien Obligations (identified and defined in the Ordinances), 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.

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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.