OFFICIAL STATEMENT
Dated May 19, 2005

Ratings: Moody's: "Aaa"
Standard & Poor's: "AAA"
Fitch: "AAA"
(See "BOND INSURANCE" and "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., Austin, Texas, Bond Counsel, to the effect that, assuming continuing compliance by the City with certain covenants contained in the Ninth 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.

$198,485,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Water and Wastewater System Revenue Refunding Bonds, Series 2005

Dated Date: May 15, 2005 **Due: As shown on the inside cover**

The bonds offered hereby are the $198,485,000 City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2005 (the "Bonds"). The Bonds represent the ninth 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 "Ninth 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 City's Water and Wastewater System and its 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 they remain outstanding. The Master Ordinance prohibits the issuance of additional revenue obligations secured by joint and several pledges of the net revenues of 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 as provided in the Master Ordinance and the Ninth 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 on May 15, 2005 and shall be payable on November 15, 2005 and each May 15 and November 15 thereafter until maturity or prior redemption. 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.

MBIA The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued by MBIA Insurance Corporation or concurrently with the delivery of the Bonds. See "BOND INSURANCE" herein.

MATURITY SCHEDULE

See Schedule on Inside of Cover Page

The City reserves the right, at its option, to redeem Bonds maturing on or after May 15, 2016, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof on November 15, 2015, or any date thereafter, at the par value thereof, plus accrued interest to the date fixed for redemption.

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 or attached to the Bonds. (See APPENDIX E - "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP.

It is expected that the Bonds will be delivered through the facilities of DTC on or about June 14, 2005.

BEAR, STEARNS & CO. INC.

CITIGROUP	**ESTRADA HINOJOSA & COMPANY, INC.**	**FIRST ALBANY CAPITAL**
GOLDMAN, SACHS & CO.	**JACKSON SECURITIES**	**LOOP CAPITAL MARKETS, LLC**
MERRILL LYNCH & CO		**SOUTHWEST SECURITIES**

MATURITY SCHEDULE

Maturity	Principal Amount	Interest Rate	Price or Yield	Maturity	Principal Amount	Interest Rate	Price or Yield
5-15-2012	$ 6,425,000	5.000%	3.420%	5-15-2019	$11,895,000	5.000%	3.960%*
5-15-2013	8,820,000	5.000%	3.530%	11-15-2019	5,800,000	5.000%	3.970%*
11-15-2013	4,460,000	5.000%	3.560%	5-15-2020	12,455,000	5.000%	4.010%*
5-15-2014	9,235,000	5.000%	3.620%	5-15-2021	13,310,000	5.000%	4.060%*
11-15-2014	4,640,000	5.000%	3.670%	5-15-2022	13,975,000	5.000%	4.100%*
5-15-2015	9,710,000	5.000%	3.700%	5-15-2023	5,065,000	5.000%	4.150%*
11-15-2015	320,000	4.000%	3.730%	5-15-2024	5,355,000	5.000%	4.180%*
5-15-2016	10,190,000	5.000%	3.780%*	5-15-2025	5,645,000	5.000%	4.200%*
11-15-2016	5,100,000	5.000%	3.820%*	5-15-2026	5,930,000	5.000%	4.240%*
5-15-2017	10,665,000	5.000%	3.840%*	5-15-2027	6,310,000	5.000%	4.280%*
11-15-2017	5,270,000	5.000%	3.880%*	5-15-2028	6,665,000	5.000%	4.320%*
5-15-2018	11,330,000	5.000%	3.910%*	5-15-2029	7,015,000	5.000%	4.340%*
11-15-2018	5,540,000	5.000%	3.930%*	5-15-2030	7,360,000	5.000%	4.360%*

(Plus Accrued Interest from May 15, 2005)

*Priced to call date.

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CITY OF AUSTIN

Elected Officials

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

Appointed Officials

Toby Hammett Futrell	City Manager
Joe Canales	Deputy City Manager
Rudy Garza	Assistant City Manager
Mike McDonald	Acting Assistant City Manager
John Stephens, CPA	Chief Financial Officer
Laura Huffman	Assistant City Manager
Vickie Schubert, CPA	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Brown	City Clerk

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

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

FINANCIAL ADVISOR
Public Financial Management
Austin, Texas

AUDITORS
KPMG LLP and R. Mendoza & Company, PC
Austin, Texas

For additional information regarding the City, please contact:

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

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

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.

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 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 respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the underwriters do not guarantee the accuracy or completeness of such information.

The 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 SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

Other than with respect to information concerning MBIA Insurance Corporation ("MBIA") contained under the caption "BOND INSURANCE" and APPENDIX F – "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by MBIA and MBIA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

Neither the City, the Financial Advisor nor the Underwriters make any representation regarding the information contained in this Official Statement regarding the DTC or its book-entry-only system, as such information has been furnished by the DTC. 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

$198,485,000

Water and Wastewater System Revenue Refunding Bonds, Series 2005

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 $198,485,000 Water and Wastewater System Revenue Refunding Bonds, Series 2005 (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 May 19, 2005 (the "Ninth Supplement") providing the specific terms of the Bonds. **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance, the Ninth Supplement or the Prior Lien Ordinance (hereafter 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 $195,585,000 of the City's outstanding System Revenue Bonds issued for the Water and Wastewater System (the "Refunded Bonds"). See SCHEDULE I for a listing of the Refunded Bonds. The refunding will result in debt service savings to the City. Proceeds from the Bonds will also be used to pay costs of issuance. The Bonds represent the ninth 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 obligation under an interest rate swap agreement 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 $1.1 billion of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of March 31, 2005 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.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Deutsche Bank Trust Company Americas, New York, New York (the "Escrow Agent"). The Ninth Supplement provides that the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities") to be held in the Escrow Fund. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

The Arbitrage Group, Inc., a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate that the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the Bonds.

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

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

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows.

Sources:	
Par Amount of Bonds	$198,485,000.00
Net Premium	16,871,391.10
Accrued Interest	799,195.69
Total	$216,155,586.79
Uses:	
Escrow Deposit	$213,088,350.16
Underwriters' Discount	1,035,884.20
Cost of Issuance, including Insurance Premium	1,232,156.74
Deposit to Interest and Sinking Fund	799,195.69
Total	$216,155,586.79

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OBLIGATIONS PAYABLE FROM SYSTEMS REVENUES
(As of March 31, 2005)

Combined Utility Systems Obligations	
Prior First Lien Obligations	$ 865,649,135
Prior Subordinate Lien Obligations	252,989,512
Sub-Total	$1,118,638,647
Parity Electric Utility Obligations	$ 523,560,000
Water & Wastewater System Separate Lien Obligations (a)	
Parity Water & Wastewater Obligations	$ 926,340,000
Maple Run MUD, Series 1992	7,900,000
North Austin MUD No. 1, Series 2003	3,850,000
Sub-Total	$ 938,090,000
Commercial Paper (b)	$ 232,376,000
General Obligation Bonds (c)	$ 17,382,383
Assumed Bonds and Obligations	
Assumed District Bonds (d)	$ 9,962,179
TOTAL (e)	$2,840,009,209

See "SECURITY FOR THE BONDS – Reserve Fund for Prior First Lien Bonds and Prior Subordinate Lien Bonds".

(a) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only. Includes the Bonds and excludes the Refunded 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 Commercial Paper Notes and the reimbursement obligation 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 Bonds, the Prior Subordinate Lien Bonds, 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.

(e) Does not include Certificates of Participation outstanding of $5,545,000 and $3,675,000 issued for subleases for space to house the administrative offices of the Electric Utility System and the Water and Wastewater System, respectively. The City has funded the required lease payments from the revenues of the respective utility systems, although the City may make such payments from any available funds of the City appropriated for such purposes. The revenues of the Electric Utility System and the Water and Wastewater System are not specifically pledged in such subleases.

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, 2001 through 2004 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 March 31, 2005	2004	2003	2002	2001
Combined Gross Revenues	$1,129,283	$1,076,511	$1,189,672	$1,022,988	$1,087,541
Combined Maintenance and Operating Expenses	655,544	626,412	663,651	513,780	561,097
Combined Net Revenues	$ 463,739	$ 450,099	$ 526,021	$ 509,208	$ 526,444
Principal and Interest on Revenue Bonds (1)	$ 151,243	$ 169,039	$ 173,010	$ 226,537	$ 234,412
Debt Service Coverage on Revenue Bonds (1)	3.07x	2.66x	3.04x	2.25x	2.25x

(1) Prior First Lien Obligations and Prior Subordinate Lien Obligations only.

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, 2001 through 2004 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 March 31, 2005	2004	2003	2002	2001
Gross Revenues	$243,571	$234,970	$245,943	$239,177	$233,451
Maintenance and Operating Expenditures	112,099	109,555	109,416	112,340	102,412
Net Revenues	$131,472	$125,415	$136,527	$126,837	$131,039
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Bonds (1)	$ 30,803	$ 37,251	$ 40,630	$ 59,256	$ 58,921
Net Revenues Available for Water and Wastewater System Separate Lien Obligations	$100,669	$ 88,164	$ 95,897	$ 67,581	$ 72,118
Principal and Interest on Water and Wastewater System (3) Separate Lien Obligations	$ 73,793	$ 56,881	$ 36,819	$ 19,143	$ 12,406
Debt Service Coverage (Separate Lien Obligations)(2)	1.36x	1.55x	2.60x	3.53x	5.81x

(1) Represents only the portion of Prior First Lien Bonds and Prior Subordinate Lien Bonds allocated to the Water and Wastewater System.

(2) 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.

(3) Includes principal and interest on Maple Run MUD and North Austin MUD No. 1.

DEBT SERVICE REQUIREMENTS (a)

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds	Outstanding Subordinate Lien Bonds	Total Prior & Subordinate Lien Bond Requirements	The Bonds		Electric Utility System Obligations	Water & WW Separate Lien Obligation Bonds (b)	Assumed Bonds & Obligations (c)	Total Separate Lien and Combined Utility Systems Requirements
				Principal	Interest				
2005	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,648,428	$ 1,539,110	$ 3,187,538
2006	96,341,678	11,916,500	108,258,178	-	9,921,050	50,281,825	75,233,509	2,053,841	245,748,403
2007	129,928,191	14,325,160	144,253,351	-	9,921,050	40,293,375	70,335,874	1,071,855	265,875,506
2008	115,778,681	14,312,053	130,090,734	-	9,921,050	46,798,138	75,297,080	994,987	263,101,988
2009	133,508,636	15,447,071	148,955,708	-	9,921,050	46,071,219	66,686,971	906,295	272,541,242
2010	159,311,586	15,117,876	174,429,463	-	9,921,050	34,934,069	52,444,454	911,470	272,640,505
2011	155,358,456	15,912,755	171,271,211	-	9,921,050	35,192,350	42,375,306	914,612	259,674,529
2012	144,690,813	16,861,853	161,552,665	6,425,000	9,921,050	35,535,175	42,199,897	915,777	256,549,564
2013	102,468,819	17,129,078	119,597,896	8,820,000	9,599,800	65,485,675	53,265,962	930,072	257,699,406
2014	101,934,366	18,579,978	120,514,343	13,695,000	9,047,300	67,636,438	63,545,277	1,077,183	275,515,541
2015	49,591,038	30,478,963	80,070,000	14,350,000	8,358,050	55,531,550	58,435,655	1,078,343	217,823,599
2016	24,259,047	31,239,715	55,498,762	10,510,000	7,750,150	36,213,075	76,258,525	1,088,425	187,318,937
2017	59,910,466	21,563,885	81,474,351	15,765,000	7,106,750	36,201,263	43,878,435	947,019	185,372,817
2018	78,922,600	21,805,425	100,728,025	16,600,000	6,314,250	22,685,000	23,989,100	650,355	170,966,730
2019	49,694,853	21,129,813	70,824,666	17,435,000	5,477,500	22,734,625	22,855,489	-	139,327,279
2020	20,427,072	23,728,400	44,155,472	18,255,000	4,599,250	22,659,375	27,239,446	-	116,908,543
2021	15,165,959	23,806,325	38,972,284	13,310,000	3,831,500	22,748,000	34,452,441	-	113,314,226
2022	3,927,844	29,843,513	33,771,356	13,975,000	3,166,000	22,698,000	36,112,913	-	109,723,269
2023	6,187,656	28,853,025	35,040,681	5,065,000	2,467,250	22,709,500	44,146,478	-	109,428,909
2024	6,850,156	28,640,038	35,490,194	5,355,000	2,214,000	22,692,500	44,204,150	-	109,955,844
2025	1,571,703	25,298,938	26,870,641	5,645,000	1,946,250	22,842,500	36,259,750	-	93,564,141
2026	1,573,031	9,630,775	11,203,806	5,930,000	1,664,000	22,845,000	36,425,625	-	78,068,431
2027	-	10,046,013	10,046,013	6,310,000	1,367,500	22,900,000	35,949,875	-	76,573,388
2028	-	10,138,313	10,138,313	6,665,000	1,052,000	22,905,000	36,038,875	-	76,799,188
2029	-	-	-	7,015,000	718,750	22,860,000	35,565,375	-	66,159,125
2030	-	-	-	7,360,000	368,000	9,700,000	27,458,250	-	44,886,250
2031	-	-	-	-		9,737,500	15,471,750	-	25,209,250
2032	-	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-	-

(a) As of May 15, 2005.
(b) Excludes the Refunded Bonds.
(c) Includes Assumed MUD's and Contract Tax Obligations, each payable from City ad valorem taxes and additionally payable from surplus Net Revenues of the Waterworks and Sewer System.

SECURITY FOR THE BONDS

Pledges of Net Revenues

Prior First Lien Obligations/Prior Subordinate Lien Obligations . . . The Net Revenues of both the City's Electric Utility System and Water and Wastewater System have been pledged, jointly and severally, (i) on a first lien basis to the payment and security of the Prior First Lien Obligations and (ii) on a second lien basis to the payment and security of the Prior Subordinate Lien Obligations. 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 ninth encumbrance issued or incurred as Parity Water/Wastewater Obligations for the benefit of the City's Water and Wastewater System. See "Credit Agreements" below. The Master Ordinance and the Ninth 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 below) 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 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.

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 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 amount currently on deposit in the Reserve Fund is $29,043,153 (the "Current Reserve"), which Current Reserve is funded in full with surety bonds issued by (i) MBIA Insurance Corporation in the respective amounts of $3,649,128 and $4,339,756, (ii) Financial Security Assurance Inc. ("FSA") in the respective amounts of $9,676,021 and $2,840,932, and (iii) Ambac Assurance Corporation ("Ambac") in the respective amounts of $3,580,911 and $5,546,059. By reason of the issuance of the Bonds, the City shall recalculate the Required Reserve Amount and provide for the difference, if any, between the Required Reserve Amount and the Current Reserve to be fully funded with a Credit Facility.

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 Required Reserve with Financial Commitments (defined below) and change the amount required to be maintained in the Reserve Fund (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, 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 as of March 31, 2005 is $106,790,325.15 (the "Required Reserve") 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 secured by a joint and several pledge of the net revenues of both the City's Water and Wastewater System and Electric Utility System will be issued 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. There has been no such change in rates since November 1, 2004.

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 and 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.

One of the series of Parity Water/Wastewater Obligations currently outstanding 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 "Variable Rate Bonds") and delivered on August 27, 2004. In conjunction with the delivery of the 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 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 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 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 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 Standard & Poor's 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.

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 under certain market conditions, the City may owe a termination payment to JPM or may 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 Variable Rate Bonds are redeemed pursuant to the City exercising its right to effect an optional redemption of 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 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.

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 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.

Water and Wastewater 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 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.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix F for a specimen of MBIA's policy.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Company to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bonds the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.]

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

MBIA Information

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of the Company's most recent Quarterly Report on form 10-Q, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of $9.9 billion (audited), total liabilities of $6.2 billion (audited), and total capital and surplus of $3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2004 MBIA had admitted assets of $10.3 billion (unaudited), total liabilities of $6.9 billion (unaudited), and total capital and surplus of $3.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

DESCRIPTION OF THE BONDS

The Bonds will be dated May 15, 2005, and interest will accrue from their dated date. Interest will be payable on November 15, 2005, and on each May 15 and November 15 thereafter until maturity or prior redemption. The Bonds will mature on May 15 and 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 with twelve 30 day months. Principal of the Bonds is payable only at maturity, subject only to optional redemption as is hereinafter described.

Optional Redemption

The City reserves the right at its option to redeem Bonds maturing on or after May 15, 2016, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on November 15, 2015, or any date thereafter, at par value thereof plus accrued interest to the date fixed for redemption.

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 JPMorgan Chase Bank, N.A., Dallas, Texas. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be given to each registered owner of the Bonds 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 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

The Ninth Supplement does not establish specific events of default with respect to the Bonds. If the City defaults in payment of the principal of or interest on any of the Bonds when due, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ninth Supplement, any Holder of a Bond is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observance and perform such covenant, obligation, or condition. Under state law there is no right to the acceleration of maturity of the Bonds upon failure of the city to observe any covenant under the Ninth Supplement. Although a Holder of Bonds could presumably obtain a judgment against the City if default occurred in the payment of principal of or interest on any such Bond, such judgment could not be satisfied by execution against any property of the City. Such Holder's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to charge, assess and collect rates for the use of the Water and Wastewater System sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a Holder could be required to enforce such remedy on a periodic basis. The Ninth Supplement does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ninth Supplement, or upon any other condition. Furthermore, 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 revenues, Chapter 9 includes an automatic stay provision that would prohibit, without Bankruptcy court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from its creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ninth Supplement and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

BOOK-ENTRY-ONLY SYSTEM

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing

Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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).

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. 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.

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 City recently completed a new 300 MW combined cycle gas-fired plant. The plant began commercial operation on September 1, 2004. The Electric Utility System had approximately 1,471 full-time regular employees as of September 30, 2004. The Water and Wastewater System had approximately 1,005 full-time regular employees as of the same date.

THE WATER AND WASTEWATER SYSTEM

Management

Name	Title	Length of Service with City
Chris Lippe, P.E.	Director, Water and Wastewater Utility	21 Years, 0 Months
Perwez Moheet, CPA	Assistant Director, Finance and Business Support Services	25 Years, 11 Months
Jane Burazer	Assistant Director, Treatment	11 Years, 5 Months
Reynaldo Cantu, P.E.	Assistant Director, Operations	14 Years, 9 Months
David Juarez, P.E.	Assistant Director, Water Resource Management	14 Years, 0 Months*

*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, seven water supply corporations, one private utility, and the Cities of Rollingwood, Pflugerville and Sunset Valley.

The City has previously acquired the systems and assets of eleven water control and improvement districts. The City has paid off and canceled the bonded indebtedness of all of these districts. The Texas Commission on Environmental Quality ("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 is 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. Town 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).

1980 – 803,500 Acre Feet	1989 – 667,900 Acre Feet	1997 – 3,013,512 Acre Feet
1981 – 1,626,000 Acre Feet	1990 – 692,300 Acre Feet	1998 – 1,313,831 Acre Feet
1982 – 1,356,000 Acre Feet	1991 – 829,700 Acre Feet	1999 – 803,240 Acre Feet
1983 – 587,000 Acre Feet	1992 – 5,419,000 Acre Feet	2000 – 627,370 Acre Feet
1984 – 764,000 Acre Feet	1993 – 978,000 Acre Feet	2001 – 1,371,435 Acre Feet
1985 – 751,000 Acre Feet	1994 – 708,200 Acre Feet	2002 – 1,674,985 Acre Feet
1986 – 886,500 Acre Feet	1995 – 896,700 Acre Feet	2003 – 1,017,294 Acre Feet
1987 – 3,399,000 Acre Feet	1996 – 758,300 Acre Feet	2004 – 928,065 Acre Feet
1988 – 834,000 Acre Feet		

Using the twenty-five years from 1980-2004, the average flow was 1,308,273 acre feet per year. Using the lowest year, 1983, the flow for the Colorado River at Austin was 587,000 acre feet, or 192 billion gallons, which is over 3 times the amount of water treated for distribution (48.5 billion gallons) by the City for the fiscal year ended September 30, 2004.

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 Texas Water Right 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 Town 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 Town Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Town 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). 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 Water Treatment Plant 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 Town Lake. Additionally, the First Amendment includes an option for the City to renew the Settlement Agreement through the year 2100, a full century of water supply. 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 Water Treatment Plant No. 4 was settled. 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 Water Treatment Plant No. 4.

Water Treatment Plants

The City's Water and Wastewater Utility has three water treatment plants (Green, Davis and Ullrich) which have a rated capacity of 260 million gallons per day ("mgd"). The water treatment plants have a combined clear well storage capacity of 38.8 million gallons on site. The City's Water and Wastewater Utility includes a water distribution system having 3,036 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 250 million gallons, 26,160 fire hydrants and forty-two booster pump stations.

The City receives its water supply from the Colorado River through the three water treatment plants. The Green Plant takes water from Town Lake, which is located near the downtown area of the City. The Davis Plant and the Ullrich Plant both take water from Lake Austin.

The Green Plant is located east of Shoal Creek near its junction with the Colorado River and has a rated capacity of 42 mgd. An intake station on the river contains four traveling water screens and four raw water pumps. The Green Plant was constructed in 1924 and expanded in 1935, 1938, 1949 and 1985. The firm pumping capacity (i.e., with one of the largest pumps out of service) is 42 mgd. Water is pumped through a forty-two inch line to the chemical feed building, where it is split into two parallel treatment units. The Green Plant operates on a site that limits any major expansion or upgrading of treatment processes. Its capacity can be replaced by the planned expansion of the Ullrich Plant. Due to a number of factors including age/condition, site constraints, redevelopment, etc., the City plans to replace the existing Green Plant in the near future. The City on April 6, 2005, awarded a contract to CH2M Hill Inc. to conduct a Green Water Treatment Plant Planning Assessment. Due to a number of factors including age/condition, site constraints, redevelopment, etc., the City plans to replace the existing Green Plant in the near future. The general project description is that the project is a planning study to: assess condition and operability of the existing Green Plant and determine the production capacity, treatment process, and footprint of the New Green Plant including its intake on Town Lake, downstream of Barton Creek. The duration of the study is projected to be approximately 8 to 12 months.

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, and 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 rated capacity of 100 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, six upflow-solids contact clarifiers, twelve filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. A 60 mgd upgrade to the Ullrich Plant is currently underway with construction scheduled to be completed in 2006. This expansion will increase the rated capacity of the plant to 160 mgd.

Construction of Water Treatment Plant No. 4 will add incremental initial capacity of up to 50-75 million gallons per day with an intake structure rated at 100 to 300 million gallons per day. Based on revised growth projections, the City anticipates that construction of Water Treatment Plant No. 4 will begin within the next 5 years. $141 million of bonds have been authorized for this project based on an earlier schedule under which the plant would have already been built. That project was deferred in the late 1980's. Additional costs incurred due to the revised timing are anticipated to be funded with current revenues 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 is presently designed to shift from voluntary to mandatory stages when daily pumpage exceeds a specific limit established by the City Manager which relates to treatment capacity. If higher levels of pumpage should occur, the plan would move to one of the more restrictive mandatory levels. Currently, the treatment facilities have a rated capacity of 260 mgd. Mandatory water restrictions were required during the extreme drought conditions of July through September 2000. 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.

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Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 1988 through 2004.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Million of Gallons)
1988	36,332	6.80	162
1989	38,300	5.40	178
1990	38,311	.03	177
1991	36,125	(5.71)	161
1992	36,989	2.39	169
1993	39,824	7.66	189
1994	39,766	(0.15)	199
1995	39,542	(0.56)	192
1996	45,835	15.91	205
1997	42,812	(6.60)	195
1998	46,438	8.47	211
1999	46,422	(0.03)	216
2000	52,194	12.43	227
2001	50,140	(3.94)	243
2002	50,883	1.48	214
2003	51,111	.45	232
2004	48,496	(5.2)	197

Source: City's Water and Wastewater Utility.

Projected Water Pumpage - TABLE NINE

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

Fiscal Year	Total Pumpage (Million of Gallons)	Maximum Day Pumpage (Million of Gallons)
2005	50,875	239
2006	53,065	255
2007	53,969	259
2008	54,889	263
2009	55,825	274
2010	56,776	278
2011	57,741	283
2012	58,723	288
2013	59,721	293
2014	60,736	298

Source: City's Water and Wastewater Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2004		2003		2002		2001		2000	
	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		51,110,847		50,883,130		50,184,839		52,326,065
Less: Sales to Other Water Utilities (1)		3,164,880		3,437,043		3,476,482		3,639,468		3,863,466
Thousands Gallons to System		45,304,083		47,673,804		47,406,648		46,545,371		48,462,599
Water Sales:										
Urban	173,445	34,228,582	169,839	35,644,803	167,895	36,577,034	165,536	37,653,186	161,243	41,973,466
Rural	12,787	2,029,242	13,512	2,302,234	12,899	2,338,585	11,700	2,219,216	11,242	2,435,328
	186,232	36,257,824	183,351	37,947,037	180,794	38,915,619	177,236	39,872,402	172,485	44,408,794
City Departments	388	669,551	387	553,582	387		392	588,880	392	650,006
						616,775				
Total Sales to Ultimate Consumer	186,620	36,927,375	183,738	38,500,619	181,181	39,532,394	177,628	40,461,282	172,877	45,058,800
Used by Water Utility		1,454,289		1,506,146		1,529,717		1,531,430		1,613,380
Other Unmetered Usage		3,281,351		3,460,215		3,448,000				
Loss and Unaccounted For		3,641,068		4,206,824		2,896,537		4,552,659		1,790,419
Thousand Gallons to System		45,304,083		47,673,804		47,406,648		46,545,371		48,462,599
Maximum Daily Consumption		190,784		224,592		206,125		240,285		220,305
Average Daily Consumption in Thousands of Gallons		113,826		119,024		122,024		125,020		132,774

(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 (2000 - 2004)

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

	2004		2003		2002		2001		2000	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
Freescale, Inc. (1)	1,003,329	$2,686	1,048,571	$ 2,654	1,277,560	$ 3,202	1,931,463	$ 4,886	1,814,060	$ 4,031
University of Texas	909,593	2,577	962,813	2,563	863,720	2,319	1,135,801	4,094	1,029,359	2,341
Travis County Water Control and Improvement District No. 10	787,407	1,687	795,059	1,646	773,882	1,604	848,672	1,666	901,248	1,831
Advanced Micro Devices	652,030	1,870	792,393	2,009	911,042	2,291	979,919	2,340	1,044,510	2,082
Wells Branch Municipal Utility District	503,040	1,016	563,339	1,090	575,113	1,092	587,057	1,076	646,054	1,328
Anderson Mill Municipal Utility District	484,241	991	486,171	949	477,297	757	486,185	851	546,213	936
Samsung	499,627	1,336	485,945	1,229	495,548	1,246	492,533	1,153	462,139	1,005
North Austin Municipal Utility District	323,783	798	354,291	718	367,626	910	364,580	712	406,345	850
Lost Creek Municipal Utility District	276,227	617	304,709	655	293,571	612	303,592	608	355,547	758
Shady Hollow Municipal Utility District	204,950	511	237,135	567	224,608	523	247,103	496	300,277	800
	5,644,227	$14,089	6,030,426	$14,080	6,259,967	$14,556	7,376,905	$17,882	7,505,752	$15,962

(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 ten municipal utility districts, one private utility, the Eanes Independent School District, and the cities of Sunset Valley and Rollingwood to provide wastewater service.

Facilities

The Water and Wastewater Utility has three main wastewater treatment plants with a permitted capacity of 130 mgd, one sludge treatment and disposal facility, over 2,311 miles of sanitary wastewater mains and lines, and 105 lift stations. The three treatment plants are the Walnut Creek Wastewater Treatment Plant which began operations in 1977, the Govalle Wastewater Treatment Plant constructed in 1936, and the South Austin Regional Wastewater Treatment Plant completed in 1986. The Hornsby Bend Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 2001 and 2002, the City received from the TCEQ and the U.S. Environmental Protection Agency ("USEPA") renewals of discharge permits (TPDES permits) for all its wastewater treatment plants. The permits are renewable again in 2004, and the applications to renew the permits have been submitted.

The Walnut Creek Wastewater Treatment Plant is currently permitted to discharge an average flow of 60 mgd. During 2003 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 was completed in 2004 and an application for a discharge permit of 75 mgd has been submitted.

The Govalle Wastewater Treatment Plant was initially constructed in 1937 and has undergone several expansions. It now has a permitted capacity of 20 mgd. During 2003 average flow was 11 mgd. Sludge from this plant is also pumped to the anaerobic digesters at Hornsby Bend. Extensive modernization completed in 1986 and subsequent improvements completed in 1988 have enabled the Govalle plant to reliably produce the quality of effluent required by state and federal permits. A major interceptor tunnel completed in 1988 diverts any excess flows from Govalle to the South Austin Wastewater Treatment Regional Plant.

The South Austin Regional Wastewater Treatment Plant, which replaced the Williamson Creek Treatment Plant, began operation in April 1986. The plant is now permitted to discharge at a rate of 50 mgd. During 2004 average flow was 29 mgd. A major interceptor transports the wastewater to the South Austin plant from the site of the former Williamson Creek plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant. A 25 mgd upgrade to this plant is currently underway with construction scheduled to be completed in 2005.

The Hornsby Bend Treatment Plant serves as the City's central sludge treatment and disposal facility. Waste sludge from the Walnut Creek, South Austin Regional and Govalle 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. Sludge received at Hornsby Bend is thickened, anaerobically digested, dewatered in sludge drying basins and composted for marketing and distribution. Some dried sludge is 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 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.

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 Govalle and South Austin Regional Wastewater Treatment Plants.

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 1994 through 2004.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
1994	25,257	(5.7)
1995	30,038	18.9
1996	28,140	(6.3)
1997	32,898	16.9
1998	31,609	(3.9)
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)

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)
2005	33,885
2006	35,210
2007	35,925
2008	36,653
2009	37,393
2010	38,145
2011	38,919
2012	39,709
2013	40,515
2014	41,337

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 is expected to be expanded to a capacity of 75 mgd by the year 2005.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the current approved FY 2005-09 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately $816.4 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 $599.5 million additional Parity Water/Wastewater Obligations and (2) the application of $216.9 million of anticipated transfers from current revenues and amounts on hand. The Water and Wastewater System's proposed FY 2006-10 capital spending plan totals $975.5 million which is anticipated to be funded as follows: (1) the issuance of $768.0 million additional Parity Water/Wastewater Obligations and (2) the application of $207.5 million of anticipated transfers from current 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 Municipal Utility District ("MUD"), a Water Control and Improvement District ("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 Previously Issued Prior Subordinate Lien Bonds 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 dissolved. 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.

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

Water Service Rates Effective November 1, 2004 – TABLE FOURTEEN

Monthly Customer Charges

Customer Account Charge	Equivalent Meter Charge			
	Customer Account Charge per Month	Meter Size	Retail Meter Charge per Month	Wholesale Meter Charge per Month
Retail Customer Account Charge ($/Month)	$2.75	5/8	$ 1.25	$ 1.25
		3/4	1.88	1.88
Wholesale Customer Account Charge ($/Month)	$2.75	1	2.75	2.75
		1 ¼	4.00	4.00
		1 ½	5.25	5.25
		2	7.75	7.75
		3	18.75	18.75
		4	31.25	31.25
		6	62.50	62.50
		8	93.75	93.75
		10	125.00	125.00
		12	143.75	143.75

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Volume Unit Charge (1)

Unit Cost per 1,000 Gallons	Inside City	Outside City
Single-Family Residential (2)		
0 – 2,000 Gallons	$ .86	$ .86
2,001 – 9,000 Gallons	2.29	2.29
9,001 – 15,000 Gallons	3.70	3.70
15,001 – Over Gallons	6.42	6.63
Multifamily (3)		
Off Peak	$2.60	$2.82
Peak	2.82	3.03
Commercial (3)		
Off Peak	$3.24	$3.24
Peak	3.47	3.47
Large Volume/Industrial (3)		
Off Peak	$2.82	N/A
Peak	3.07	N/A
Golf Courses (3)		
Off Peak	$3.24	$3.24
Peak	3.47	3.47

(1) Wholesale unit charges vary between $2.03 and $5.36 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, 2004 – TABLE FIFTEEN

Customer Account Charge

	Inside City	Outside City	Wholesale Customers
Customer Account Charge ($/month)	$4.00	$4.00	$4.00

Volumes Unit Charge

	Unit Cost per 1,000 Gallons (1)	
	Inside City	Outside City
Retail Inside City:		
Single-Family		
0 - 2,000 Gallons	$2.48	$3.39
2,001 - Over Gallons	5.69	6.07
Multifamily	4.63	4.64
Commercial	5.10	5.10
Large Volume/Industrial	4.57	N/A
Golf Courses	5.10	5.10

Wholesale unit charges vary between $3.19 and $3.81 for each 1,000 gallons.

(1) Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.

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 as shown below. There are a number of express exemptions from payment of these fees. The City's current policy is to restrict the use of Capital Recovery Fee receipts to 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	$1,700	$1,300	$3,000
Drinking Water Protection Zone in the City limits	1,500	1,200	2,700
Desired Development Zone in the City's extraterritorial jurisdiction	1,300	800	2,100
Desired Development Zone in the City limits	700	400	1,100
Urban watersheds	600	400	1,000
Central urban redevelopment combining district area and the area bounded by Town Lake, Lamar Boulevard, 15th Street, and IH-35	500	300	800
Outside of Austin extraterritorial jurisdiction	1,700	1,300	3,000

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Analysis of Water Bills - TABLE SIXTEEN A

	Fiscal Year Ended September 30				
Average Monthly Bill Per Customer - Water	2004	2003	2002	2001	2000
Inside City (Urban)					
Residential	$ 22.23	$ 24.67	$ 24.43	$ 24.64	$ 30.13
Multi-Family	321.61	314 22	316.09	306.69	338.37
Commercial	201.60	204.61	207.39	182.12	199.83
Industrial	95,841.88	93,761.88	103,166.21	86,254.81	95,352.85
City Departments	464.28	373.10	431.17	342.98	321.34
Outside City (Rural)					
Residential	25.74	29.72	30.22	33.47	42.02
Multi-Family	246.53	231.67	229.36	194.34	193.96
Commercial	206.87	184.58	204.28	187.77	178.16
Average Monthly Bill					
Above Customers	48.91	50.88	51.56	50.53	57.71
Sales to Other Water Utilities*	28,783.44	30,360.71	31,499.61	29,057.09	38,611.80
Average Monthly Bill					
All Customers	$ 51.99	$ 54.18	$ 54.86	$ 53.80	$ 61.50
Average Monthly Use in 1000 Gallons - Water					
Inside City (Urban)					
Residential	7.56	8.35	8.38	8.73	10.13
Multi-Family	128.36	130.78	132.28	132.98	138.10
Commercial	65.40	69.28	71.52	67.99	81.34
Industrial	35,890.31	37,231.67	41,127.10	36,881.81	43,836.58
City Departments	148.19	123.76	135.77	137.21	154.26
Outside City (Rural)					
Residential	8.35	9.50	9.59	9.96	11.98
Multi-Family	93.97	103.22	101.43	85.62	82.78
Commercial	67.59	68.94	78.82	71.80	76.62
Average Monthly Use					
Above Customers	17.01	18.12	18.58	19.01	21.76
Sales to Other Water Utilities*	13,597.73	14,858.34	15,576.82	15,164.45	18,938.56
Average Monthly Use					
All Customers	18.46	19.74	20.21	20.71	23.62
Average Revenue Per 1000 Gallons - Water					
Inside City (Urban)					
Residential	$2.94	$2.95	$2.92	$2.82	$2.97
Multi-Family	2.51	2.40	2.39	2.31	2.45
Commercial	3.08	2.95	2.90	2.74	2.46
Industrial	2.67	2.52	2.51	2.34	2.18
City Departments	3.13	3.01	3.18	2.50	2.08
Outside City (Rural)					
Residential	3.08	3.13	3.15	3.36	3.51
Multi-Family	2.62	2.24	2.26	2.27	2.34
Commercial	3.06	2.68	2.59	2.62	2.33
Average Revenue					
Above Customers	2.88	2.81	2.78	2.66	2.65
Sales to Other Water Utilities*	2.12	2.04	2.02	1.92	2.04
Average Revenue					
All Customers	2.82	2.75	2.71	2.60	2.60

* Includes all wholesale customers.

Analysis of Wastewater Bills - TABLE SIXTEEN B

Average Monthly Bill Per Customer - Wastewater	2004	2003	2002	2001	2000
Inside City (Urban)					
Residential	$ 21.47	$ 19.92	$ 20.26	$ 19.87	$ 23.11
Multi-Family	432.29	405.13	408.21	385.39	477.69
Commercial	210.53	193.41	191.68	197.98	253.56
Industrial	112,779.87	112,135.81	128,387.33	110,619.51	127,044.30
City Departments	224.06	211.33	194.64	203.92	176.25
Outside City (Rural)					
Residential	26.76	25.67	25.29	23.51	28.91
Multi-Family	383.09	385.34	373.49	322.64	373.97
Commercial	405.92	436.55	584.21	561.31	668.53
Average Monthly Bill					
Above Customers	50.15	47.16	48.46	48.98	58.34
Sales to Other Utilities*	28,846.49	25,877.35	27,609.36	29,393.59	28,359.53
Average Monthly Bill					
All Customers	$ 51.65	$ 48.53	$ 49.95	$ 50.42	$ 60.15
Average Monthly Use in 1000 Gallons – Wastewater					
Inside City (Urban)					
Residential	4.69	4.67	4.78	4.89	6.08
Multi-Family	107.96	107.51	108.65	105.94	122.67
Commercial	47.01	46.32	46.49	49.83	56.71
Industrial	28,993.95	31,745.82	37,470.02	32,622.39	38,611.97
City Departments	57.44	62.78	54.56	56.14	52.01
Outside City (Rural)					
Residential	5.12	5.07	5.06	5.04	6.46
Multi-Family	96.08	102.51	101.05	88.53	95.76
Commercial	92.21	103.91	132.12	142.72	168.11
Average Monthly Use					
Above Customers	11.58	11.70	12.16	12.76	14.66
Sales to Other Wastewater Utilities*	9,362.28	8,847.72	9,288.69	11,207.18	10,550.50
Average Monthly Use					
All Customers	12.07	12.17	12.66	13.32	15.33
Average Revenue Per 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	$4.58	$4.26	$4.24	$4.06	$3.80
Multi-Family	4.00	3.77	3.76	3.64	3.89
Commercial	4.48	4.18	4.12	3.94	4.95
Industrial	3.89	3.53	3.43	3.39	3.29
City Departments	3.90	3.37	3.57	3.63	3.39
Outside City (Rural)					
Residential	5.23	5.06	5.00	4.66	4.48
Multi-Family	3.99	3.76	3.70	3.64	3.91
Commercial	4.40	4.20	4.42	3.93	3.98
Average Revenue					
Above Customers	4.33	4.03	3.98	3.84	3.98
Sales to Other Utilities*	3.08	2.92	2.87	2.62	2.69
Average Revenue					
All Customers	4.28	3.99	3.94	3.79	3.92

* Includes all wholesale customers.

THE ELECTRIC UTILITY SYSTEM
"AUSTIN ENERGY"

Management

Name	Title	Length of Service with City
Juan Garza	General Manager	4 Years, 7 Months
Elaine Hart, CPA	Senior Vice President Finance and Corporate Services	17 Years, 0 Months*
Michael McCluskey	Senior Vice President Wholesale and Retail Markets	19 Years, 2 Months
Cheryl Mele	Senior Vice President Electric Service Delivery	13 Years, 6 Months
Chris Kirksey	Senior Vice President Power Production	19 Years, 6 Months
Roger Duncan	Deputy General Manager Distributed Energy Services	15 Years, 5 Months
Bob Kahn	Deputy General Manager Administrative Services	13 Years, 3 Months
Kerry Overton	Vice President Customer Care	5 Years, 4 Months

*Length of service not continuous.

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 future success. The first is an overarching or "umbrella" strategy that addresses Risk Management. Under this strategy, Austin Energy will 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.

Excellent Customer Service is the second strategy. Under this strategy Austin Energy will build employee and customer satisfaction so that it is positioned for competition or regulation whichever occurs in the future.

The third is the Energy Resource strategy. Under this strategy Austin Energy will first seek 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 will not prematurely commit to unproven technologies; however, it will 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 strategy including:

- Customer Satisfaction - Austin Energy will be proactive in developing an understanding of our customers by monitoring indicators and conducting customer surveys. Austin Energy's target is a customer satisfaction score of 83/100 by 2010. 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.
- 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. Austin Energy plans to exceed the City of Austin MWBE goals by 2008.
- Exceptional 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. The targets are to be met by 2005.
  - SAIFI (system average interruption frequency index) = 0.8 interruptions per year
  - SAIDI (system average interruption duration index) = 60 minutes per year
- Maintain Financial Integrity - Austin Energy plans to achieve an "AA" (Standard & Poor's) Credit Rating by 2010 on its separate lien revenue bonds. Austin Energy provides a return to its citizen owners in the form of financial support for local government.
- Renewable Portfolio Standard - Austin Energy will continue its nationally recognized renewable resources and Green Building programs. By 2020, Austin Energy will achieve a Renewable Portfolio Standard of 20% and 15% demand side management. Austin Energy will demonstrate its commitment to solar energy by implementing a Solar Rebate Program and conducting a study to determine the comprehensive value of solar energy.

The strategic plan includes an ongoing review process that will occur at least annually. The review will examine changing industry trends and recommend course corrections where necessary as well as the effectiveness of current initiatives and recommend adjustments to better meet the strategies and objectives of Austin Energy.

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
Holly Street Power Plant			
Unit No. 3	1966	165.0	Gas
Unit No. 4	1974	193.0	Gas
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
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	200.0	Nuclear
Total Capacity		2,742.5	

See Table Three "Generation and Use Data – System Peak Demand" for further description of peak demand to generation capacity. Generation capacity is adequate to meet native load. Holly Street Power Plant Units 3 and 4 are scheduled for closure by December 2007.

Conventional System Improvements

In September 2004, the 2005-09 Capital Improvements Spending Plan was approved by the City Council in the amount of $534,483,000. 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.

The City recently completed construction of a 300 MW combined cycle gas-fired electric generating facility at the Sand Hill Energy Center. The unit began commercial operation on September 1, 2004. The "one-on-one" combined cycle unit consists of one (1) "F" class combustion turbine (CT), one (1) natural circulation, duct fired, heat recovery steam generator (HRSG), one (1) steam turbine and balance of plant equipment and controls. The unit was designed so that a future "F" technology CT/HRSG train may be added to achieve a nominal rating of 500 MW for this power block. The facility was funded with cash from operations.

In 2004, Austin Energy installed a 95 MVA Static Synchronous Compensator (STATCOM) to facilitate the closing of the aging Holly Power Plant. The STATCOM helps maintain adequate system reliability without the need for Holly generation. The 2004 capital budget was $7.9 million for transmission and substations that are recoverable through Transmission Cost of Service ("TCOS").

In 1995, the Public Utility Commission of Texas ("PUCT") adopted new rules governing the transmission system in Electric Reliability Council of Texas ("ERCOT"), which, at the time, was an organization made up of major investor-owned and municipal systems, a state river authority, a municipal joint agency, energy marketers, independent power producers and a number of cooperatives. As part of these new rules, the PUCT established a means for the transmission owners in ERCOT to recover TCOS. TCOS is based on the principle of equal transmission access for all loads and generation in ERCOT. Each load serving entity in ERCOT has been assigned a share of the total cost of transmission in ERCOT based upon the ratio of that load serving entity's load to the entire load in ERCOT. The funds recovered through this mechanism are distributed to transmission owners in ERCOT based upon a ratio of the transmission owner's investment in transmission facilities to the entire transmission investment in ERCOT. Austin Energy's load represents approximately 3.82% of ERCOT and Austin Energy's TCOS is approximately 3.85% of ERCOT's total TCOS. For calendar year 2005, this will result in net revenue of $300,000 from TCOS. For a further discussion of current transmission rates see "Rate Regulation".

Transmission and Distribution System

The transmission and distribution lines of the Electric Utility System as of September 30, 2004, are as follows:

Miles	Description
175	345 kV transmission line (Fayette Power Project)
94	345 kV transmission line (South Texas Project)
381	69 kV and 138 kV transmission lines
10,308	Overhead and underground distribution lines

Austin Energy owns the following transmission substations:

Austrop	Holman	Lytton Springs
Decker Plant	Holly Plant	Pilot Knob
Garfield	Sand Hill	Lost Pines
FPP	STP	

Austin Energy owns the following distribution substations:

Name	Capacity (MVA)	Name	Capacity (MVA)
AMD	80	Kingsbery	60
Angus Valley	60	Koenig Lane	110
Austin Dam	60	Lakeshore	60
Balcones	60	Lakeway	60
Barton	120	McNeil	120
Bee Creek	90	Magnesium	90
Bergstrom	60	Met Center	30
Brackenridge	210	North	60
Brodie	90	Northland	100
Burleson	90	Oak Hill	90
Cameron	90	Onion Creek	60
Cardinal Lane	90	Patton Lane	130
Carson Creek	60	Pedernales	60
Commons Ford	90	River Place	40
Daffin Gin	60	Salem Walk	90
Dessau	130	Seaholm	330
Ed Bluestein	200	Slaughter Lane	60
Fiesta	60	Sprinkle	30
Fiskville	90	Steck	90
Grove	90	Summit	190
Hamilton	120	Techridge	90
Harris	200	Trading Post	60
HiCross	120	Walnut Creek	60
Hidden Valley	30	Warren	60
Howard Lane	60	Wheless Lane	90
Jett	60	Williamson	120
Jollyville	90	Zilker	20

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 South Texas Project ("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 Reliant Energy, Inc. (formerly Houston Lighting & Power Co., and referred to herein as "Reliant"), City Public Service Board of San Antonio 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 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 the 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.

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.

Power and Energy Purchase Contracts

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

Wind Power Purchase . . . In March 1995, the City signed a 25-year contract with LCRA to purchase up to 39,000 MWh of electric energy per year from the 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 increase the project capacity by an additional 78.4 MW. On October 26, 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and increasing the project capacity by an additional 56.7 MW. On December 19, 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.

RES North America recently completed construction of an additional 93 MW of wind capacity near Sweetwater, Texas. This facility became operational in February of 2005. Austin Energy will purchase the output from this project under a 12-year contract. On December 16, 2004, the City Council approved execution of a contract amendment increasing the Sweetwater project capacity for Austin Energy purchase to a total of 128 MW. Construction is scheduled to be completed by the end of the calendar year.

Landfill Gas (Methane) Power Purchase . . . In December 1994, the City signed a contract with Alternative Power Limited Partnership (APLP) to purchase energy from a 3-megawatt landfill gas plant in Austin. After dissolution of APLP in 2002, the seller of energy under the contract is now Gas Recovery System, Inc., the former general partner of APLP. Another megawatt of capacity was added in 2003, bringing the total capacity to 4 MW.

In December 1999, Austin Energy signed two contracts for 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.

Annual Summary of Customer Consumption and Average Price – TABLE TWO

Austin Energy delivers electricity to an average of approximately 360,000 customers within its service area. The kilowatt-hour sales distributed by customer classification served by Austin Energy are shown in the following table.

	Fiscal Year Ended September 30				
	2004	2003	2002	2001	2000
All Customers*					
Average Monthly kWh Per Customer	2,334	2,389	2,393	2,507	2,588
Average Monthly Bill Per Customer	$171.17	$187.30	$159.76	$181.07	$179.91
Average Monthly Revenues Per kWh	$.07332	$.07839	$.06675	$.07224	$.06950
Residential Customers					
Average Monthly kWh Per Customer	922	969	951	1,008	1,032
Average Monthly Bill Per Customer	$76.48	$85.41	$72.76	$81.64	$83.17
Average Monthly Revenues Per kWh	$.08297	$.08811	$.07652	$.08099	$.08062
General Customers**					
Average Monthly kWh Per Customer	13,431	13,679	13,876	14,264	14,480
Average Monthly Bill Per Customer	$907.55	$983.18	$844.40	$952.57	$909.08
Average Monthly Revenues Per kWh	$.06757	$.07187	$.06085	$.06678	$.06283

* Excludes UT, Nightwatchman and unbilled revenue.
**Excludes UT, Nightwatchman and the City.

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Generation and Use Data – TABLE THREE

	Fiscal Year Ended September 30									
	2004		2003		2002		2001		2000	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		9,973,751,000		8,762,574,000		9,914,797,000		10,671,549,000		10,627,483,000
kWh Received from ERCOT(1)		1,278,302,000		2,322,933,000		1,027,954,000		499,596,000		263,551,000
Less: kWh Delivered to ERCOT		(213,820,000)		(117,125,000)		(135,995,000)		(53,171,000)		(31,160,000)
Less: kWh Delivered to Other Utilities		(183,125,000)		(157,465,000)		(43,394,000)		(46,778)		(355,454,000)
Total kWh Delivered to Service Area		10,855,108,000		10,810,917,000		10,763,362,000		11,117,927,222		10,504,420,000
Service Area Energy Use:										
Residential	325,905	3,605,110,769	320,710	3,730,628,647	315,009	3,594,055,810	308,841	3,736,146,850	296,481	3,670,131,218
General Service (Less UT & ENW)	39,102	6,302,070,677	37,987	6,235,607,964	37,250	6,203,425,889	37,080	6,346,850,890	36,553	6,351,518,316
	365,007	9,907,181,446	358,697	9,966,236,611	352,259	9,797,481,699	345,921	10,082,997,740	333,034	10,021,649,534
Public Street Lighting	4	35,538,803	4	35,072,993	4	34,241,705	4	33,737,705	3	33,530,825
City Utility Departments	176	192,467,642	177	194,839,055	182	202,600,427	185	200,713,675	186	201,953,134
Other City Departments	686	114,304,014	647	112,687,157	626	106,051,939	628	111,991,407	630	112,965,298
	866	342,310,459	828	342,599,205	812	342,894,071	817	346,442,787	819	348,449,257
Total Service Area Sales	365,873	10,249,491,905	359,525	10,308,835,816	353,071	10,140,375,770	346,738	10,429,440,527	333,853	10,370,098,791
Sales to UT & ENW (Nightwatchman)	1	12,638,165		12,561,939		12,354,690		11,911,011		14,609,114
Loss and Unaccounted For		592,977,930		489,519,245		610,621,540		676,575,684		119,712,095
Total kWh Delivered to Service Area	365,874	10,855,108,000	359,525	10,810,917,000	353,071	10,763,362,000	346,738	11,117,927,222	333,853(4)	10,504,420,000
System Peak Demand (kW)		2,280,000		2,350,000		2,247,000		2,211,000		2,383,000

(1) Electric Reliability Council of Texas (formerly Texas Interconnected System).

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Electric Rates – TABLE FOUR

The following electric rates were effective March 17, 1997 by Ordinance 970306-P and are still in place. See "Rate Regulation" below.

				Energy Charge	
				Winter	Summer
Customer Class	Fuel Adjustment Clause (1)	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 (2)			
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) The Fuel Adjustment Clause recovers fuel costs. The calculation of the Fuel Adjustment Clause is described in the Rate Ordinance.
(2) Minimum Bill is applied when the sum of energy, demand and fuel charges is less than $12.00.
(3) Does not include special contracts, time-of-use and economic development rates.

Annual Adjustment Clause

The City assesses an Annual 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.

Green Choice Energy Rider

In March 2001, Austin Energy adopted a Green Choice Energy charge for renewable energy. Customers who subscribe to the wind and methane gas energy will pay a renewable energy charge in lieu of the fuel adjustment factor as determined by Austin Energy.

Fuel

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.

Natural Gas and Oil . . . Austin Energy manages its gas contracts in an effort to diversify risk and minimize cost. In case of a curtailment in natural gas supplies, fuel oil is used to replace the natural gas shortfall. Austin Energy maintains an oil reserve equivalent to several days of operation.

Nuclear . . . Nuclear fuel is procured through a jointly owned operating company.

Energy Risk Management

During 2003, Austin Energy implemented an energy risk management program to both stabilize the volatility of fuel prices and protect profit from off system sales of excess generated power. The pilot program was successful, and in 2004 the City Council authorized a full program permitting Austin Energy to execute up to $300 million in hedging contracts in relation to fuel oil, natural gas and electric energy. Under the program, Austin Energy enters into futures contracts, options and swaps with a term not to exceed five years, for the purpose of reducing exposure to natural gas and energy price risk.

Rate Regulation

The City's rates, except for wholesale transmission, are regulated by the City Council. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act ("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.

The 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.

The Electric Utility System of the City initiated a local rate proceeding in response to the increasing competitive nature of the electric utility industry. Austin Energy proposed a reduction or elimination of certain rates, the creation of new tariffs, and amendment of existing tariffs and the customer service regulations. The changes were designed to offer customers more choice and value. Basic electric rates did not increase as a result of the proposed changes. The last increase in base rates was in 1994. The City Council approved most of the proposals in December 1996 and March 1997.

In 1995, PURA was amended as it pertains to the PUCT's original jurisdiction over the City's provision of wholesale transmission service. The PUCT now has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, discriminatory, predatory, or anti-competitive. The PUCT adopted rules relating to wholesale transmission service. The City participated in the rulemaking. The current rules have been challenged in two original petitions filed by Reliant and City Public Service Board of San Antonio seeking a declaratory judgment holding the transmission pricing methodology in the PUCT's new transmission rules invalid and seeking a remand of the rulemaking. The City intervened in the proceedings in defense of the rulemaking. The two proceedings were consolidated and on April 20, 1998, the 98th District Court of Travis County entered final judgment against the plaintiffs, declaring the PUCT rules to be "valid, constitutional, and fully effective." The plaintiffs then appealed to the Third Court of Appeals in Austin. On January 6, 2000, the Third Court of Appeals invalidated those parts of the PUCT rules dealing with transmission rates, reversing the trial court and rendered judgment for the appellants. The City and others petitioned the Supreme Court of Texas for a review of the Third Court of Appeals opinion and the Supreme Court issued a ruling on June 28, 2001 affirming the ruling of the Third Court of Appeals. The PUCT has not taken any action based on the Supreme Court's ruling. However, Reliant and City Public Service Board of San Antonio filed two separate actions in Travis

County District Court in January 2002 seeking a declaration by the court as to the amount of refunds due to them as a result of the ruling by the Supreme Court. The City Council approved a proposed settlement of the case in August 2003. The settlement has been presented to the PUCT for consideration. It is unknown when the PUCT will consider the settlement.

The City filed an application to change rates for wholesale transmission service on May 21, 2004. A settlement was entered into between the PUCT staff and the City. The settlement resulted in an annual revenue requirement increase of $4.1 million or an 11% increase in wholesale transmission service rates. A final order accepting the settlement was signed by the Commissioners of the PUCT on December 20, 2004. The settlement allowed the City to implement the increase in transmission service rates earlier than participating in a complete administrative rate proceeding. The City will continue to monitor its cost and investment in transmission facilities to ensure that transmission service revenues are sufficient and reasonable. The City's current transmission rates have been in effect since December 20, 2004.

An Independent System Operator ("ISO") was established for ERCOT as a part of the rules that were adopted by the PUCT to 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 ("SB7"). The ISO's primary mission is to act as an impartial third party operator and planning coordinator for the ERCOT bulk electric system. The City is a member of ERCOT.

In addition, the 1995 PURA revisions required the creation of a committee to investigate the most economical, reliable and efficient means to interconnect the alternating current electric facilities of ERCOT to similar electric utility facilities within the Southwest Power Pool reliability area. A final report was issued to the Legislature during the 1999 session. No further action has been taken on interconnection by the Legislature.

During the 1999 Legislative Session PURA was amended by SB 7 providing for deregulation of the electric utility industry in Texas. SB 7 opened retail competition for investor owned utilities beginning January 1, 2002. SB 7 allows 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.

General Market Framework: There is a strong ISO established, with clear and enforceable market power protections: no utility can control more than 20% of ERCOT generation. Starting on January 1, 2002, a "Price-to-Beat" for the incumbent Investor Owned Utilities (IOU) rates includes a 6% reduction through 2005 or until 40% of IOU residential and small commercial customers choose a new supplier. There are protections against over-recovery of stranded investment by IOUs and protections against anti-competitive practices and predatory pricing. Retail competitors are required to sell to the residential market (minimum 5% of their business with residential if they sell more than 300 MWs). The air quality provisions require clean up of older "grandfathered power plants."

MOUs Which *Do Not* Choose Retail Competition

- There is no retail choice for MOU customers. MOU cannot sell at retail outside its area.
- Current regulatory scheme continues.
- Continued MOU access to buy and sell power in the wholesale market.

MOUs Choosing Retail Competition On or After January 1, 2002
(City councils or governing boards make an affirmative choice to bring retail competition to their MOU)

- Retail competitors can sell "generation" to MOU customers. MOU provides "wires" access to its distribution system for Retail Electric Providers, other MOUs and Electric Cooperatives. MOU has an "obligation to connect" and provides wire services and local reliability. Wires are not subject to competition.
- MOU can sell at retail outside its service area, per prevailing market rules.

MOU Local Control Preserved

- Exclusive MOU jurisdiction to set local distribution and other rates. Local wires services and rates remain in exclusive jurisdiction of the MOU.
- Local determination of the stranded investment amount and recovery mechanism.
- MOUs are not required to unbundle (structurally separate functions).
- Local authorities determine and provide customer services and protections.
- Local control of MOU power resource acquisition.
- Customers in multi-certified areas cannot switch wires companies to avoid stranded investment charges.
- Securitization is available to MOUs.

Participation By MOU In Markets Outside Its Area

- Limited PUCT jurisdiction over terms and conditions for access, not rates.
- Subject to market power limits and PUCT anti-competitive code of conduct.

Metering And Billing

- MOU retains metering.
- Customers with another generation supplier choose either one consolidated bill from the MOU, or two separate bills (one for wires, one for generation).
- Under SB 7, a System Benefit Fund will be established for consumer education programs, low-income customer programs and loss of tax revenue by school districts resulting from a devaluation of generation assets in the competitive market. A system benefit fee will be added to the utility bills of IOU customers to provide funding for the System Benefit Fund. MOUs are not required to bill their customers this system benefit fee until six months prior to the MOU "opt-in" date, if the MOU governing body elects to "opt-in." The System Benefit Fund will expire September 2007.

Other Key MOU Provisions

- Existing contracts are preserved. Tax-exempt status is preserved. MOU "competitiveness provisions" were included in SB 7 to "level" the field for MOUs when preparing for competition including relaxation of open meetings/records and purchasing provisions. No mandated MOU rate reductions.
- The City has not yet made a decision whether to "opt in" for retail competition or not, and the City cannot predict the short term or long term impact on the Electric Utility System or its revenues resulting from a decision to "opt in" or not, or resulting from the deregulation process in general.

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.

Service Area

The service area for Austin Energy was established by the 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 such area. As presently constituted, the City's service area overlaps with approximately 11 square miles of the service area of TXU in Travis and Williamson Counties.

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

Federal Regulation

Rate Regulation and Wholesale Wheeling . . . 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. On April 24, 1996, the FERC issued a Final Rule (the "Rule") proposing significant changes regarding transmission service performed by electric utilities subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Among other things, the FERC requires utilities to submit open-access, mandatory transmission tariffs. The goal of the Rule, according to the FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner's control of its transmission system.

Although municipally-owned utilities, including Austin Energy, are not subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act, the proposals in the Rule could have a significant effect on those utilities. The FERC stated that its overall objective was to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. The FERC also indicated that it intends to apply the principles set forth in the Rule to the maximum extent to municipal and other non-jurisdictional utilities, both in deciding cases brought under sections 211 and 212 of the Federal Power Act and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

According to the Rule, an open access transmission tariff must provide for functional unbundling of utility service, so that the filing utility will be obliged to purchase transmission service to meet its native load under the same transmission tariff it offers to others. A conforming tariff must be available to any entity eligible to request a section 211 order, must provide for expansion of the transmission system when necessary to provide service, must offer firm point-to-point and network service as well as non-firm transmission service, and must offer to provide such ancillary services (e.g., reactive power, loss compensation, scheduling and dispatch, system protection and energy imbalance services) as the transmission provider provides to itself. Transmission capacity must be subject to reassignment and sale on a secondary market. Transmission owners must also make available to potential users an index of capacity owners and information about the transmission capacity available for sale.

The FERC also ruled that it will permit utilities that file conforming open access transmission tariffs to recover their legitimate and verifiable stranded costs from wholesale sales customers who had been parties to sales contracts executed before July 11, 1994 which did not contain an exit fee or other provision relating to stranded cost recovery and who exercised their option to become transmission customers and purchase their electricity needs off-system. In order to recover stranded costs, the FERC said, a utility would be required to demonstrate that it had a "reasonable expectation" of continuing to serve the former customer's requirements for electric sales service and would also be required to demonstrate that it had attempted to mitigate its stranded costs.

Recovery of stranded costs resulting from retail wheeling initially would be the responsibility of state regulatory commissions, which could not permit such recovery in interstate transmission rates but must, instead, use such mechanisms as a surcharge upon rates for local distribution or an exit fee for departing retail customers to compensate utilities for stranded costs stemming from retail wheeling. If, however, a state commission lacked legal authority to provide for compensating utilities for stranded costs resulting from retail wheeling or if the stranded costs result from a formerly retail sale customer becoming a wholesale customer (e.g., by municipalization), the FERC itself would permit the recoverable stranded costs to be recovered in interstate transmission rates.

Although the Rule does not directly regulate non-jurisdictional utilities such as Austin Energy, the Rule could have a significant impact on such utilities' operations. It could significantly change the competitive climate in which they operate, giving their customers much greater access to alternative sources of electric sales service. It would require them to provide open access transmission service conforming to the requirements for investor-owned utilities whenever they are properly requested to do so under sections 211 and 212 of the Federal Power Act or as a condition of taking transmission service from an investor owned utility. In certain circumstances, it would require non-jurisdictional utilities to pay compensation to their present suppliers of wholesale power and energy for the stranded investment that may arise when the non-jurisdictional utilities exercise their option to switch to an alternative supplier of electricity.

On December 20, 1999, the FERC issued "Order No. 2000" (the "Order") related to the formation of voluntary Regional Transmission Organizations ("RTOs"). The Order requires all utilities subject to the FERC's authority under section 205 (Rates and Charges; Schedules; Suspension of New Rates) and 206 (Fixing Rates and Charges; Determination of Cost of Production or Transportation) of the Federal Power Act to file by October 2000 a proposal to participate in an RTO or an alternative describing plans to participate in an RTO. The essential characteristics of an RTO are its independence from individual market participants, a regional scope, operational authority of transmission facilities under the RTO's control, and authority over short-term system reliability. The essential functions of an RTO are tariff administration, congestion management, parallel path flow, administering ancillary services, operating Open Access Scheduling Information System ("OASIS"), market monitoring, planning and expansion, and interregional coordination. In their October 2000 compliance filings, utilities proposed RTOs across the country incorporating a wide variety of organizational forms. RTO proposals will be reviewed by the FERC for approval.

Austin Energy is not subject to the FERC's jurisdiction under section 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization that is similar to the RTOs envisioned in Order 2000 and which predates Order 2000 by several years. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas' electric market. The ISO formed by ERCOT in 1996 and mandated by State law in 1999 carries out many of the functions of the RTO discussed in Order 2000.

Environmental

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 maintains a staff of educated and trained environmental compliance professionals that are responsible for establishing and maintaining compliance programs throughout the utility. Environmental Services has determined the 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. Environmental Services 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.

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 USEPA. References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

In 1999, as part of SB 7, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 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 SB 7 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 SB 7 permitted units must have enough SB 7 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.

In addition to the SB 7 degrandfathering program, Austin Energy has made voluntary commitments to cap the emissions of NOx from Decker, Holly and Sand Hill to a total of 1500 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. The first compliance year under the SB 7 program has just come to an end and our emission total was several hundred tons below the 1500 ton total.

The TCEQ has also implemented further NOx reductions under 30 TAC 117 which will primarily impact Austin Energy's coal burning Fayette Power Plant Units 1 and 2, in each of which Austin Energy owns a 50% interest. The TCEQ is requiring that units affected by this rule to reduce NOx to 0.165 lb/mmbtu or less by 2005. Modifications have been made to the units and current emission rates are far below the standard. Furthermore, Austin Energy and the co-owner, LCRA have agreed under a flexible permit arrangement with the TCEQ and EPA to place SO2 scrubbers on Units 1 and 2 by 2012. In return, Fayette Power Plant is allowed to make modifications and perform maintenance on the units without having to first obtain permission from TCEQ.

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. Austin Energy's larger power generation facilities have NPDES 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 all Austin Energy power plants with intake structures. Austin Energy will conduct studies over the next several years to determine the most cost effective methods for compliance with these new regulations.

Other

Austin Energy has implemented a program for removing distribution electrical equipment at risk for having polychlorinated biphenyls (PCBs) from its service area. Austin Energy crews are testing electrical equipment for PCBs and removing equipment found to have 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 will complete the decommissioning of the Seaholm Power Plant in the next year, which includes the removal of contaminated concrete and paint from inside the building.

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

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 still 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 expired on August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $10.76 billion per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100.59 million, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10 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.

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

The owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses. 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 $26.8 million during any one-policy year.

Finally, the NRC maintains its regulations setting 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 was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the required report to the NRC which was based on the minimum amount for decommissioning 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 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 decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at September 30, 2004 was $99.4 million. For Fiscal Year 2005, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense. In current dollars (at December 31, 2004), the minimum amount for decommissioning is $369 million per unit.

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COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS OCTOBER 1, 2000 TO MARCH 31, 2005

(Thousands Rounded)

	12 Months Ended March 31, 2005 (Unaudited)	Fiscal Year Ended September 30 2004	2003	2002	2001	2000
INCOME						
Revenue	$1,129,283	$1,076,511	$1,189,672	$1,022,988	$1,087,541	$1,070,558
Operating Expense	(665,554)	(626,412)	(663,651)	(513,780)	(561,097)	(516,441)
Balance Available for Debt Service	463,739	450,099	526,021	509,208	526,444	554,117
Depreciation and Amortization Expense	(150,776)	(149,578)	(141,633)	(144,493)	(138,068)	(133,393)
Earnings Before Interest Expense	312,963	300,521	384,388	364,715	388,376	420,724
Interest Incurred on Debt	(176,084)	(181,570)	(183,697)	(172,111)	(187,296)	(183,653)
Other	74	(51)	(17,508)	(5,883)	(1,059)	(2,174)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	$136,948	$118,900	$ 183,183	$ 186,721	$ 200,021	$ 234,897
PERCENTAGES						
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	(58.94%)	(58.19%)	(55.78%)	(50.22%)	(51.59%)	(48.24%)
Balance Available for Debt Service	41.06%	41.81%	44.21%	49.78%	48.41%	51.76%
Depreciation and Amortization Expense	(13.35%)	(13.89%)	(11.90%)	(14.12%)	(12.70%)	(12.46%)
Earnings Before Interest Expense	27.71%	27.92%	32.31%	35.65%	35.71%	39.30%
Interest Incurred on Debt	-15.59%	-16.87%	-15.44%	-16.82%	-17.22%	-17.15%
Other	0.01%	0.00%	(1.47%)	-0.58%	- 0.10%	-0.20%
INCOME BEFORE EXTRAORDINARY GAIN (LOSS)	12.13%	11.04%	15.40%	18.26%	18.39%	21.95%

(a) Income before transfers to the General Fund and Other Funds, for 6 months ended March 31, 2005 which are as follows:
Transfer to General Fund $95,055
Transfers to Other Funds $ 5,247
(b) Excludes Combined Utility Funds' deferred costs recovered in future years of $(79,181) for 6 months ended March 31, 2005.
(c) There was no extraordinary gain or loss during this twelve-month period.
(d) Excludes capital contributions of $40,545 for 6 months ended March 31, 2005.

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

	12 Months Ended March 31, 2005 (Unaudited)	Fiscal Year Ended September 30 2004	2003	2002	2001	2000
REVENUE						
ELECTRIC UTILITY						
Service Area Sales	$ 779,995	$ 745,598	$ 838,189	$ 668,744	$ 756,246	$ 723,260
Sales to Other Utilities (Including Capacity Contract)	48,851	48,042	51,168	41,625	33,135	50,780
Rent from Electric Property	2,423	1,805	1,455	2,002	995	851
Customers' Forfeited Discounts and Penalties	3,937	3,823	3,893	4,738	(36)	1,558
Miscellaneous	39,400	29,750	26,944	27,986	15,970	6,280
Total Electric Utility	$ 874,606	$ 829,018	$ 921,649	$ 745,095	$ 806,310	$ 782,729
WATER UTILITY						
Urban	$ 104,762	$ 103,547	$ 111,689	$ 104,547	$ 99,156	$ 109,921
Rural	6,891	6,436	7,293	6,837	6,439	7,413
Sales to Other Water Utilities	6,894	6,889	7,697	7,164	7,185	7,877
Water Connections	421	420	403	300	237	208
Customers' Forfeited Discounts and Penalties	568	578	623	784	(5)	263
Miscellaneous	1,446	1,383	2,719	2,403	1,661	4,507
Total Water Utility	$ 120,982	$ 119,253	$ 130,424	$ 122,035	$ 114,673	$ 130,189
WASTEWATER UTILITY						
Urban	$ 108,727	$ 100,604	$ 97,495	$ 92,793	$ 92,329	$97,902
Rural	3,602	3,566	3,971	3,311	2,810	2,631
Service to Other Utilities	3,099	3,142	2,966	2,983	3,161	3,114
Wastewater Connections	386	385	369	275	217	190
Customers' Forfeited Discounts and Penalties	609	593	598	733	(3)	260
Industrial Waste Surcharge	3,679	3,607	3,846	3,662	3,730	4,041
Miscellaneous	2,788	2,814	2,696	3,742	2,998	2,152
Total Wastewater Utility	$ 122,890	$ 114,711	$ 111,941	$ 107,499	$ 105,242	$ 110,290
Interest	$ 10,805	$ 13,529	$ 25,658	$ 48,359	$ 61,316	$ 47,350
TOTAL REVENUE	$1,129,283	$1,076,511	$1,189,672	$1,022,988	$1,087,541	$1,070,558

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

	12 Months Ended March 31, 2005 (Unaudited)	Fiscal Year Ended September 30 2004	2003	2002	2001	2000
EXPENSE						
ELECTRIC						
Total Electric Utility	$553,445	$516,857	$554,235	$401,439	$458,686	$420,075
WATER						
Purification	$ 17,463	$ 17,217	$ 16,834	$ 16,702	$ 15,303	$ 14,225
Distribution	19,794	19,590	20,796	20,897	20,197	18,247
Customers' Accounting and Collection	6,066	6,035	6,035	6,378	5,202	5,457
Jobbing and Contract Work	29	(9)	(118)	(78)	52	14
Design Engineering	928	823	708	800	425	1,922
Administrative and General	15,928	15,592	14,754	15,296	12,406	12,939
Total Water Utility	$ 60,209	$ 59,248	$ 59,009	$ 59,995	$ 53,585	$ 52,804
WASTEWATER						
Wastewater Lines	$ 5,850	$ 5,788	$ 5,609	$ 6,299	$ 6,175	$ 7,592
Sewage Treatment Plant	22,032	21,239	20,913	21,405	19,172	17,115
Customers' Accounting and Collection	3,074	2,911	2,911	3,017	4,374	4,406
Jobbing and Contract Work	2	3	11	24	87	69
Design Engineering	7,888	7,925	7,396	7,437	6,846	1,998
Administrative and General	13,044	12,441	13,567	14,164	12,172	12,382
Total Wastewater Utility	$ 51,890	$ 50,307	$ 50,407	$ 52,346	$ 48,826	$ 43,562
TOTAL EXPENSE (1)	$665,544	$626,412	$663,651	$513,780	$561,097	$516,441
NET REVENUE AVAILABLE FOR DEBT SERVICE	$463,739	$450,099	$526,021	$509,208	$526,444	$554,117
Electric Customers	371,034	369,471	359,530	359,368	354,302	350,382
Water Customers	190,194	187,551	184,659	182,977	178,608	176,096
Wastewater Customers	175,974	174,593	169,330	168,159	163,610	151,744

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

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years ("FY") ended September 30, 2000 through September 30, 2004 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 FY00 through FY04, were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY00 through FY04 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 FY00 through FY04 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

GASB 34

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34 (GASB 34), Basic Financial Statements- and Management's Discussion and Analysis (MD&A) - for State and Local Governments. Subsequently, the GASB issued related Statement Nos. 37, 38 and 39. The objective of these Statements is to enhance the clarity and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The Statements require a new reporting model for financial statements for governments, with a focus on the entity as a whole.

The City implemented GASB 34 and the related statements for the fiscal year ended September 30, 2002, in compliance with GASB 34 timelines. While adoption of this Statement altered the presentation of the City's financial information, the adoption of GASB 34 did not have any material adverse impact on the City's financial position, results of operation, or cash flows. Consistent with GASB 34, the City has not presented restated fiscal year data for fiscal years prior to the fiscal year ended September 30, 2002 and thereafter for the purpose of providing comparative data.

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The Electric Utility System and Water and Wastewater System – TABLE FIVE (in thousands)

	12 Months Ended March 31, 2005 (Unaudited)	Fiscal Year Ended September 30 2004	2003	2002	2001	2000
Plant Cost						
Utility Systems						
Electric	$3,602,971	$3,547,908	$3,399,284	$3,231,331	$3,067,650	$2,842,927
Water	1,377,110	1,346,938	1,275,501	1,220,643	1,169,575	1,090,912
Wastewater	1,372,623	1,328,064	1,214,498	1,123,646	1,080,759	1,032,885
Total Cost	$6,352,705	$6,222,910	$5,889,283	$5,575,620	$5,317,984	$4,966,724
Allowance for Depreciation:						
Electric	$1,422,953	$1,374,273	$1,288,675	$1,203,986	$1,131,861	$1,048,947
Water	335,526	323,568	299,550	278,757	264,352	242,395
Wastewater	396,052	383,687	358,634	337,795	328,640	304,152
Total Depreciation	2,154,531	2,081,528	1,946,859	1,820,538	1,724,853	1,595,494
Cost after Depreciation	$4,198,174	$4,141,382	$3,942,424	$3,755,082	$3,593,131	$3,371,230
Equity in Utility Systems						
Utility Systems	$6,352,705	$6,222,910	$5,889,283	$5,575,620	$5,317,983	$4,966,724
Plus:Inventories, Materials and Supplies (1)	36,391	35,813	32,349	32,980	34,689	32,905
Net Construction Assets and Unamortized Bond Issue Cost(2)	19,089	12,640	28,922	125,858	154,576	126,423
	$6,408,185	$6,271,363	5,950,554	5,734,458	5,507,248	5,126,052
Less:						
Allowance for Depreciation	$2,154,531	$2,081,528	1,946,859	1,820,538	1,724,853	1,595,495
Construction Contract Payable	0	0	0	0	279	1,149
Total	2,154,531	2,081,528	1,946,859	1,820,538	1,725,132	1,596,644
Utility Systems, Net	4,253,654	4,189,835	4,003,695	3,913,920	3,782,116	3,529,408
Revenue Bonds and Other Debt Outstanding (3)	2,745,427	2,763,009	2,798,156	2,796,408	2,779,856	2,722,323
Less: Bond Retirement and Reserve Funds	0	0	144,410	147,637	170,700	161,597
Net Debt	2,745,427	2,763,009	2,653,746	2,648,771	2,609,156	2,560,726
Equity in Utility Systems	$1,508,227	$1,426,826	$1,349,949	$1,265,149	$1,172,960	$ 968,682
Percentage of Equity in Utility Systems	35.46%	34.05%	33.72%	32.32%	31.01%	27.45%

(1) Does not include fuel oil or coal inventories of approximately $16.9 million at March 31, 2005. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.
(2) Includes investment in municipal utility districts of $2 thousand.
(3) Includes Revenue Bonds and Tax and Revenue Bonds of $2,474.7 million (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of $11.7 million; Capital Lease Obligation Bonds of $10.9 million; Commercial Paper of $232.3 million (net of discounts); General Obligation Bonds of $8.2 million; and Contractual Obligations of $8.2 million.

LITIGATION

A number of claims against the City, as well as certain other matters of litigation are pending with respect to various matters arising in the normal course of the City's operations. The City Attorney and the City Management are of the opinion that resolution of the claims pending 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.

Electric Utility System Litigation

On September 26, 2003, FPL Energy Upton Wind LP, filed a lawsuit against the City in the United States District Court for the Western District of Texas in Austin, Civil Action A03CA68314. The lawsuit alleged that Austin Energy failed to comply with its obligations under the wind power purchase agreement. The allegations include failure to accept energy from FPL's facility and to make curtailment payments. The lawsuit alleges damages, as of July 2003, in the amount of $3.2 million plus interest. On September 15, 2004, the Federal judge in the case granted the City's motion to dismiss pursuant to the parties' forum selection clause and dismissed FPL's cause of action without prejudice to refiling in State court in Travis County, Texas. On October 4, 2004, the City filed a petition for declaratory judgment in the District Court of Travis County requesting the court to declare in addition to other relief, that Austin Energy is not in default of its obligations under the wind purchase power agreement. FPL filed a motion for partial summary judgment on January 21, 2005, and oral arguments were heard on March 23, 2005.

A discussion of the litigation regarding the challenge of Reliant and City Public Services Board of San Antonio to the PUCT rules relating to the wholesale transmission service is contained in the rate regulation section. See 'THE ELECTRIC UTILITY SYSTEM – Rate Regulation".

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 the settlement of these claims and pending litigation will not have a material adverse effect on the City's financial condition. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2004.

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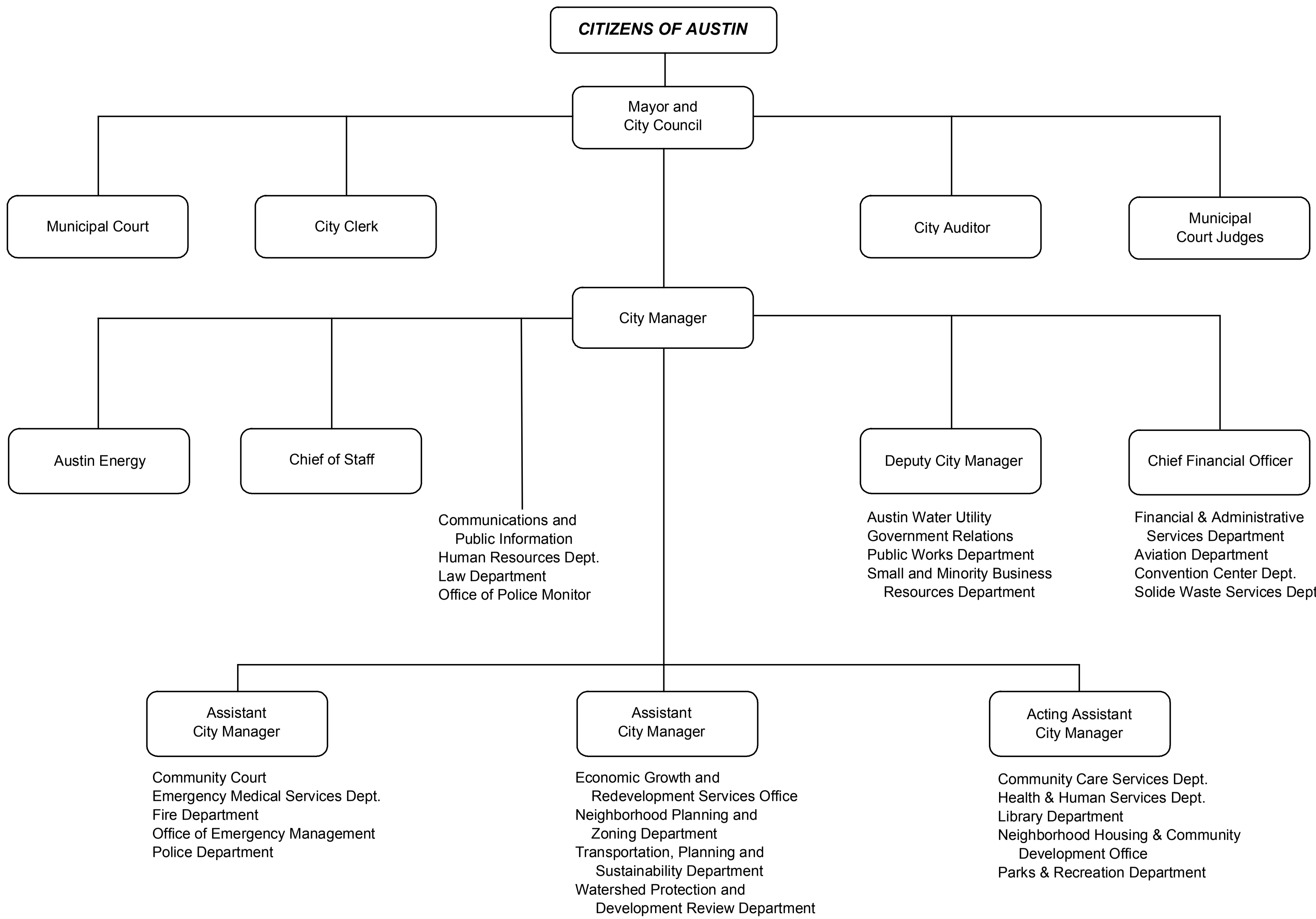
CITY OF AUSTIN, TEXAS

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. Toby Hammett Futrell was appointed City Manager on May 1, 2002.

City Manager – Toby Hammett Futrell

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

Chief Financial Officer – John Stephens, CPA

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

Services Provided by the City

The City's major activities include police and fire protection, emergency medical services, parks and libraries, public health and social services, planning and zoning, general administrative services, solid waste disposal, and maintenance of bridges, streets and storm drains. The City owns and operates several major enterprises including an electric utility system, water and wastewater utility system, an airport and two public event facilities. In addition, the City owns a hospital which is operated by The Daughters of Charity Health Services of Austin under the terms of a long term lease.

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.

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, road, streets, and parks – must be provided immediately following annexation. Failure to provide municipal services in accordance with the service plan may provide grounds 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.

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 those 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 the net revenues, if any, derived from the operation of its water and sanitary sewer systems. Texas law generally requires that districts be annexed in their entirety. Upon dissolution, the City assumes the district's outstanding bonds and other obligations and levies and collects on taxable property within the corporate limits of the City ad valorem taxes sufficient to pay principal of and interest on such assumed bonds.

The City also assumes liabilities when it annexes land in Emergency Services Districts ("ESD") and that territory is disannexed from the ESD. This liability, however, is limited to a pro-rata share of debt and 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. The City annexed over 20,000 acres of territory for limited purposes in 1984 and has developed annual Strategic Annexation Programs since 1987. These programs prioritized areas to be considered for annexation at the end of the calendar year, thereby minimizing the fiscal impact to the City due to annexation.

The following table sets forth (in acres) the annual results of the City's annexations since 1995. Negative numbers reflect disannexations in excess of acreage annexed.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
1995	(1,748)	2,770
1996	3,163	0
1997	15,083	0
1998	2,660	1,698
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

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

Legislative action required the City to convert the Harris Branch and Moore's Crossing MUDs from full purpose to limited purpose status in 1995. In 1998, the full purpose reannexation of the Harris Branch MUDs is reflected in the table above.

Recent Annexation

Approximately $50 million in taxable assessed value ("TAV") was annexed for full purposes in 2004. Over 6,000 acres northwest of the City, known as Robinson Ranch area, was annexed for limited purposes in June 2004. The Onion Creek area, annexed for full purposes in 2003, added over 1,200 acres, 3,000 residents and $190 million in TAV to the City. Total estimated TAV annexed in 2003 equaled over $375 million.

Approximately $37 million in TAV and over 2,100 new residents were added to the City as a result of the 2002 annexation of the Canterbury Trails subdivision in southwest Austin. Other 2002 annexations included right-of-way tracts, additional tracts in the Avery Ranch subdivision located in Williamson County, and other undeveloped tracts. The Wildhorse Area near Decker Lake was annexed for limited purposes in February 2002.

The Del Valle area, located near Austin-Bergstrom International Airport ("ABIA"), was converted to full purpose annexation status in September 2001, and added approximately 2,000 residents to the City. Sections of the Avery Ranch Area were also converted to full purpose status. Other areas annexed in 2001 included over 700 acres of privately owned preserve land, some developed single family, multi family and office tracts and other undeveloped acreage.

The 1998 re-annexation of the Harris Branch MUDs added $50.4 million in TAV and a population of 1,575 to the City.

Ten MUDs were annexed by the City in December 1997, adding over $1.034 billion in TAV and a population of 22,432 to the City. These MUD annexations were a part of the 1997 annexation plan, which added a total of over $1.691 billion in TAV and a population of 29,131 to the City. Some of the annexed areas continue to experience growth along with increased TAV. Litigation related to some of the areas annexed in 1997 was settled in 2000. There are no challenges pending to the 1997 annexations of the Circle C MUDs.

Future Annexation

In the next few years a number of areas previously annexed for limited purposes will be converted to full purpose status. Areas covered by strategic partnership agreements ("SPAs") will also be annexed as well as areas included in the City's Municipal Annexation Plan ("MAP"). The most significant of the identified future annexation areas are shown below:

- Avery Ranch – sections of limited purpose area will continue to be converted to full purpose status;
- Walnut Creek Area – full purpose annexation of limited purpose area northeast of Austin scheduled for 2005;
- Wildhorse Ranch – limited purpose area with conversions to full purpose expected to begin in 2005;
- Anderson Mill MUD and adjacent areas – annexation postponed until December 2008 per terms of the amended SPA; and
- Springwoods MUD and adjacent areas – annexation postponed until December 2007 or later per terms of the amended SPA (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects).

Pension Plans

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

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

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund over 28.6 years and the Firefighter's Fund over 33.7 years.

The actuarial accrued liability as of December 31, 2003 for the three pension funds were as follows: Municipal Employees Fund $1,551,800,000, Police Officers' Fund $413,965,000 and the Firefighters' Pension Fund $452,669,000. The Municipal Employees Fund had an infinite funding period at year end 2003, and various methods of restoring actuarial soundness are currently being evaluated. See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

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 insurance and $1,000 of life insurance for the retired employee only. The City pays a portion of the retiree's medical insurance premiums and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection and years of service.

The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits fund. The estimated cost of providing these benefits for 2,443 retirees was $13.7 million in 2004, and $12.5 million in 2003 for 2,298 retirees.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately $4.4 million for claims and damages at the end of fiscal year 2004. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Health Benefits Fund.

INVESTMENTS

The City invests its available funds in investments authorized by Texas Law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

Under Texas law, the 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 issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; (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.

Effective September 1, 2003, 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.

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.

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 Director of Financial Services, Treasurer and Investment Officers.

Current Investments

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

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

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

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

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Ninth Supplement subsequent to the issuance of the Bonds. The Ninth 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 Ninth Supplement, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The 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 in accordance with prescribed procedures the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX 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 each NRMSIR and the SID of the change.

Material Event Notices

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

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and the SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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

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

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 Systems, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

During the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received unenhanced ratings of "A2" by Moody's Investors Service, Inc. ("Moody's"), "A" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and "A+" by Fitch Ratings ("Fitch"). The Bonds will be rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch as a result of the policy issued by MBIA (see "BOND INSURANCE"). 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 the Financial Advisor 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 Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "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.

Verification of Mathematical Calculations

The Arbitrage Group Inc. (the "Verification Agent"), a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the City its report indicating that they have examined the mathematical accuracy of computations prepared by the Financial Advisor relating to the sufficiency of the anticipated receipts from the Federal Securities and cash deposited into the Escrow Fund to pay the Refunded Bonds and the yield on the Bonds.

The report of the Verification Agent will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report. The report of the Verification Agent will be relied upon by Bond Counsel in rendering their opinion with respect to the exclusion of interest on the Bonds for federal income tax purposes and with respect to the defeasance of the Refunded Bonds.

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 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 Water and Wastewater System in the manner provided in the Ordinances 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," "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, the Ninth Supplement and the Prior Lien Ordinance contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects 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 upon for the Underwriters by their counsel, Andrews Kurth LLP.

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

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

Underwriting

Bear, Stearns & Co. Inc., as representative of the Underwriters, has agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a price equal to the initial offering prices shown on the inside front cover of this Official Statement, less an underwriting discount of $1,035,884.20. The Underwriters will be obligated to purchase all the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The 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.

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

/s/Will Wynn
Mayor
City of Austin, Texas

ATTEST:

/s/Shirley Brown
City Clerk
City of Austin, Texas

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SCHEDULE I

SUMMARY OF REFUNDED BONDS

Series	Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Series 2000	SERIAL	5/15/2011	5.750%	$ 2,300,000	5/15/2010	100
	SERIAL	5/15/2012	5.750%	2,500,000	5/15/2010	100
	SERIAL	5/15/2013	5.750%	2,600,000	5/15/2010	100
	SERIAL	5/15/2014	5.750%	2,800,000	5/15/2010	100
	SERIAL	5/15/2015	5.750%	2,900,000	5/15/2010	100
	SERIAL	5/15/2016	5.500%	3,100,000	5/15/2010	100
	SERIAL	5/15/2017	5.625%	3,300,000	5/15/2010	100
	SERIAL	5/15/2018	5.700%	3,500,000	5/15/2010	100
	SERIAL	5/15/2019	5.750%	3,700,000	5/15/2010	100
	SERIAL	5/15/2020	5.800%	4,000,000	5/15/2010	100
	SERIAL	5/15/2021	5.800%	4,200,000	5/15/2010	100
	SERIAL	5/15/2022	6.000%	4,500,000	5/15/2010	100
	TERM_26	5/15/2023	5.500%	4,800,000	5/15/2010	100
	TERM_26	5/15/2024	5.500%	5,100,000	5/15/2010	100
	TERM_26	5/15/2025	5.500%	5,400,000	5/15/2010	100
	TERM_26	5/15/2026	5.500%	5,700,000	5/15/2010	100
	TERM_30	5/15/2027	5.900%	6,100,000	5/15/2010	100
	TERM_30	5/15/2028	5.900%	6,500,000	5/15/2010	100
	TERM_30	5/15/2029	5.900%	6,900,000	5/15/2010	100
	TERM_30	5/15/2030	5.900%	7,300,000	5/15/2010	100
				$ 87,200,000		
Series 2001A	SERIAL	5/15/2012	5.750%	$ 3,680,000	5/15/2011	100
	SERIAL	5/15/2013	5.750%	3,880,000	5/15/2011	100
	SERIAL	5/15/2014	5.750%	4,080,000	5/15/2011	100
	SERIAL	5/15/2015	5.750%	4,375,000	5/15/2011	100
	SERIAL	5/15/2016	5.750%	4,575,000	5/15/2011	100
	SERIAL	5/15/2017	5.750%	4,775,000	5/15/2011	100
	SERIAL	5/15/2018	5.750%	5,075,000	5/15/2011	100
	SERIAL	5/15/2019	5.750%	5,370,000	5/15/2011	100
	TERM_22	5/15/2020	5.250%	5,570,000	5/15/2011	100
	TERM_22	5/15/2021	5.250%	5,870,000	5/15/2011	100
	TERM_22	5/15/2022	5.250%	6,170,000	5/15/2011	100
				$ 53,420,000		
Series 2001B	SERIAL	5/15/2012	5.750%	$ 1,790,000	5/15/2011	100
	SERIAL	5/15/2013	5.750%	1,890,000	5/15/2011	100
	SERIAL	5/15/2014	5.750%	1,990,000	5/15/2011	100
	SERIAL	5/15/2015	5.750%	2,090,000	5/15/2011	100
	SERIAL	5/15/2016	5.750%	2,190,000	5/15/2011	100
	SERIAL	5/15/2017	5.750%	2,290,000	5/15/2011	100
	SERIAL	5/15/2018	5.750%	2,485,000	5/15/2011	100
	SERIAL	5/15/2019	5.750%	2,585,000	5/15/2011	100
	TERM_22	5/15/2020	5.250%	2,685,000	5/15/2011	100
	TERM_22	5/15/2021	5.250%	2,885,000	5/15/2011	100
	TERM_22	5/15/2022	5.250%	2,985,000	5/15/2011	100
				$ 25,865,000		
Series 2003	SERIAL	11/15/2013	5.250%	$ 4,100,000	5/15/2013	100
	SERIAL	11/15/2014	5.250%	4,300,000	5/15/2013	100
	SERIAL	11/15/2016	5.250%	4,800,000	5/15/2013	100
	SERIAL	11/15/2017	5.250%	5,000,000	5/15/2013	100
	SERIAL	11/15/2018	5.250%	5,300,000	5/15/2013	100
	SERIAL	11/15/2019	5.250%	5,600,000	5/15/2013	100
				$ 29,100,000		
Total Refunded Bonds				$ 195,585,000		

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

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

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with a population of 683,551 in 2004. Over the past ten years, Austin's population has increased by approximately 160,000 residents, an increase of 30.6 percent. Geographically, Austin consists of approximately 290 square miles. According to the 2000 Census, Austin has a median household income of $42,689 and a per capita income of $24,163.

Austin is frequently recognized as a great place to live and/or work, with one of the most recent commendations in *Forbes Magazine*, which listed Austin as one of its "top ten places for business". In October 2004, *Fortune Magazine* recognized Austin as one of its "five dream retirement towns". *MovieMaker* magazine ranks Austin number one in its "top ten cities for moviemakers to live and make movies" in 2004, moving Austin up from number four in its 2003 ranking. In the latest data from the FBI "2003 Crime in the U.S." report, Austin is ranked the third safest city among cities with a population of 500,000 or more with respect to violent crime.

Austin has long attracted a variety of people, and the reasons that draw people to the City are varied. The area has a natural beauty and a first-rate parks department that administers a number of public outdoor recreational facilities, including neighborhood parks, greenbelts, athletic fields, golf courses, tennis courts, a veloway for bicyclists and in-line skaters, miles of hike and bike trails and striped bike lanes, a youth entertainment complex and swimming pools. In October 2004, the Parks and Recreation Department received the National Recreation and Parks Association's 2004 Gold Medal Award as the best parks and recreation system in the nation.

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

The educational opportunities in Austin have long drawn people to the city. Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with approximately 40.6 percent of adults holding a bachelor's or advanced degree. With its seven institutions of higher learning and more than 113,000 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin (UT), the largest public university in the nation, is known as a world-class center of education and research.

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

The Austin area economy is beginning to see a sustained improvement over conditions from the previous years. The unemployment rate for the Austin MSA has improved from 4.8 percent in December 2003 to 4.0 percent in December 2004. The average annual unemployment rate has also improved from 5.7 percent in 2003 to 4.5 percent in 2004. The statewide average unemployment rate for Texas was 6.8 percent in 2003 and 5.9 percent in 2004.

Sales tax revenue has shown a steady improvement from the previous year. Sales tax growth for fiscal year 2004 averaged a 6.6 percent increase over fiscal year 2003, with 11 months of positive growth as compared to only two months in the previous year. The growth rate is the second highest among major Texas cities. As a sign of sustained improvement, initial sales tax revenue for fiscal year 2005 has increased from comparative periods in fiscal year 2004.

Single family residential building permits increased by approximately 600 permits from fiscal year 2003, which represents an approximate 20 percent increase over the previous year. Property tax revenue increased by approximately $7.4 million from the previous year, although assessed valuation within the City decreased approximately $1.8 billion, or 3.5% from the prior year. Property taxes for 2004 and subsequent years may be negatively impacted by lawsuits filed against the appraisal district; the suits challenge the appraisal district's property valuations for many businesses. If the challenges are successful, they could result in decreased tax revenue in future years for the local taxing jurisdictions, including the City. These financial statements include the impact of estimated refunds for the pending lawsuits.

Total passenger traffic for the City's airport increased by 8% in calendar year 2004 as compared to the previous year. Total air cargo also increased 1% for the same time period. Overall collections from the hotel occupancy and vehicle rental taxes declined slightly in the current year, but avoided the significant decreases that occurred in fiscal year 2002, which reflected the effect of the 9/11 tragedy. The first quarter collections for fiscal year 2005 indicate a significant increase from comparative periods in fiscal year 2004, with an increase of 11.7 percent in hotel occupancy taxes and an increase of 13.5 percent in vehicle rental taxes.

City management implemented cost savings efforts beginning in 2002 and throughout the 2003 and 2004 budget years. During the 2004 budget process, a structurally balanced budget was achieved. As part of this process, an emphasis was placed on permanent reductions rather than one-time reductions that would have to be re-addressed in the future. Overall, 519 job positions were eliminated, with 344 of such positions being funded from the General Fund. Of those 519 positions 206 were filled, and ultimately 91 of these positions were subject to lay off. Other budgetary accomplishments include maintaining the effective tax rate, ensuring that no public facilities closed, maintaining utility transfer rates in accordance with covenants associated with the City's revenue debt and placing no reliance on "one-time" funds to be utilized as revenue funding sources.

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

MAJOR INITIATIVES AND ACHIEVEMENTS

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

Economic Growth and Development

A renewed effort has begun to attract new businesses and jobs to the Austin area. The City has developed and adopted a formal Economic Development Policy to guide Austin's economic recovery, including making significant changes to the Land Development Code to assist small business owners with redevelopment and expansion. In addition, the City has streamlined the development process for development review, permitting and inspections through the implementation of the One Stop Development Shop. The City was recognized for the progress made in this area at the 21st Annual Perryman Economic Outlook Conference.

The redevelopment of Robert Mueller Municipal Airport is underway. The City has recently completed and approved the Master Development Agreement (MDA), with a master developer to convert the old airport site into a vibrant mixed-use community. The MDA calls for the development of a full range of land use in order to promote a viable transit-oriented community for residents and employers. The first major project, a new Children's Hospital, has already begun. The City has established goals in order to achieve community-based values in a number of areas including affordable housing, green building and publicly accessible greenways and parks.

The annexation of Robinson Ranch protects the ability to plan the last major growth corridor north of Austin, as well as preserving a significant amount of future tax base. The agreement sets out future development rights and environmental protections for almost 6,000 acres. The present value of the 25-year all funds analysis of tax revenue from this area exceeds $160 million.

The City's Street Smart Team re-engineered the process for major urban road reconstruction projects. The revised process has allowed completion of reconstruction projects for both Lamar Blvd. and Cesar Chavez in significantly less time than typical projects of this nature. As a result, traffic impacts on citizens and financial impacts on surrounding businesses were reduced.

Austin's new City Hall and public plaza, built on 1.75 acres at the previous site of the Municipal Annex, was opened in December 2004. City Hall is approximately 115,000 square feet and houses offices, meeting facilities and a state-of-the-art City Council Chamber. The new City Hall has received awards including the Texas Construction Best of 2004 Award for Best Public Building Project in the State of Texas and the Austin Business Journal's 2005 best overall award for commercial real estate.

Public Health and Housing

In May 2004, voters of Travis County elected to create the Travis County Hospital District. As required under State law, title to City-owned Brackenridge Hospital and the Austin Women's Hospital effectively passes from the City with the formation of the District. Title to the clinic facilities that operate under the Federally Qualified Health Center (FQHC) designation will not transfer to the District until the District receives federal approval for the transfer.

The creation of the District creates a more equitable property tax structure within Travis County. It also allows the possibility of future expansion of the tax base to surrounding counties in order to support regional trauma and indigent health care. The City of Austin reduced the fiscal year 2005 property tax rate in proportion to the amount of services that were transferred to the District. Under applicable State law, the property tax rate of the District cannot exceed $0.25 per $100 assessed valuation per State legislation.

The District has assumed the City's lease agreement with the Daughters of Charity to operate Brackenridge Hospital, as well as the City's agreement with the University of Texas Medical Branch at Galveston to operate the Austin Women's Hospital. The City will continue to operate the FQHC clinic facilities through an interlocal agreement approved by the District. In order to ensure the future financial viability of the newly created district, the City contributed $10.7 million toward the establishment of the District's financial reserves.

The City's SMART™ Housing Program is being recognized nationally as an innovative best practice for increasing the supply of affordable, adaptable and accessible housing units. In fiscal year 2004, approximately 4,834 units were certified and 1,612 units were completed. Of these units completed, 82% were reasonably priced and all units met Green Building, accessibility, visitability and transit-oriented standards. Recently, the City's Neighborhood and Community Development Department was awarded a National Award of Excellence for their affordable housing project, Lyons Gardens. The award was given on behalf of the National Community Development Association (NCDA).

Utility Projects

Austin Energy, the City's electric utility, continues to prepare for possible deregulation. Deregulation allows Texas residents and businesses served by utilities participating in deregulation to choose the supplier from which they purchase their electricity. The local electric utility continues to deliver the electricity. Deregulation began in Texas on January 1, 2002 for all private electric utilities. These utilities, owned by stockholders, are called investor-owned utilities (IOUs). Electric cooperatives (Co-ops) and city-owned electric utilities (called municipally owned utilities or MOUs) such as Austin Energy can participate, or "opt-in," by a vote of their board or City Council. Once the City Council votes to participate in deregulation, it cannot later withdraw. The City has not "opted-in", but does continue to prepare for that possibility.

Standard & Poor's raised its ratings on the following utility revenue bonds:

Type	Previous	Revised
Combined Utility System:		
Prior First Lien	A	A+
Prior Subordinate Lien	A-	A
Electric:		
Separate Lien	A-	A
Water and Wastewater:		
Separate Lien	A-	A

The upgrade was based on a demonstrated trend of financial performance and risk management, while reducing indebtedness and managing a large capital plan.

Austin Energy's Strategic Plan was adopted by Council in December 2003 and sets a national standard for renewable energy and energy efficiency. Among Austin Energy's numerous awards for leadership in this area is the 2004 Green Power Program of the Year given by the Environmental Protection Agency and the Department of Energy. In addition, Austin Energy received the U.S. Green Building Public Sector Leadership Award given by the U.S. Green Building Council in November 2003.

In January 2005, Austin Energy announced it was doubling the capacity of its renowned clean power program, GreenChoice. With the additional capacity, Austin Energy is on track to achieve its goal of generating 20 percent of Austin's electricity needs from renewables by the year 2020. The Austin Independent School District subscribes to 45-million kWh annually, the largest green power subscription by any public school system in the nation.

Austin Water Utility has launched the Austin Clean Water Program. The Program is the result of a mandate from the U.S. Environmental Protection Agency to eliminate overflows from the City's wastewater collection system by the end of 2007. The cost to complete this program is estimated to be $150 million. The Water Utility remains on schedule to complete the necessary requirements.

Status of City Services

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

Austin residents assign a very high level of importance to public safety services, including 9-1-1, EMS, Fire, and Police. Generally, satisfaction with most public safety services is high, although neighborhood policing and traffic enforcement rank very low as compared to other public safety services. The City's parks program has seen a significant increase in the number of participants in 2004; residents are generally satisfied with the services of the Parks and Recreation Department. Overall, the City had a significant improvement in the level of satisfaction with all customer services provided by City staff. Two areas of continuing dissatisfaction are traffic and the repair of City streets.

The top issues of importance to Austin residents are:

- Traffic issues (congestion, flow, planning, etc.)
- Tax related issues (too high, too many, etc.)
- Growth management (speed, planning, zoning, etc.)
- Economic issues (protection, conservation, control, balance, etc.)
- Roadway development (planning, maintenance, inconvenience, etc.)

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

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	1990	% of Total	2000	% of Total	2003	% of Total	2004	% of Total	March 31, 2005	% of Total
Manufacturing	49,300	12.9%	84,662	12.9%	60,483	9.1%	57,000	8.7%	57,200	8.4%
Government	110,400	28.8%	137,171	20.9%	148,433	22.3%	144,900	22.0%	149,800	22.1%
Trade, transportation & utilities	90,500	23.6%	171,771	26.2%	113,183	17.0%	114,200	17.3%	137,200	20.2%
Services and miscellaneous	97,200	25.3%	190,048	28.9%	265,342	40.0%	263,800	40.0%	254,900	37.6%
Finance, insurance and real estate	23,400	6.1%	32,031	4.9%	37,850	5.7%	40,900	6.2%	40,200	5.9%
Natural resources, mining & construction	12,700	3.3%	40,487	6.2%	38,784	5.9%	38,700	5.8%	39,100	5.8%
Total	383,500	100.0%	656,170	100.0%	664,075	100.0%	659,500	100.0%	678,400	100.0%

(a) Austin-San Marcos MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided. Numbers for 2004 & 2005 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of January 31, 2005.

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

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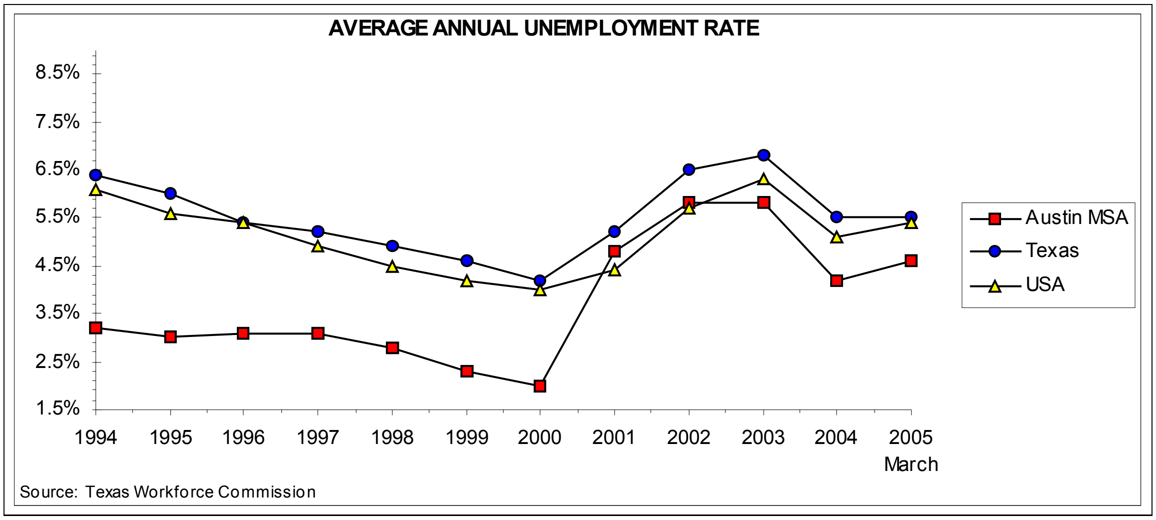
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1994	3.2%	6.4%	6.1%
1995	3.0%	6.0%	5.6%
1996	3.1%	5.4%	5.4%
1997	3.1%	5.2%	4.9%
1998	2.8%	4.9%	4.5%
1999	2.3%	4.6%	4.2%
2000	2.0%	4.2%	4.0%
2001	4.8%	5.2%	4.4%
2002	5.8%	6.5%	5.7%
2003	5.8%	6.8%	6.3%
2004	4.2%	5.5%	5.1%
2005 March	4.6%	5.5%	5.4%

Note: Information is updated periodically, data contained herein is latest provided.
Source: 2004 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-01	$ 9.298	1-1-02	$ 8.723	1-1-03	$ 8.249	1-1-04	$ 8.883	1-1-05	$ 9.076
2-1-01	13.733	2-1-02	13.405	2-1-03	11.463	2-1-04	12.382	2-1-05	13.171
3-1-01	9.169	3-1-02	8.345	3-1-03	8.218	3-1-04	8.693	3-1-05	9.049
4-1-01	9.243	4-1-02	8.322	4-1-03	7.981	4-1-04	8.534	4-1-05	8.660
5-1-01	12.091	5-1-02	10.746	5-1-03	10.644	5-1-04	10.867		
6-1-01	9.199	6-1-02	9.253	6-1-03	8.519	6-1-04	9.384		
7-1-01	9.605	7-1-02	9.287	7-1-03	7.908	7-1-04	8.980		
8-1-01	11.456	8-1-02	10.289	8-1-03	10.414	8-1-04	11.474		
9-1-01	9.279	9-1-02	8.695	9-1-03	8.510	9-1-04	9.157		
10-1-01	8.974	10-1-02	8.884	10-1-03	8.832	10-1-04	9.214		
11-1-01	10.260	11-1-02	10.157	11-1-03	10.686	11-1-04	11.340		
12-1-01	9.142	12-1-02	8.859	12-1-03	8.817	12-1-04	9.354		

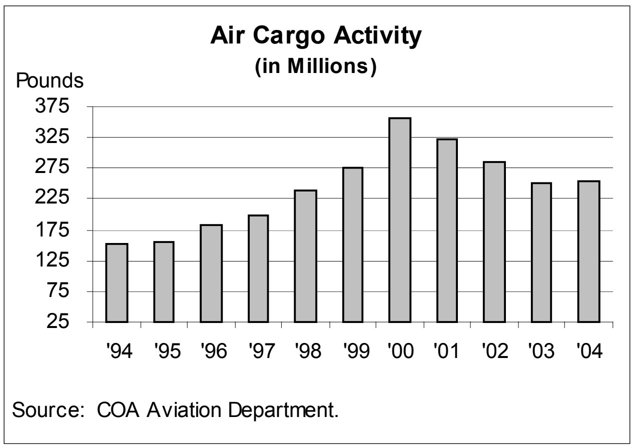
Source: City of Austin, Budget Office.

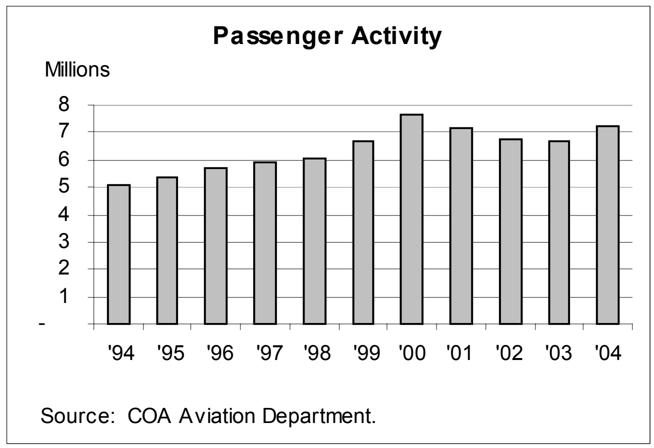
Ten Largest Employers (As of September 30, 2004)

Employer	Product or Service	Employees
The University of Texas at Austin	Education and Research	21,000
Dell Computer Corporation	Computers	16,500
Austin Independent School District	Education	10,714
City of Austin	City Government	10,617
Federal Government	Federal agency	10,200
Freescale Semiconductor, Inc.	Electronic Components	6,500
Seton Healthcare Network	Hospital	6,393
IBM Corporation	Office Machines	6,200
Texas State University – San Marcos	Education and Research	5,103
St. David's Healthcare Partnership	Hospital	5,000

Source: 2004 Comprehensive Annual Financial Report.

Transportation





Austin-Bergstrom International Airport

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

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

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

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by nine major airlines with scheduled air service: American, America West (includes Mesa Airlines), Continental (includes Express Jet), Delta (includes SkyWest and Atlantic Southeast Airlines), Frontier (includes Frontier Express), Mexicana (includes Aerocaribe), Northwest (includes Pinnacle Air), Southwest, and United (includes SkyWest, Wisconsin Air, and Atlantic Coast Airlines). Non-stop service is available to 29 U.S. destinations and 2 international destinations.

Growth Indicators

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

Population

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

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

Connections and Permits

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

Source: 2004 Comprehensive Annual Financial Report.

Wealth and Income Indicators

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

Effective Buying Income and Retail Sales

Area	Median Household EBI	Per Capita EBI	% of Households by EBI Group* A	B	C	D	Per Capita Retail Sales
City of Austin	$39,227	$21,487	21.2%	23.1%	18.7%	37.0%	$34,778
Austin-Round Rock MSA	45,171	21,873	17.2%	20.1%	18.7%	44.0%	24,864
Texas	37,554	17,796	23.4%	23.2%	18.3%	35.1%	14,246
USA	38,201	18,662	22.4%	23.3%	19.0%	35.4%	13,336

*Group A, $0 - $19,999 Group B, $20,000 - 34,999 Group C, $35,000 - 49,999 Group D, $50,000 and over

Source: 2004 Survey of Buying Power, Sales and Marketing Management.

Housing Units

The average two-bedroom apartment in the Austin MSA was $760 per month, with an occupancy rate of 90.89% for the third quarter 2004.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1992	8,503	$ 887,249,588	$104,345
1993	9,926	1,139,100,456	114,759
1994	10,571	1,272,585,426	120,385
1995	11,459	1,439,915,043	125,658
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,476	4,472,211,716	198,977
2005	5,307	1,056,502,423	199,077

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

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

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
1992	82.6%
1993	86.3%
1994	87.9%
1995	88.4%
1996	92.2%
1997	94.7%
1998	93.4%
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.0%
2003	76.7%
2004 (4^{th} Quarter)	80.8%

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

Education

The Austin Independent School District had an enrollment of 78,892 for the fourth six-weeks of the 2005 school year. This reflects an increase of 2.0% in enrollment from the end of the 2004 school year. The District includes 107 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05 (1)	78,892	73,842

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

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

The University of Texas at Austin had an enrollment of 50,377 for the fall semester of 2004 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were $2.750 billion in 2003. There are more than 23,000 hotel rooms available within the Austin Metropolitan Area, as of September 2003. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. Through the first three quarters of 2003 the citywide occupancy rate for the Austin area was 57.5 percent, with an average room rate of $83.75.

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

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

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KPMG

111 Congress Avenue
Suite 1100
Austin, TX 78701

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As described in note 1e, the City has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* as of September 30, 2004.

The Management's Discussion and Analysis on pages 3 through 14 and the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budget Basis on pages 100 through 101 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
February 23, 2005

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The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

The financial statements are presented in conformance with the Governmental Accounting Standards Board Statement No. 1 through Statement No. 41. During the current fiscal year, the City implemented GASB Statement No. 40, *"Deposit and Investment Risk Disclosures"*. GASB Statement No. 40 addresses disclosure of certain deposit and investment risks, including credit risk, interest risk and foreign currency risk.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2004, resulting in $3.7 billion of net assets. Net assets associated with governmental activities are approximately $1.4 billion, or 39% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.2 billion, or 61% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is $2.9 billion, or 79% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, consist of $528 million, or 14% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $51 million, or 4% of total net assets for governmental activities; unrestricted net assets for business activities are approximately $477 million, or 21% of total net assets for business-type activities.

Total net assets for the City of Austin increased $36.7 million, or 1% during fiscal year 2004. Of this amount, governmental activities increased $90.4 million, or 6.7% from the previous year and business-type activities decreased $53.7 million, or 2.3% from the previous year.

Total revenues for the City decreased $104.2 million; revenues for governmental activities decreased $584 thousand; revenues for business-type activities decreased $103.7 million. Total expenses for the City increased $89.8 million; expenses for governmental activities decreased $25.6 million; expenses for business-type activities increased $115.4 million.

In fiscal year 2004, the ending fund balance for the General Fund increased $13 million, or 14%. Unreserved fund balance increased $12.7 million, or 14.4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

b -- Fund Financial Statements

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

Fund Types / Other	Government-wide	Fund Financials
General Fund	Governmental	Governmental
Special revenue funds	Governmental	Governmental - Nonmajor
Debt service funds	Governmental	Governmental - Nonmajor
Capital project funds	Governmental	Governmental - Nonmajor
Permanent funds	Governmental	Governmental - Nonmajor
Internal service funds	Governmental	Proprietary
Assets previously reported in General Fixed Asset Group	Governmental	Excluded
Infrastructure assets	Governmental	Excluded
Liabilities previously reported in General Long-Term Debt Group	Governmental	Excluded
Electric	Business-type	Proprietary
Water and wastewater	Business-type	Proprietary
Airport	Business-type	Proprietary
Other enterprise funds	Business-type	Proprietary - Nonmajor
Fiduciary funds	Excluded	Fiduciary

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

c -- Notes to the Financial Statements

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

d -- Other Information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net Assets

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

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current assets	$ 498,993	529,203	934,090	1,073,730	1,433,083	1,602,933
Capital assets	2,032,289	1,868,710	5,174,870	4,965,869	7,207,159	6,834,579
Other noncurrent assets	3,233	3,138	624,169	701,942	627,402	705,080
Total assets	2,534,515	2,401,051	6,733,129	6,741,541	9,267,644	9,142,592
Current liabilities	207,830	198,161	416,793	384,841	624,623	583,002
Noncurrent liabilities	888,181	854,763	4,072,592	4,059,289	4,960,773	4,914,052
Total liabilities	1,096,011	1,052,924	4,489,385	4,444,130	5,585,396	5,497,054
Net assets:						
Invested in capital assets, net of related debt	1,333,779	1,204,877	1,569,489	1,505,479	2,903,268	2,710,356
Restricted	53,481	100,469	197,174	216,459	250,655	316,928
Unrestricted	51,244	42,781	477,081	575,473	528,325	618,254
Total net assets	$ 1,438,504	1,348,127	2,243,744	2,297,411	3,682,248	3,645,538

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $3.7 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $2.9 billion, or 79% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, $251 million of the City's net assets, represents resources that are subject to external restrictions on how they may be used in the future. The remaining balance, $528 million of unrestricted net assets, may be used to meet the government's future obligations.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets

Total net assets of the City increased by $36.7 million in the current year. Governmental net assets increased $90.4 million. The increase is attributable to total revenues exceeding program expenses by $58.8 million, transfers from other funds of $39.3 million and a payment in the amount of $7.7 million to the Travis County Hospital District. Business-type net assets decreased by $53.7 million, due to program expenses exceeding revenues by $11.4 million, a payment to the Travis County Hospital District in the amount of $3 million and transfers to other funds of $39.3 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program revenues:						
Charges for services	$ 74,661	75,469	1,279,565	1,368,616	1,354,226	1,444,085
Operating grants and contributions	52,068	55,122	--	--	52,068	55,122
Capital grants and contributions	2,546	3,956	47,570	48,325	50,116	52,281
General revenues:						
Property tax	240,536	233,130	--	--	240,536	233,130
Sales tax	117,725	110,454	--	--	117,725	110,454
Franchise fees and gross receipts tax	63,509	63,049	--	--	63,509	63,049
Grants and contributions not restricted to specific programs	81,937	94,210	--	--	81,937	94,210
Interest and other	26,799	24,975	16,582	30,430	43,381	55,405
Total revenues	659,781	660,365	1,343,717	1,447,371	2,003,498	2,107,736
Program expenses:						
General government	46,607	43,405	--	--	46,607	43,405
Public safety	292,678	292,411	--	--	292,678	292,411
Transportation, planning and sustainability	15,879	17,119	--	--	15,879	17,119
Public health	48,733	80,808	--	--	48,733	80,808
Public recreation and culture	56,408	58,199	--	--	56,408	58,199
Urban growth management	64,631	59,949	--	--	64,631	59,949
Unallocated depreciation expense - infrastructure	35,833	35,414	--	--	35,833	35,414
Interest on debt	40,199	39,296	--	--	40,199	39,296
Electric	--	--	774,702	754,393	774,702	754,393
Water	--	--	155,472	130,119	155,472	130,119
Wastewater	--	--	137,227	115,284	137,227	115,284
Airport	--	--	77,541	79,558	77,541	79,558
Convention	--	--	52,336	40,621	52,336	40,621
Other	--	--	157,842	119,763	157,842	119,763
Total expenses	600,968	626,601	1,355,120	1,239,738	1,956,088	1,866,339
Excess before special items and transfers	58,813	33,764	(11,403)	207,633	47,410	241,397
Special items - hospital district reserve	(7,700)	--	(3,000)	--	(10,700)	--
Transfers	39,264	66,926	(39,264)	(66,926)	--	--
Increase (decrease) in net assets	90,377	100,690	(53,667)	140,707	36,710	241,397
Beginning net assets	1,348,127	1,247,437	2,297,411	2,156,704	3,645,538	3,404,141
Ending net assets	$ 1,438,504	1,348,127	2,243,744	2,297,411	3,682,248	3,645,538

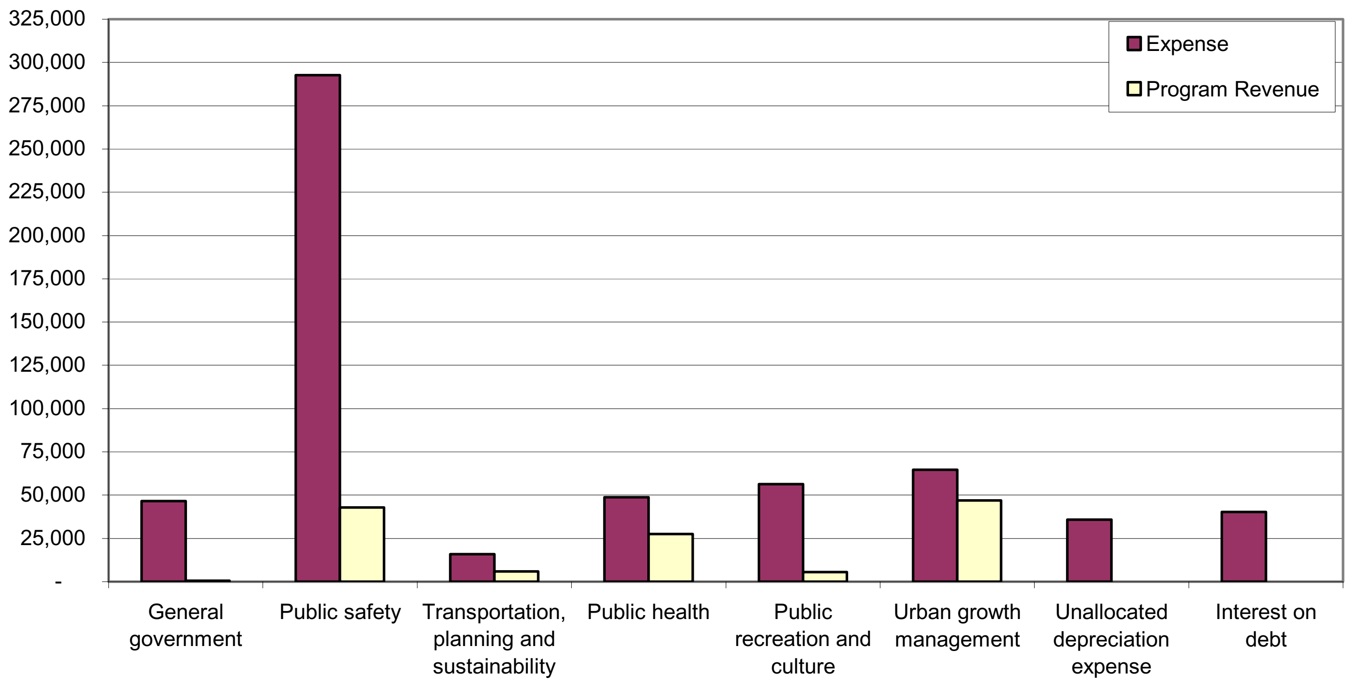
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

c -- Program Revenues and Expenses -- Governmental Activities
Governmental activities increased the City's net assets by $90.4 million in fiscal year 2004, a 6.7% increase of governmental net assets from the previous year. Key factors of this increase are as follows:

- The City's property tax revenue increased by $7.4 million from the previous year, as a result of an increase in the City's tax rate from 45.97 cents to 49.28 cents per $100 valuation. The total assessed valuation of real and personal property in the City had a negative growth rate of 3.5%.
- Sales tax revenue increased $7.3 million from the previous year, an increase of 6.6%.
- Grants and contributions not restricted to specific programs decreased by $12 million, primarily as a result of lower intergovernmental revenues. Grants and contributions restricted to specific programs decreased $4.5 million.
- Governmental expenses decreased $25.6 million, largely due to the transfer of the certain indigent health care costs from the Public Health program in governmental activities to the Primary Care Fund, which is a business-type activity. However, the reduction in expenses was offset by an increase of transfers to other funds in order to provide the funding source for these services.

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

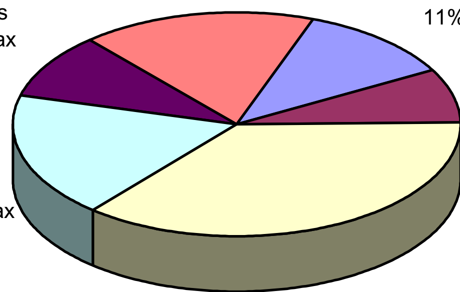
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



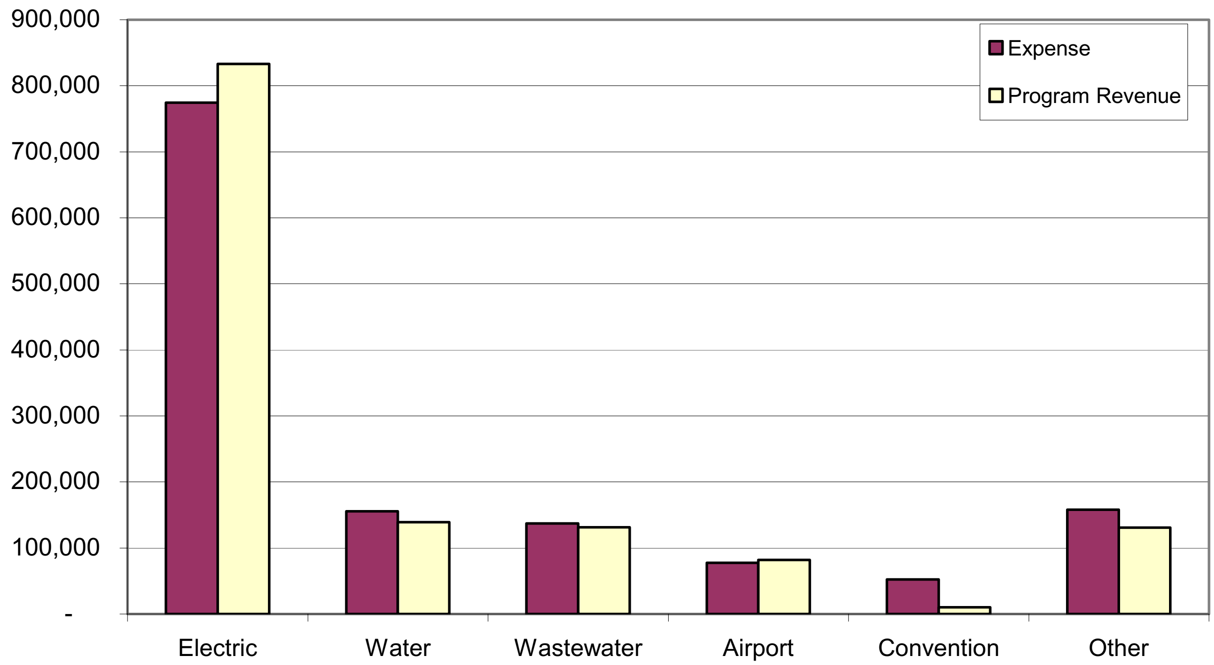
d -- Program Revenues and Expenses -- Business-type activities
Business-type activities decreased the City's net assets by $53.7 million, accounting for a 1.5% decrease in the City's total net assets and a 2.3% decrease in business-type net assets. Key factors include:

- Electric net assets decreased $6 million. The decrease is due primarily to the recognition of $66 million previously reported as deferred depreciation. The expense recognition was required as a result of a bond defeasance and the resulting principal payment associated with the defeasance. Revenue decreased approximately 10% from the previous year due to mild weather conditions and lower fuel cost; expenses decreased by 7% from the previous year due to lower fuel costs.
- Water and Wastewater net assets decreased $43 million. The decrease is due primarily to the recognition of $38 million previously reported as deferred depreciation. The expense recognition was required as a result of a bond defeasance and the resulting principal payment associated with the defeasance. Water revenue decreased by $11.2 million from the previous year due to wetter than normal weather and reduced industrial demand.
- Airport net assets increased $6 million. Revenues increased due to an increase in passenger traffic, which was 8% higher than the previous calendar year. Expenses decreased as a result of cost containment.
- Convention net assets decreased $19 million. Revenues were 31% less than the previous year due to reduced business activity for convention space and event cancellations. Expenses increased $12 million from the previous year due to the recognition of economic development costs.
- Other business-type net assets increased by $8 million, primarily as a result of increased revenues in the Drainage Fund.

As shown in the following chart, the Electric utility, with expenses of $775 million, is the City's largest business-type activity, followed by Water ($155 million), Wastewater ($137 million), Airport ($78 million) and Convention ($52 million). For fiscal year 2004, operating revenues exceeded operating expenses for all business-type activities, except Water, Wastewater, Convention and other business-type activities. Within other business-type activities, only Hospital and Primary Care operating expenses exceeded operating revenues.

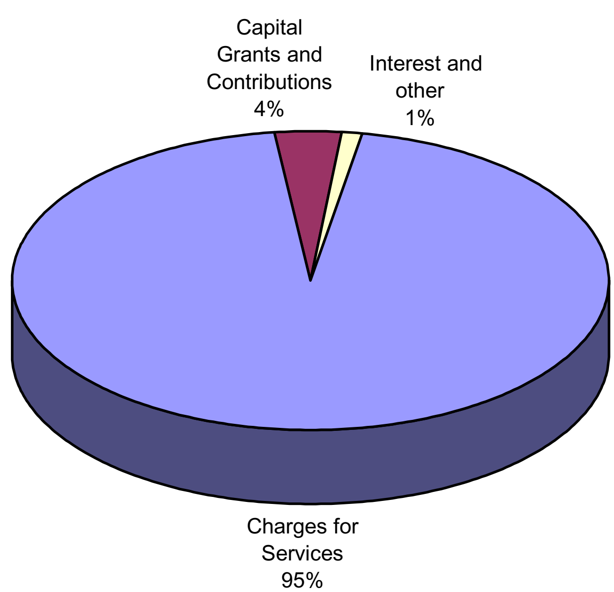
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



For all business-type activities, charges for services provide the largest percentage of revenues (95%), followed by capital grants and contributions (4%) and interest and other revenues (1%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

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

At the end of the year, the City of Austin's governmental funds reported combined ending fund balances of $309 million, a decrease of $36 million from the previous year. Approximately $206 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale and certain debt service amounts. Reserved fund balance decreased $24.3 million in comparison to the prior year, primarily due to a decrease in the reservation for encumbrances of $26.7 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $100.8 million, while total fund balance was $106 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 25% of total General Fund expenditures of $405 million, and total fund balance represents 26% of expenditures. The unreserved and undesignated fund balance of the General Fund is $48 million, which may be designated by City Council for specified uses for the future.

The General Fund fund balance increased by $13 million during the fiscal year; undesignated fund balance increased by $12.7 million. Significant differences from the previous year include:

- $17 million increase in revenues, primarily from property taxes, sales tax and rental income.
- Decrease of $28 million in expenditures, due primarily to the transfer of certain indigent health care costs to the Primary Care Fund, a nonmajor enterprise fund.
- $28 million increase in transfers out, to fund the indigent health care costs mentioned above.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, decreased by $53.7 million.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

The original budget of the General Fund was amended twice during fiscal year 2004 by $1.3 million for increased public safety costs offset by a decrease to transfers out to other funds and a decrease in expenditures for Municipal Court.

During the year, revenues were $12.6 million more than budgeted. An increase in sales tax collections and rental income was the primary cause of the difference.

Expenditures were $8.7 million less than budgeted. Public safety accounted for approximately $6.9 million of the difference, with Police consisting of $5 million of this amount. Transfers out were approximately $1.8 million less than budgeted. The budget was not formally amended to reflect any cost containment actions. The total fund balance at year-end amounted to $52.5 million, which was $27.3 million higher than budgeted.

b -- Capital Assets

The City's capital assets for governmental and business-type activities as of September 30, 2004, total $7.2 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, assets not classified, construction work in progress, nuclear fuel and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $372 million (5 percent), with an increase of almost 9 percent for governmental activities and an increase of 4 percent for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Land and improvements	$ 233	195	280	270	513	465
Other assets not depreciated	18	18	1	1	19	19
Building and improvements	260	226	1,402	1,355	1,662	1,581
Equipment	33	26	2,546	2,270	2,579	2,296
Vehicles	32	36	37	36	69	72
Infrastructure	1,009	919	--	--	1,009	919
Completed assets not classified	120	95	180	320	300	415
Construction work in progress	327	354	680	661	1,007	1,015
Nuclear fuel, net of amortization	--	--	18	22	18	22
Plant held for future use	--	--	31	31	31	31
Total net assets	$ 2,032	1,869	5,175	4,966	7,207	6,835

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

- Governmental capital assets increased $163 million. Included in this increase were $90 million in infrastructure additions, $27 million in Parkland purchases and improvements, $6 million for the St. John's Joint Use Facility and $6 million for the City's investment in the Combined Emergency Center.
- Business-type activities purchased or completed construction on capital assets of $357 million. The Electric Fund added $291 million in plant and equipment expansions or improvements to existing facilities, including the Sandhill combined cycle plant competed for $169 million. The Water and Wastewater Fund increased capital assets by $46 million, including approximately $28 million of costs associated with the Austin Clean Water Program.

OTHER INFORMATION, continued

c -- Debt Administration
At the end of the current fiscal year, the City reported $4.3 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 10.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
General obligation bonds and other tax supported debt, net	$ 863	830	104	79	967	909
Commercial paper notes	--	--	316	128	316	128
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	2,983	3,218	2,983	3,218
Capital lease obligations	1	1	13	15	14	16
Total	$ 864	831	3,444	3,468	4,308	4,299

During fiscal year 2004, the City's total outstanding debt increased by $9 million. The City issued new debt and refinanced portions of existing debt to take advantage of lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased $33 million, and will be used primarily for street improvements, right of way acquisition and utility relocation, parks and recreation facilities, emergency centers and a court settlement agreement.
- Outstanding debt for business-type functions decreased $24 million due to the payment of existing debt. In 2004, new debt was issued primarily for the Convention Center garage; closed landfill remediation; communications technology upgrades; and capital equipment and vehicles. The City issued Water and Wastewater separate lien refunding bonds to refund commercial paper; Airport prior lien revenue refunding bonds were issued to refund revenue bonds; and Convention Center hotel occupancy tax revenue refunding bonds were issued to refund revenue bonds. In addition Electric, Water and Wastewater reduced both utilities' long-term debt through a defeasance of combined utility system revenue bonds.

The general obligation bond ratings remained unchanged while the revenue bond ratings were upgraded during the year. Ratings at September 30, 2004 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc	Standard and Poor's	Fitch, Inc.
General obligation bonds and other tax supported debt	Aa2	AA+	AA+
Commercial paper notes	P-1	A-1	F1+
Utility revenue bonds - prior lien	A2	A+	A+
Utility revenue bonds - subordinate lien	A2	A	A+
Utility revenue bonds - separate lien:			
Electric	A3	A	A+
Water and Wastewater	A2	A	A+
Airport system revenue bonds	NUR (1)	A-	NUR (1)
Airport variable rate bonds	P-1	NUR (1)	NUR (1)

(1) No underlying rating

OTHER INFORMATION, continued

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

The local economy appears to have turned the corner, with job growth and local sales tax revenues increasing after a long decline. The forecast for the upcoming year indicates the City is poised to continue its trend of economic improvement, as consumer spending, tourism and job growth are predicted to show continuing increases over the next several years. Nationwide, the U.S. economy continues to grow with a steady increase in the Gross Domestic Product occurring for each quarter during 2004. Predictions indicate that the U.S. economy will continue to improve.

Due to the economic downturn in 2002 and 2003, the City has emerged as a smaller organization than the previous year. New service models were developed during the budget reduction years to maintain current service levels with reduced resources. Examples include the One Stop Shop and 311 Call Center. Structural soundness was achieved in the General Fund in fiscal year 2004, due to revenues exceeding expenditures; i.e., more resources came in than were spent. This was due to a continued policy of cost containment, better than expected revenue and City management's continuing initiative of managing current and future cost drivers.

For the upcoming 2005 budget, the City will continue to leverage and develop efficiencies in the manner it delivers services to citizens. It will be a continual challenge to maintain the level of service citizens are accustomed to receiving, in addition to managing the demand and expectations of service enhancements as economic conditions begin to improve. Although indications are favorable that the Austin area economy will continue to improve, several key factors could have a significant impact to the economic climate. A downturn in the U.S. economy, including higher-than anticipated inflation or fast-rising oil and fuel prices, could have a significant negative impact to the local economy. The City will continue to monitor the State legislative budget process to assess the impact of any enacted legislative laws that could adversely affect the City. City management will continue to view the economic recovery in a conservative manner and will be prepared to take any corrective actions to help mitigate unfavorable economic events.

The assessed valuation within the City increased by 2% for fiscal year 2005. The property tax rate for fiscal year 2005 is 44.3 cents per $100 valuation, which is the effective tax rate of 50.65 cents reduced by 6.35 cents for the services transferred from the City to the Travis County Hospital District. The tax rate consists of 27.47 cents for the General Fund, 16.83 cents for debt service. Each 1 cent of the property tax rate is equivalent to $4,994,185 of tax levy, as compared to $4,896,428 for the previous year. Rate increases for the Water and Wastewater Fund are: 9.2% for Water, 14.7% for Wastewater, for a combined increase of 11.8%.

e -- Requests for Information

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

(In thousands)

	Governmental Activities	Business-type Activities	2004 Total (†)
ASSETS			
Current assets:			
Cash	$ 111	55	166
Pooled investments and cash	373,013	88,354	461,367
Pooled investments and cash - designated	--	27,591	27,591
Pooled investments and cash - restricted	--	275,255	275,255
Total pooled investments and cash	373,013	391,200	764,213
Investments, at fair value - designated	13,477	105,135	118,612
Investments, at fair value - restricted	--	158,725	158,725
Cash held by trustee	3,781	--	3,781
Cash held by trustee - restricted	--	8,259	8,259
Working capital advances	--	3,456	3,456
Property taxes receivable	11,331	--	11,331
Less allowance for uncollectible taxes	(1,482)	--	(1,482)
Net property taxes receivable	9,849	--	9,849
Accounts and other taxes receivable	158,171	183,979	342,150
Less allowance for doubtful accounts	(84,063)	(8,264)	(92,327)
Net accounts receivable	74,108	175,715	249,823
Receivables from other governments	10,274	1,349	11,623
Receivables from other governments - restricted	--	944	944
Notes receivable, net of allowance	9,890	--	9,890
Internal balances	(3,458)	3,458	--
Internal balances - restricted	(2,907)	2,907	--
Inventories, at cost	2,358	55,441	57,799
Real property held for resale	6,598	--	6,598
Prepaid items	628	3,119	3,747
Other assets	1,271	24,158	25,429
Other receivables - restricted	--	169	169
Total current assets	498,993	934,090	1,433,083
Noncurrent assets:			
Investments, at fair value	--	65,000	65,000
Investments held by trustee - restricted	--	99,372	99,372
Interest receivable - restricted	--	911	911
Capital assets			
Land and other nondepreciable assets	250,649	281,736	532,385
Property, plant and equipment in service	2,061,643	6,470,604	8,532,247
Less accumulated depreciation	(607,422)	(2,305,707)	(2,913,129)
Net property, plant and equipment in service	1,454,221	4,164,897	5,619,118
Construction in progress	327,419	679,559	1,006,978
Nuclear fuel, net of amortization	--	17,933	17,933
Plant held for future use	--	30,745	30,745
Total capital assets	2,032,289	5,174,870	7,207,159
Intangible assets, net of amortization	--	87,602	87,602
Other long-term assets	--	1,354	1,354
Deferred costs and expenses, net of amortization	3,233	369,930	373,163
Total noncurrent assets	2,035,522	5,799,039	7,834,561
Total assets	$ 2,534,515	6,733,129	9,267,644

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

(Continued)

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

(In thousands) (Continued)

	Governmental Activities	Business-type Activities	2004 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 22,855	59,452	82,307
Accounts and retainage payable from restricted assets	--	58,732	58,732
Accrued payroll	14,611	7,157	21,768
Accrued compensated absences	30,719	15,422	46,141
Due to other governments	7,700	3,000	10,700
Claims payable	18,595	--	18,595
Accrued interest payable from restricted assets	--	58,125	58,125
Interest payable on other debt	3,615	1,139	4,754
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	52,666	3,936	56,602
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	5,751	5,751
Revenue bonds payable	--	2,035	2,035
Revenue bonds payable payable from restricted assets	--	141,915	141,915
Capital lease obligations payable	475	3,422	3,897
Customer and escrow deposits payable from restricted assets	--	13,030	13,030
Nuclear fuel expense payable from restricted assets	--	33,403	33,403
Deferred credits and other liabilities	56,594	10,274	66,868
Total current liabilities	207,830	416,793	624,623
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	39,737	4,688	44,425
Claims payable	8,845	--	8,845
Capital appreciation bond interest payable	--	166,868	166,868
Commercial paper notes payable, net of discount	--	315,616	315,616
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	810,858	94,113	904,971
Revenue bonds payable, net of discount and inclusive of premium	--	2,839,548	2,839,548
Pension obligation payable	3,102	2,804	5,906
Capital lease obligations payable	338	9,331	9,669
Accrued landfill closure and postclosure costs	--	7,612	7,612
Decommissioning expense payable from restricted assets	--	100,019	100,019
Deferred credits and other liabilities	25,293	498,986	524,279
Other liabilities payable from restricted assets	8	5,007	5,015
Total noncurrent liabilities	888,181	4,072,592	4,960,773
Total liabilities	1,096,011	4,489,385	5,585,396
NET ASSETS			
Invested in capital assets, net of related debt	1,333,779	1,569,489	2,903,268
Restricted for:			
Debt service	12,351	108,112	120,463
Capital projects	39,720	66,687	106,407
Renewal and replacement	--	11,415	11,415
Passenger facility charges	--	8,537	8,537
Convention Center operating reserve	--	2,423	2,423
Perpetual Care:			
Expendable	370	--	370
Nonexpendable	1,040	--	1,040
Unrestricted	51,244	477,081	528,325
Total net assets	$ 1,438,504	2,243,744	3,682,248

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

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

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

City of Austin, Texas
Exhibit A-2

		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**	**2004 Total**
Governmental activities							
General government	$ 46,607	210	376	--	(46,021)	--	(46,021)
Public safety	292,678	37,071	5,776	--	(249,831)	--	(249,831)
Transportation, planning and sustainability	15,879	5,027	362	439	(10,051)	--	(10,051)
Public health	48,733	7,617	17,720	2,107	(21,289)	--	(21,289)
Public recreation and culture	56,408	2,716	2,904	--	(50,788)	--	(50,788)
Urban growth management	64,631	22,020	24,930	--	(17,681)	--	(17,681)
Unallocated depreciation expense	35,833	--	--	--	(35,833)	--	(35,833)
Interest on debt	40,199	--	--	--	(40,199)	--	(40,199)
Total governmental activities	600,968	74,661	52,068	2,546	(471,693)	--	(471,693)
Business-type activities							
Electric	774,702	829,018	--	4,284	--	58,600	58,600
Water	155,472	119,254	--	19,902	--	(16,316)	(16,316)
Wastewater	137,227	114,710	--	16,593	--	(5,924)	(5,924)
Airport	77,541	75,916	--	6,117	--	4,492	4,492
Convention	52,336	10,404	--	--	--	(41,932)	(41,932)
Other	157,842	130,263	--	674	--	(26,905)	(26,905)
Total business-type activities	1,355,120	1,279,565	--	47,570	--	(27,985)	(27,985)
Total	$ 1,956,088	1,354,226	52,068	50,116	(471,693)	(27,985)	(499,678)
General revenues:							
Property tax					240,536	--	240,536
Sales tax					117,725	--	117,725
Franchise fees and gross receipts tax					63,509	--	63,509
Grants and contributions not restricted to specific programs					81,937	--	81,937
Interest and other					26,799	16,582	43,381
Special items - hospital district reserve payment					(7,700)	(3,000)	(10,700)
Transfers					39,264	(39,264)	--
Total general revenues and transfers					562,070	(25,682)	536,388
Change in net assets					90,377	(53,667)	36,710
Beginning net assets					1,348,127	2,297,411	3,645,538
Ending net assets					$ 1,438,504	2,243,744	3,682,248

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

(In thousands)

	2004 General Fund	2004 Nonmajor Governmental Funds	2004 Total Governmental Funds
ASSETS			
Cash	$ 89	5	94
Pooled investments and cash	97,002	187,228	284,230
Investments, at fair value	--	13,477	13,477
Cash held by trustee	--	3,064	3,064
Property taxes receivable	6,936	4,395	11,331
Less allowance for uncollectible taxes	(909)	(573)	(1,482)
Net property taxes receivable	6,027	3,822	9,849
Accounts and other taxes receivable	133,678	22,354	156,032
Less allowance for doubtful accounts	(94,463)	(378)	(94,841)
Net accounts receivable	39,215	21,976	61,191
Receivables from other governments	--	10,274	10,274
Notes receivable, net of allowance	--	9,890	9,890
Due from other funds	--	28,828	28,828
Advances to other funds	--	6,159	6,159
Inventories, at cost	601	--	601
Real property held for resale	--	6,598	6,598
Prepaid items	275	--	275
Other assets	--	1,271	1,271
Total assets	143,209	292,592	435,801
LIABILITIES AND FUND BALANCES			
Accounts payable	3,606	13,679	17,285
Accrued payroll	11,818	61	11,879
Accrued compensated absences	479	4	483
Due to other funds	626	30,005	30,631
Due to other governments	7,700	--	7,700
Deferred revenue	5,762	6,730	12,492
Advances from other funds	1,851	346	2,197
Deposits and other liabilities	5,080	38,863	43,943
Total liabilities	36,922	89,688	126,610
Fund balances			
Reserved:			
Encumbrances	4,658	61,517	66,175
Inventories and prepaid items	876	--	876
Notes receivable	--	9,890	9,890
Advances receivable	--	6,159	6,159
Real property held for resale	--	6,598	6,598
Debt service	--	12,168	12,168
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	15,000	--	15,000
Contingencies	4,358	--	4,358
Future use	509	--	509
Budget stabilization	33,000	--	33,000
Special revenue	--	26,010	26,010
Unreserved, undesignated:			
General Fund	47,886	--	47,886
Capital projects	--	79,152	79,152
Permanent funds	--	370	370
Total fund balances	106,287	202,904	309,191
Total liabilities and fund balances	$ 143,209	292,592	435,801

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

Total fund balances - Governmental funds	$ 309,191
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,991,765
Other long-term assets are not available as current-period resources and are not reported in the funds.	15,026
Long-term liabilities are not payable in the current period and are not reported in the funds.	(930,484)
Internal service funds are used by management to charge the costs of capital project management, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	53,006
Total net assets - Governmental activities	$ 1,438,504

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

(In thousands)

	2004		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 160,049	83,321	243,370
Sales taxes	117,725	--	117,725
Franchise fees and other taxes	32,964	30,545	63,509
Fines, forfeitures and penalties	16,976	4,798	21,774
Licenses, permits and inspections	15,317	--	15,317
Charges for services/goods	15,565	26,714	42,279
Intergovernmental	--	73,428	73,428
Property owners' participation and contributions	--	3,798	3,798
Interest and other	19,168	7,376	26,544
Total revenues	377,764	229,980	607,744
EXPENDITURES			
Current:			
General government	39,605	1,806	41,411
Public safety	273,259	14,893	288,152
Transportation, planning and sustainability	9,690	3,518	13,208
Public health	25,890	23,786	49,676
Public recreation and culture	45,235	5,332	50,567
Urban growth management	11,066	52,515	63,581
Debt service:			
Principal	--	48,862	48,862
Interest	--	40,109	40,109
Fees and commissions	--	14	14
Capital outlay	--	151,768	151,768
Total expenditures	404,745	342,603	747,348
Excess (deficiency) of revenues over expenditures	(26,981)	(112,623)	(139,604)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	70,040	70,040
Bond premiums	--	28	28
Capital leases	634	12	646
Transfers in	95,894	32,980	128,874
Transfers out	(48,766)	(39,782)	(88,548)
Total other financing sources (uses)	47,762	63,278	111,040
Net change in fund balances	20,781	(49,345)	(28,564)
Special items - hospital district reserve payment	(7,700)	--	(7,700)
Net change in fund balances	13,081	(49,345)	(36,264)
Fund balances at beginning of year	93,206	252,249	345,455
Fund balances at end of year	$ 106,287	202,904	309,191

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

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

Net change in fund balances - Governmental funds	$	(36,264)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		94,356
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		53,488
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		(12,728)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(21,202)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		1,377
The net revenue of certain activities of internal service funds is reported with governmental activities.		11,350
Change in net assets - Governmental activities	$	90,377

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

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

	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	$ 18	11	6
Pooled investments and cash	43,224	8,341	--
Pooled investments and cash - designated	12,350	--	--
Pooled investments and cash - restricted	58,227	42,672	88,286
Total pooled investments and cash	113,801	51,013	88,286
Investments, at fair value - designated	105,135	--	--
Investments, at fair value - restricted	84,855	40,830	27,301
Cash held by trustee	--	--	--
Cash held by trustee - restricted	2,677	5,582	--
Working capital advances	3,332	--	--
Accounts receivable	125,131	38,687	4,759
Less allowance for doubtful accounts	(2,953)	(852)	(150)
Net accounts receivable	122,178	37,835	4,609
Receivables from other governments	--	--	--
Receivables from other governments - restricted	--	--	944
Due from other funds	21	--	--
Due from other funds - restricted	--	33	617
Inventories, at cost	53,858	938	--
Prepaid expenses	2,759	139	73
Other assets	24,158	--	--
Other receivables - restricted	66	99	--
Total current assets	512,858	136,480	121,836
Noncurrent assets:			
Advances to other funds	2,998	--	--
Advances to other funds - restricted	--	161	2,081
Investments, at fair value	65,000	--	--
Investments held by trustee - restricted	99,372	--	--
Interest receivable - restricted	911	--	--
Capital assets			
Land and other nondepreciable assets	37,612	136,737	59,445
Property, plant and equipment in service	3,240,039	2,167,092	622,064
Less accumulated depreciation	(1,374,273)	(707,255)	(102,067)
Net property, plant and equipment in service	1,865,766	1,459,837	519,997
Construction in progress	221,579	371,173	23,476
Nuclear fuel, net of amortization	17,933	--	--
Plant held for future use	30,745	--	--
Total capital assets	2,173,635	1,967,747	602,918
Intangible assets, net of amortization	--	87,602	--
Other long-term assets	1,352	2	--
Deferred costs and expenses, net of amortization	187,181	176,934	2,425
Total noncurrent assets	2,530,449	2,232,446	607,424
Total assets	$ 3,043,307	2,368,926	729,260

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities-Internal Service Funds
ASSETS			
Current assets:			
Cash	20	55	17
Pooled investments and cash	36,789	88,354	88,783
Pooled investments and cash - designated	15,241	27,591	--
Pooled investments and cash - restricted	86,070	275,255	--
Total pooled investments and cash	138,100	391,200	88,783
Investments, at fair value - designated	--	105,135	--
Investments, at fair value - restricted	5,739	158,725	--
Cash held by trustee	--	--	717
Cash held by trustee - restricted	--	8,259	--
Working capital advances	124	3,456	--
Accounts receivable	15,402	183,979	1,339
Less allowance for doubtful accounts	(4,309)	(8,264)	(222)
Net accounts receivable	11,093	175,715	1,117
Receivables from other governments	1,349	1,349	--
Receivables from other governments - restricted	--	944	--
Due from other funds	1,164	1,185	410
Due from other funds - restricted	--	650	--
Inventories, at cost	645	55,441	1,757
Prepaid expenses	148	3,119	353
Other assets	--	24,158	--
Other receivables - restricted	4	169	--
Total current assets	158,386	929,560	93,154
Noncurrent assets:			
Advances to other funds	101	3,099	--
Advances to other funds - restricted	15	2,257	--
Investments, at fair value	--	65,000	--
Investments held by trustee - restricted	--	99,372	--
Interest receivable - restricted	--	911	--
Capital assets			
Land and other nondepreciable assets	47,942	281,736	1,737
Property, plant and equipment in service	441,409	6,470,604	55,980
Less accumulated depreciation	(122,112)	(2,305,707)	(22,688)
Net property, plant and equipment in service	319,297	4,164,897	33,292
Construction in progress	63,331	679,559	5,495
Nuclear fuel, net of amortization	--	17,933	--
Plant held for future use	--	30,745	--
Total capital assets	430,570	5,174,870	40,524
Intangible assets, net of amortization	--	87,602	--
Other long-term assets	--	1,354	--
Deferred costs and expenses, net of amortization	3,390	369,930	7
Total noncurrent assets	434,076	5,804,395	40,531
Total assets	592,462	6,733,955	133,685

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

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

	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 49,055	1,482	1,271
Accounts and retainage payable from restricted assets	18,498	26,929	1,384
Accrued payroll	2,959	1,520	570
Accrued compensated absences	6,799	3,435	1,116
Claims payable	--	--	--
Due to other funds	--	--	--
Due to other governments	--	--	--
Accrued interest payable from restricted assets	26,327	18,993	8,063
Interest payable on other debt	107	835	4
General obligation bonds payable and other tax supported debt	--	--	109
General obligation bonds payable and other tax supported debt payable from restricted assets	490	4,347	--
Revenue bonds payable	--	2,035	--
Revenue bonds payable from restricted assets	89,949	40,796	7,650
Capital lease obligations payable	1,983	1,109	173
Customer and escrow deposits payable from restricted assets	7,765	2,042	614
Nuclear fuel expense payable from restricted assets	33,403	--	--
Deferred credits and other liabilities	5,042	3,515	1,269
Total current liabilities	242,377	107,038	22,223
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,623	1,280	262
Claims payable	--	--	--
Advances from other funds	--	4,234	--
Capital appreciation bond interest payable	82,337	84,531	--
Commercial paper notes payable, net of discount	94,984	220,632	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	2,392	19,853	471
Revenue bonds payable, net of discount and inclusive of premium	1,168,752	1,106,769	343,996
Pension obligation payable	1,260	648	229
Capital lease obligations payable	5,203	3,714	321
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	100,019	--	--
Deferred credits and other liabilities	71,520	424,999	2,467
Other liabilities payable from restricted assets	--	3,035	1,972
Total noncurrent liabilities	1,529,090	1,869,695	377,718
Total liabilities	1,771,467	1,976,733	399,941
NET ASSETS			
Invested in capital assets, net of related debt	913,447	263,729	224,655
Restricted for:			
Debt service	58,528	21,836	22,009
Capital projects	--	--	56,700
Renewal and replacement	--	--	10,000
Passenger facility charges	--	--	8,537
Convention Center operating reserve	--	--	--
Unrestricted	299,865	106,628	7,418
Total net assets	$ 1,271,840	392,193	329,319
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,405	2,341	742
Total net assets - Business-type activities	$ 1,274,245	394,534	330,061

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities-Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	7,644	59,452	5,570
Accounts and retainage payable from restricted assets	11,921	58,732	--
Accrued payroll	2,108	7,157	2,732
Accrued compensated absences	4,072	15,422	5,290
Claims payable	--	--	18,595
Due to other funds	--	--	442
Due to other governments	3,000	3,000	--
Accrued interest payable from restricted assets	4,742	58,125	--
Interest payable on other debt	193	1,139	168
General obligation bonds payable and other tax supported debt	3,827	3,936	2,963
General obligation bonds payable and other tax supported debt payable from restricted assets	914	5,751	--
Revenue bonds payable	--	2,035	--
Revenue bonds payable from restricted assets	3,520	141,915	--
Capital lease obligations payable	157	3,422	161
Customer and escrow deposits payable from restricted assets	2,609	13,030	--
Nuclear fuel expense payable from restricted assets	--	33,403	--
Deferred credits and other liabilities	448	10,274	1,986
Total current liabilities	45,155	416,793	37,907
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	523	4,688	944
Claims payable	--	--	8,845
Advances from other funds	4,226	8,460	858
Capital appreciation bond interest payable	--	166,868	--
Commercial paper notes payable, net of discount	--	315,616	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	71,397	94,113	24,409
Revenue bonds payable, net of discount and inclusive of premium	220,031	2,839,548	--
Pension obligation payable	667	2,804	--
Capital lease obligations payable	93	9,331	74
Accrued landfill closure and postclosure costs	7,612	7,612	--
Decommissioning expense payable from restricted assets	--	100,019	--
Deferred credits and other liabilities	--	498,986	--
Other liabilities payable from restricted assets	--	5,007	8
Total noncurrent liabilities	304,549	4,081,052	35,138
Total liabilities	349,704	4,497,845	73,045
NET ASSETS			
Invested in capital assets, net of related debt	167,658	1,569,489	18,966
Restricted for:			
Debt service	5,739	108,112	--
Capital projects	9,987	66,687	9,651
Renewal and replacement	1,415	11,415	--
Passenger facility charges	--	8,537	--
Convention Center operating reserve	2,423	2,423	--
Unrestricted	55,536	469,447	32,023
Total net assets	242,758	2,236,110	60,640
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,146	7,634	
Total net assets - Business-type activities	244,904	2,243,744	

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

Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 829,018	233,964	--
User fees and rentals	--	--	65,361
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	829,018	233,964	65,361
OPERATING EXPENSES			
Operating expenses before depreciation	516,857	109,555	38,517
Depreciation and amortization	95,525	52,808	16,054
Total operating expenses	612,382	162,363	54,571
Operating income (loss)	216,636	71,601	10,790
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	12,523	1,006	1,916
Interest on revenue bonds and other debt	(102,274)	(79,296)	(22,497)
Interest capitalized during construction	--	--	953
Passenger facility charges	--	--	10,555
Amortization of bond issue cost	(711)	(534)	(131)
Cost (recovered) to be recovered in future years	(61,707)	(49,996)	--
Other nonoperating revenue (expense)	1,633	(1,682)	(1,577)
Total nonoperating revenues (expenses)	(150,536)	(130,502)	(10,781)
Income (loss) before contributions and transfers	66,100	(58,901)	9
Capital contributions	4,284	36,495	6,117
Transfers in	--	--	--
Transfers out	(76,674)	(22,068)	--
Change in net assets	(6,290)	(44,474)	6,126
Special items - hospital district reserve payment	--	--	--
Net change in net assets	(6,290)	(44,474)	6,126
Total net assets - beginning	1,278,130	436,667	323,193
Total net assets - ending	$ 1,271,840	392,193	329,319
Reconciliation to government-wide Statement of Activities			
Change in net assets	(6,290)	(44,474)	6,126
Adjustment to consolidate internal service activities	739	1,172	282
Change in net assets - Business-type activities	$ (5,551)	(43,302)	6,408

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,062,982	--
User fees and rentals	131,292	196,653	--
Billings to departments	--	--	196,432
Employee contributions	--	--	24,053
Operating revenues from other governments	4,209	4,209	2,090
Other operating revenues	5,166	5,166	8,525
Total operating revenues	140,667	1,269,010	231,100
OPERATING EXPENSES			
Operating expenses before depreciation	159,886	824,815	212,155
Depreciation and amortization	14,111	178,498	2,220
Total operating expenses	173,997	1,003,313	214,375
Operating income (loss)	(33,330)	265,697	16,725
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	1,137	16,582	134
Interest on revenue bonds and other debt	(15,637)	(219,704)	(651)
Interest capitalized during construction	2,701	3,654	--
Passenger facility charges	--	10,555	--
Amortization of bond issue cost	(184)	(1,560)	(4)
Cost (recovered) to be recovered in future years	--	(111,703)	--
Other nonoperating revenue (expense)	(24,407)	(26,033)	(2,171)
Total nonoperating revenues (expenses)	(36,390)	(328,209)	(2,692)
Income (loss) before contributions and transfers	(69,720)	(62,512)	14,033
Capital contributions	674	47,570	1,918
Transfers in	61,101	61,101	17
Transfers out	(1,623)	(100,365)	(1,079)
Change in net assets	(9,568)	(54,206)	14,889
Special items - hospital district reserve payment	(3,000)	(3,000)	--
Net change in net assets	(12,568)	(57,206)	14,889
Total net assets - beginning	255,326	2,293,316	45,751
Total net assets - ending	242,758	2,236,110	60,640
Reconciliation to government-wide Statement of Activities			
Change in net assets	(12,568)	(57,206)	
Adjustment to consolidate internal service activities	1,346	3,539	
Change in net assets - Business-type activities	(11,222)	(53,667)	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 885,304	231,355	64,639
Cash payments to suppliers for goods and services	(400,113)	(54,867)	(20,073)
Cash payments to employees for services	(97,510)	(51,851)	(18,537)
Cash payments to claimants/beneficiaries	--	--	--
Cash received from other governments	--	--	--
Taxes collected and remitted to other governments	(17,728)	--	--
Net cash provided (used) by operating activities	369,953	124,637	26,029
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(76,674)	(22,068)	--
Interest paid on revenue notes and other debt	(157)	(140)	--
Increase in deferred assets	867	--	--
Increase in due to other governments	--	--	--
Loans to other funds	(499)	(6)	(46)
Loans from other funds	--	941	617
Loan repayments to other funds	--	--	--
Loan repayments from other funds	--	27	83
Net cash provided (used) by noncapital financing activities	(76,463)	(21,246)	654
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	40,312	146,820	--
Proceeds from the sale of general obligation bonds and other tax supported debt	960	4,112	--
Proceeds from long-term loans	390	--	483
Principal paid on long-term debt	(96,695)	(36,088)	(7,327)
Proceeds from the sale of capital assets	244	--	--
Purchased interest received	2	7	315
Interest paid on revenue bonds and other debt	(82,355)	(67,777)	(22,060)
Passenger facility charges	--	--	10,555
Acquisition and construction of capital assets	(156,761)	(159,273)	(12,051)
Contributions from municipality	--	--	--
Contributions from State and Federal governments	--	--	7,033
Contributions in aid of construction	4,837	13,373	83
Bond issuance costs	--	(1,233)	(736)
Bond discounts	--	(465)	(280)
Bond premiums	--	--	4,550
Cash paid for bond defeasance	(87,928)	(51,693)	--
Bonds issued for advanced refundings of debt	--	132,475	54,250
Cash paid for bond refunding escrow	--	(130,778)	(57,783)
Cash paid for nuclear fuel inventory	(5,756)	--	--
Net cash provided (used) by capital and related financing activities	$ (382,750)	(150,520)	(22,968)

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	130,348	1,311,646	241,374
Cash payments to suppliers for goods and services	(83,082)	(558,135)	(76,845)
Cash payments to employees for services	(70,477)	(238,375)	(77,981)
Cash payments to claimants/beneficiaries	--	--	(64,864)
Cash received from other governments	3,186	3,186	--
Taxes collected and remitted to other governments	--	(17,728)	--
Net cash provided (used) by operating activities	(20,025)	500,594	21,684
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	61,101	61,101	17
Transfers out	(1,623)	(100,365)	(1,079)
Interest paid on revenue notes and other debt	(6)	(303)	--
Increase in deferred assets	--	867	--
Increase in due to other governments	3,000	3,000	--
Loans to other funds	(833)	(1,384)	--
Loans from other funds	529	2,087	863
Loan repayments to other funds	(383)	(383)	(27)
Loan repayments from other funds	--	110	(394)
Net cash provided (used) by noncapital financing activities	61,785	(35,270)	(620)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	187,132	--
Proceeds from the sale of general obligation bonds and other tax supported debt	32,386	37,458	14,890
Proceeds from long-term loans	57	930	--
Principal paid on long-term debt	(8,911)	(149,021)	(2,774)
Proceeds from the sale of capital assets	--	244	--
Purchased interest received	350	674	--
Interest paid on revenue bonds and other debt	(14,895)	(187,087)	(640)
Passenger facility charges	--	10,555	--
Acquisition and construction of capital assets	(26,519)	(354,604)	(7,668)
Contributions from municipality	--	--	3,952
Contributions from State and Federal governments	--	7,033	--
Contributions in aid of construction	1,346	19,639	--
Bond issuance costs	(1,016)	(2,985)	--
Bond discounts	(284)	(1,029)	--
Bond premiums	5,120	9,670	--
Cash paid for bond defeasance	--	(139,621)	--
Bonds issued for advanced refundings of debt	52,715	239,440	--
Cash paid for bond refunding escrow	(62,403)	(250,964)	--
Cash paid for nuclear fuel inventory	--	(5,756)	--
Net cash provided (used) by capital and related financing activities	(22,054)	(578,292)	7,760

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (358,243)	(184,812)	(48,515)
Proceeds from sale and maturities of investment securities	449,040	230,524	48,319
Interest on investments	23,104	5,524	1,132
Net cash provided by investing activities	113,901	51,236	936
Net increase in cash and cash equivalents	24,641	4,107	4,651
Cash and cash equivalents, October 1	91,855	52,499	83,641
Cash and cash equivalents, September 30	116,496	56,606	88,292
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	216,636	71,601	10,790
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	95,525	50,308	16,054
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	(576)	--	--
(Increase) decrease in accounts receivable	(9,290)	(1,501)	(715)
Increase (decrease) in allowance for doubtful accounts	639	(214)	--
Decrease in receivables from other governments	--	--	--
(Increase) decrease in inventory	(8,469)	196	--
(Increase) decrease in prepaid expenses and other assets	45,568	(7)	(72)
Decrease in deferred costs and other expenses	9,985	2	--
(Increase) decrease in other long-term assets	559	--	--
Increase (decrease) in accounts payable	4,246	364	(1)
Increase (decrease) in accrued payroll and compensated absences	(202)	(141)	109
Decrease in claims payable	--	--	--
Increase in pension obligations payable	1,260	648	229
Increase (decrease) in deferred credits and other liabilities	13,868	815	(408)
Increase in customer deposits	204	66	43
Total adjustments	153,317	53,036	15,239
Net cash provided (used) by operating activities	$ 369,953	124,637	26,029

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities-Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(34,661)	(626,231)	--
Proceeds from sale and maturities of investment securities	43,230	771,113	--
Interest on investments	1,225	30,985	134
Net cash provided by investing activities	9,794	175,867	134
Net increase in cash and cash equivalents	29,500	62,899	28,958
Cash and cash equivalents, October 1	108,620	336,615	60,559
Cash and cash equivalents, September 30	138,120	399,514	89,517
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(33,330)	265,697	16,725
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	14,111	175,998	2,220
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	(576)	--
(Increase) decrease in accounts receivable	(550)	(12,056)	9,305
Increase (decrease) in allowance for doubtful accounts	436	861	--
Decrease in receivables from other governments	(1,023)	(1,023)	--
(Increase) decrease in inventory	(98)	(8,371)	(28)
(Increase) decrease in prepaid expenses and other assets	(17)	45,472	(95)
Decrease in deferred costs and other expenses	3	9,990	1
(Increase) decrease in other long-term assets	--	559	(1)
Increase (decrease) in accounts payable	2,233	6,842	(989)
Increase (decrease) in accrued payroll and compensated absences	(54)	(288)	(94)
Decrease in claims payable	--	--	(6,465)
Increase in pension obligations payable	668	2,805	--
Increase (decrease) in deferred credits and other liabilities	(2,698)	11,577	1,105
Increase in customer deposits	294	607	--
Total adjustments	13,305	234,897	4,959
Net cash provided (used) by operating activities	(20,025)	500,594	21,684

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in deferred assets/expenses	$ 73,728	23,017	--
Increase in capital appreciation bond interest payable	6,448	9,448	--
Capital assets contributed from (to) other funds	51	--	18
Increase in contributed facilities	--	25,524	--
Net decrease in the fair value of investments	12,564	4,002	--
Amortization of bond issue costs	(711)	(534)	(131)
Amortization of bond discounts and premiums	(1,998)	(856)	(211)
Amortization of deferred loss on refundings	25,736	3,989	346
Gain (loss) on disposal of assets	2,112	(1,684)	(1,559)
Deferred gain (loss) on bond refunding	12,541	(1,538)	(5,718)
Bond issuance costs, discounts, premiums and accrued interest written off due to refunding	867	2,154	225
Deferred costs (recovered) to be recovered	(61,707)	(49,996)	--
Loss on extinguishment of debt	(16,358)	(9,573)	--
Increase in deferred credits and other liabilities	4,740	19,399	--
Contributions	--	--	--

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in deferred assets/expenses	14,978	111,723	--
Increase in capital appreciation bond interest payable	--	15,896	--
Capital assets contributed from (to) other funds	(629)	(560)	(2,033)
Increase in contributed facilities	--	25,524	--
Net decrease in the fair value of investments	--	16,566	--
Amortization of bond issue costs	(183)	(1,559)	(2)
Amortization of bond discounts and premiums	(99)	(3,164)	(2)
Amortization of deferred loss on refundings	538	30,609	6
Gain (loss) on disposal of assets	(24,449)	(25,580)	(2,459)
Deferred gain (loss) on bond refunding	(2,601)	2,684	--
Bond issue costs, discounts, premiums and accrued interest written off due to refunding	1,158	4,404	--
Deferred costs (recovered) to be recovered	--	(111,703)	--
Loss on extinguishment of debt	--	(25,931)	--
Increase in deferred credits and other liabilities	--	24,139	969
Contributions	3,100	3,100	--

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

(In thousands)

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Charter of the City of Austin requires an annual audit by an independent certified public accountant. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City has implemented GASB Statement No. 1 through Statement No. 41. GASB Statement No. 40 entitled *"Deposit and Investment Risk Disclosures"* was implemented in fiscal year 2004. The more significant accounting and reporting policies and practices used by the City are described below.

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

a -- Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City, the Primary Government, and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and therefore data from these units are combined with data of the City.

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

Related Organizations -- The following paragraph summarizes related organizations to which the City Council appoints board members but the City has no significant financial accountability. The City appoints certain members of the board of the Capital Metropolitan Transit Authority (Capital Metro), but the City's accountability for this organization does not extend beyond making the appointments. City Councilmembers appoint themselves as members of the board of the Austin-Bergstrom International Airport (ABIA) Development Corporation; their function on this board is ministerial rather than substantive. The City Council appoints the members of the board of Austin-Bergstrom Landhost Enterprises, Inc., and Austin Convention Enterprises, Inc.; the functions of these boards are ministerial rather than substantive. The Mayor, with consent of the City Council, appoints the Board of Commissioners for the Urban Renewal Agency, whose primary responsibility is to oversee the implementation and compliance of Urban Renewal Plans adopted by the City Council. The City's presiding officer of the municipality governing body appoints the persons to serve as commissioners of the Austin Housing Authority. All of these entities are separate from the operating activities of the City. Related organizations are not included in the City's reporting entity.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b -- Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, vehicle rental taxes, EMS charges, Municipal Court fines and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund. It includes the following activities: public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and general government.

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

The City reports the following major enterprise funds:

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

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

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

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

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

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

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

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

The City reports the following proprietary and fiduciary funds:

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The City has elected to follow GASB statements issued after November 30, 1989, rather than statements issued by the Financial Accounting Standards Board (FASB), in accordance with GASB Statement No. 20. The nonmajor enterprise funds account for the operations in a variety of areas: convention center, drainage, golf, hospital (both Brackenridge and Austin Women's Hospital), recreation activities, primary care clinics, solid waste and transportation.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

d -- Budget

The City Manager submits a proposed budget to the City Council no later than thirty days prior to the beginning of the new fiscal year. The City Council holds public hearings, modifies the City Manager's recommendations, and adopts a final budget no later than the twenty-seventh day of September. The City Council passes an appropriation ordinance and a tax levying ordinance.

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

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

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

e -- Financial Statement Elements

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

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2004. Investments in local government investment pools are carried at amortized cost, which approximates fair value. The City has implemented GASB Statement No. 40 entitled "*Deposit and Investment Risk Disclosures*".

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2004 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 63,583	35,055	26,758	--	9,082	134,478
Nonmajor governmental funds	4,745	37	8,153	8,467	952	22,354
Internal service funds	1,339	--	--	--	--	1,339
Allowance for doubtful accounts	(61,421)	(22,642)	--	--	--	(84,063)
Total	$ 8,246	12,450	34,911	8,467	10,034	74,108

Municipal Court fines in the governmental activities, because of the nature of the fines, have a collection period greater than one year. Fines recognized that will not be collected during the subsequent year are estimated to be approximately $5.4 million.

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

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

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

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

Interfund Receivables, Payables -- During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds."

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

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

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Bond reserve	$ 2,001	--	--	--	2,001
Capital projects	16,275	43,470	72,245	80,614	212,604
Customer and escrow deposits	7,765	5,077	615	1,618	15,075
Debt service	84,855	40,830	15,108	5,754	146,547
Federal grants	--	--	3,642	4	3,646
Nuclear decommissioning	101,809	--	--	--	101,809
Nuclear fuel inventory replacement	33,403	--	--	--	33,403
Operating reserve account	--	--	6,901	2,423	9,324
Passenger facility charge account	--	--	10,718	--	10,718
Renewal and replacement account	--	--	10,000	1,415	11,415
	$ 246,108	89,377	119,229	91,828	546,542

Designated assets -- Designated assets are funds that have been appropriated by City Council action and are intended for specific purposes. They are not constrained by creditors, grantors, contributors, or laws or regulations of other governments nor are they constrained by law through constitutional provisions or enabling legislation.

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

(1) Includes internal service funds

Depreciation of assets is classified by functional components. The City considers land, arts and treasures and library collections to be inexhaustible; and therefore, these assets are reported as nondepreciable. The true value of arts and treasures and library collections is expected to be maintained over time and, thus, is not depreciated. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure assets ($35.8 million).

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

City policies provide for the following amounts to be paid at termination: accumulated vacation pay with a maximum of six weeks and accumulated sick leave with a maximum of ninety days. Sick leave accumulated in excess of ninety days or by employees hired on or after October 1, 1986 is not payable at termination and is not included in these financial statements.

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

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

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

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

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

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

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

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

Electric Fund	$	7,732
Water and Wastewater Fund		1,199
Airport		19
Nonmajor Enterprise Funds		1,361

Electric, water and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred. The City reported fuel costs on the same basis as it recognized revenue in 2003 and prior years. Austin Energy recorded unbilled revenue as earned based upon taking each day's power generation and using the billing district read dates to estimate what percentage was billed as of September 30, 2004 and what percentage will be billed thereafter over the days since the last meter read, on a billing cycle basis. The amount of unbilled revenue recorded as of September 30, 2004 for Austin Energy was $38.2 million. Austin Water recorded unbilled revenue as earned based upon an extrapolation of customer usage from the prior year, over the days since the last meter read, on an aggregate basis. The amount of unbilled revenue recorded as of September 30, 2004 for Austin Water was $16.3 million.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Interfund Revenues, Expenses and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds.

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

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

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

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

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

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

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

Special Items -- These are significant transactions or events within the control of the City that are either unusual in nature or infrequent in occurrence. On September 13, 2004, the City Council approved a transfer in the amount of $10.7 million to the Travis County Hospital District as a portion of an initial reserve established by the District. Although the cash was transferred on October 1, 2004, the special item and associated liability were recognized in fiscal year 2004. The total $10.7 million consists of $7.7 million from the General Fund and $3 million from Primary Care (which is reported as a nonmajor enterprise fund).

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts, including medical malpractice; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. The City continues to be self-insured for liabilities for most health benefits, third-party and workers' compensation claims.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

f -- Comparative Data

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

g -- Use of Estimates

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

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balances of the City's governmental funds, $309 million, differ from the net assets of governmental activities, $1,439 million, reported in the statement of net assets. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds		$ 309,191
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	2,576,499	
Less: accumulated depreciation	(584,734)	
Total		1,991,765
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	11,800	
Deferred costs and expenses	3,226	
Total		15,026
Long-term liabilities are not payable in the current period and are not reported in the funds.		
Bonds and other tax supported debt payable, net	(836,152)	
Pension obligation payable	(3,102)	
Capital lease obligations payable	(578)	
Compensated absences	(63,739)	
Interest payable	(3,447)	
Deferred credits and other liabilities	(23,466)	
Total		(930,484)
Internal service funds		53,006
Total net assets - Governmental activities		$ 1,438,504

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

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

The net change in fund balances of governmental funds, $36 million deficit, differs from the change in net assets for governmental activities, $90 million, reported in the statement of activities. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ (36,264)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets are depreciated over the estimated useful life of the asset.		
Capital outlay	157,140	
Depreciation expense	(61,112)	
Loss on disposal of capital assets	(1,672)	
Total		94,356
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(3,357)	
Charges for services	(6,553)	
Capital assets contribution	63,398	
Total		53,488
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		
Intergovernmental revenue	(12,728)	
Total		(12,728)
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(70,040)	
Principal repayment on long-term debt	48,862	
Deferral of debt issue costs	(24)	
Total		(21,202)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(1,924)	
Pension obligation	(3,102)	
Interest and other	6,403	
Total		1,377
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		11,350
Change in net assets - Governmental activities		$ 90,377

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2004, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers or debt issues.

Nonmajor Governmental	Deficit (in thousands)		Deficit (in thousands)
Special Revenue Funds:		**Internal Service Funds:**	
Fiscal Surety - Land Development	$ 77	CTECC	384
		Liability Reserve	775
Capital Projects Funds:			
Energy improvements - city facilities	82		
Parks/Old Bakery	184		
Police facilities	14		
Radio Trunking	5,820		
Parks - 1992	225		
Build Austin	25		
Central City Entertainment Center	1		
Capital reserve	965		
Public Works	19		
City Hall, plaza, parking garage	2,913		
Interest income fund	595		

4 – POOLED INVESTMENTS AND CASH

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

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
General Fund	$ 97,002	--
Nonmajor governmental funds	187,228	--
Electric	55,574	58,227
Water and Wastewater	8,341	42,672
Airport	--	88,286
Nonmajor enterprise funds	52,030	86,070
Internal service funds	88,783	--
Fiduciary funds	4,096	--
Subtotal pooled investments and cash	493,054	275,255
Total pooled investments and cash	$ 768,309	

5 – INVESTMENTS AND DEPOSITS

a -- Investments

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

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

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

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAm and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At September 30, 2004 TexPool and TexasDAILY had a weighted average maturity of 23 days and 43 days, respectively. Although the TexPool and TexasDAILY portfolios had a weighted average maturity of 23 days and 43 days, respectively, the City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

5 – INVESTMENTS AND DEPOSITS, continued

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2004.

All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all non-pooled and pooled investment types of the City at September 30, 2004 (in thousands).

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 13,477	143,848	--	157,325
US Agency Discount Notes	--	14,883	--	14,883
US Treasury Notes	--	98,275	--	98,275
US Agency Bonds	--	169,225	--	169,225
US Agency Bonds-Step	--	2,001	--	2,001
Total non-pooled investments	13,477	428,232	--	441,709
Pooled investments:				
Local Government Investment Pools	123,517	129,454	1,356	254,327
US Agency Discount Notes	36,257	38,025	398	74,680
US Treasury Notes	9,660	10,132	106	19,898
US Agency Bonds	205,346	213,375	2,234	420,955
US Agency Bonds-Step	2,421	2,539	26	4,986
Total pooled investments (1)	377,201	393,525	4,120	774,846
Total investments	$ 390,678	821,757	4,120	1,216,555

(1) A difference of $6.5 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

b -- Investment categories

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

1. Operating Funds excluding Special Projects or Special Purpose funds;
2. Debt Service Funds;
3. Special Projects Funds or Special Purpose Funds;

The City's investment policy seeks to control credit risk. Such risk shall be controlled by investing in compliance with the City's investment policy, qualifying the broker and financial institution with whom the City will transact, sufficient collateralization, portfolio diversification, and limiting maturity.

5 – INVESTMENTS AND DEPOSITS, continued

Operating Funds (excluding Special Projects or Special Purpose Funds)
As of September 30, 2004, the City of Austin's operating funds (excluding Special Projects or Special Purpose Funds) had the following investments:

	Fair Value (in thousands)				
Investment Type	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Weighted Average Maturity (days)
Local Government Invest Pools (LGIPs)	$ 123,517	129,454	1,356	254,327	1
US Agency Discount Notes	36,257	38,025	398	74,680	78
US Treasury Notes	9,660	10,132	106	19,898	329
US Agency Bonds	205,346	213,375	2,234	420,955	544
US Agency Bonds-Step	2,421	2,539	26	4,986	565
	$ 377,201	393,525	4,120	774,846	315

Credit Risk
As of September 30, 2004, the LGIPs (which represent approximately 33% of the portfolio) are rated AAAm by Standard and Poor's. The US Agency Discount Notes (which represent approximately 10% of the portfolio) are rated A-1+ by Standard and Poor's. The US Agency Bonds and US Agency Step Bonds (which represent approximately 55% of the portfolio) are rated AAA by Standard and Poor's. Approximately 2% of the portfolio consists of direct obligations of the US government.

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

At September 30, 2004, nearly a third of the Investment Pool was invested in AAAm rated LGIPs (2(a)-7 like pools), with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity for all securities was 315 days, which was less than the threshold of 365 days.

5 – INVESTMENTS AND DEPOSITS, continued

Debt Service Funds
As of September 30, 2004, the City of Austin's debt service funds had the following investments:

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

(1) Includes combined pledge debt service

Credit Risk
As of September 30, 2004, TexPool and TexasDAILY are rated AAAm by Standard and Poor's, and the Fannie Mae Agency Discount Notes are rated A-1+ by Standard and Poor's.

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

At September 30, 2004, portfolios in this category held investments in AAAm rated LGIPs and US Agencies with final maturities matching anticipated debt service requirements in October and/or November 2004.

Special Projects Funds
As of September 30, 2004, the City of Austin's Special Projects Funds had the following investments:

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

Credit Risk
As of September 30, 2004, TexPool is rated AAAm by Standard and Poor's. The Freddie Mac Discount Notes are rated A-1+ by Standard and Poor's, and the Federal Home Loan Bank Agency Bonds are rated AAA by Standard and Poor's.

5 – INVESTMENTS AND DEPOSITS, continued

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

At September 30, 2004, the portfolios held investments in a AAAm rated LGIP and US Agencies with maturities that meet anticipated cash flow requirements.

Special Purpose Funds
Austin Energy Debt Management Fund
As of September 30, 2004, the City of Austin's Special Purpose Fund (Austin Energy Debt Management Fund) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (days)
TexPool (LGIPs)	$ 6	1
US Treasuries	70,990	790
US Agencies	99,139	787
Total	$ 170,135	788

Credit Risk
At September 30, 2004, the Electric Utility Department Debt Management Fund had a minimal investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. The US Agency Bonds are rated AAA by Standard and Poor's. The remaining securities are direct obligations of the US government.

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

At September 30, 2004, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries and US Agencies with maturities that meet anticipated cash flow requirements and an overall dollar weighted average maturity of 788 days (2.16 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2004, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasuries	$ 27,285	2.47
US Agencies	70,086	2.39
US Agencies-Step	2,001	4.58
Total	$ 99,372	2.46

Credit Risk
As of September 30, 2004, the US Agency Bonds and US Agency Step Bonds are rated AAA by Standard and Poor's. The remaining securities are direct obligations of the US government.

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2004, the dollar weighted average maturity was 2.46 years.

5 – INVESTMENTS AND DEPOSITS, continued

Investments and deposits at September 30, 2004 are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and deposits	$ 17,369	436,546	--	453,915
Pooled investments and deposits	379,226	395,647	4,142	779,015
Total investments and deposits	396,595	832,193	4,142	1,232,930
Unrestricted deposits	3,892	55	--	3,947
Restricted deposits	--	8,259	--	8,259
Pooled deposits	2,025	2,122	22	4,169
Investments	390,678	821,757	4,120	1,216,555
Total investments and deposits	$ 396,595	832,193	4,142	1,232,930

A difference of $10.7 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

c -- Deposits

The September 30, 2004 carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash				
Unrestricted	$ 111	55	--	166
Cash held by trustee				
Unrestricted	3,781	--	--	3,781
Restricted	--	8,259	--	8,259
Pooled cash	2,025	2,122	22	4,169
Total deposits	$ 5,917	10,436	22	16,375

All bank accounts were either insured or collateralized with securities held by the City or by its agent in the City’s name at September 30, 2004.

6 – PROPERTY TAXES

The City’s property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2003, upon which the 2004 levy was based, was $48,964,275,008.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2004, 99.06% of the current tax levy (October 1, 2003) was collected. The statutory lien date is January 1.

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

6 – PROPERTY TAXES, continued

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

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2004, was $.3236 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.6764 per $100 assessed valuation, and could levy approximately $331,194,356 in additional taxes from the assessed valuation of $48,964,275,008 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

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

The City has recorded capitalized interest for fiscal year 2004 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Major fund:	
Airport	$ 953
Nonmajor enterprise funds:	
Convention Center	1,390
Drainage	1,113
Golf	67
Solid Waste Services	131

Interest is not capitalized on governmental capital assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Components of capital assets (in thousands)

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 232,953	280,377	513,330
Arts and treasures	4,811	1,359	6,170
Library collections	12,885	--	12,885
Total	250,649	281,736	532,385
Depreciable property, plant and equipment in service			
Building and improvements	355,580	1,959,528	2,315,108
Equipment	63,405	4,234,261	4,297,666
Vehicles	75,635	87,543	163,178
Infrastructure	1,435,360	--	1,435,360
Completed assets not classified	131,663	189,272	320,935
Total	2,061,643	6,470,604	8,532,247
Less accumulated depreciation for			
Building and improvements	(95,008)	(557,904)	(652,912)
Equipment	(30,520)	(1,688,281)	(1,718,801)
Vehicles	(43,851)	(50,633)	(94,484)
Infrastructure	(426,668)	--	(426,668)
Completed assets not classified	(11,375)	(8,889)	(20,264)
Total	(607,422)	(2,305,707)	(2,913,129)
Net property, plant and equipment in service	1,454,221	4,164,897	5,619,118
Other capital assets not depreciated			
Construction in progress	327,419	679,559	1,006,978
Nuclear fuel, net of amortization	--	17,933	17,933
Plant held for future use	--	30,745	30,745
Total capital assets	$ 2,032,289	5,174,870	7,207,159

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 195,274	37,679	--	232,953
Arts and treasures	4,785	26	--	4,811
Library collections	12,880	5	--	12,885
Total	212,939	37,710	--	250,649
Depreciable property, plant and equipment in service				
Building and improvements	310,174	45,406	--	355,580
Equipment	50,253	14,251	(1,099)	63,405
Vehicles	74,447	4,461	(3,273)	75,635
Infrastructure	1,308,273	127,087	--	1,435,360
Completed assets not classified	108,595	31,383	(8,315)	131,663
Total	1,851,742	222,588	(12,687)	2,061,643
Less accumulated depreciation for				
Building and improvements	(84,558)	(10,450)	--	(95,008)
Equipment	(23,938)	(7,398)	816	(30,520)
Vehicles	(38,791)	(8,152)	3,092	(43,851)
Infrastructure	(389,336)	(37,332)	--	(426,668)
Completed assets not classified	(13,299)	--	1,924	(11,375)
Total	(549,922)	(63,332) (2)	5,832	(607,422)
Net property, plant and equipment in service	1,301,820	159,256	(6,855)	1,454,221
Other capital assets not depreciated				
Construction in progress	353,951	154,798	(181,330)	327,419
Total capital assets	$ 1,868,710	351,764	(188,185)	2,032,289

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

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

Governmental activities:	
General government	$ 2,043
Public safety	9,966
Transportation, planning and sustainability	3,293
Public health	1,428
Public recreation and culture	7,181
Urban growth management	1,368
Unallocated depreciation expense - infrastructure	35,833
Internal service funds	2,220
Total accumulated depreciation	$ 63,332

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 34,942	2,670	--	37,612
Total	34,942	2,670	--	37,612
Depreciable property, plant and equipment in service				
Building and improvements	601,793	19,795	--	621,588
Equipment	2,302,680	286,217	(12,330)	2,576,567
Vehicles	19,319	1,791	(679)	20,431
Completed assets not classified	27,617	866	(7,030)	21,453
Total	2,951,409	308,669	(20,039)	3,240,039
Less accumulated depreciation for				
Building and improvements	(250,556)	(17,861)	--	(268,417)
Equipment	(1,020,307)	(76,631)	9,750	(1,087,188)
Vehicles	(14,919)	(661)	679	(14,901)
Completed assets not classified	(2,893)	(874)	--	(3,767)
Total	(1,288,675)	(96,027) (1)	10,429	(1,374,273)
Net property, plant and equipment in service	1,662,734	212,642	(9,610)	1,865,766
Other capital assets not depreciated				
Construction in progress	359,749	160,070	(298,240)	221,579
Nuclear fuel, net of amortization	21,805	--	(3,872)	17,933
Plant held for future use	31,379	--	(634)	30,745
Total capital assets	$ 2,110,609	375,382	(312,356)	2,173,635

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 95,525
Adjustment to accumulated depreciation	502
Total accumulated depreciation	$ 96,027

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 136,173	1,007	(443)	136,737
Total	136,173	1,007	(443)	136,737
Depreciable property, plant and equipment in service				
Building and improvements	343,874	42,300	--	386,174
Equipment	1,508,381	106,480	(423)	1,614,438
Vehicles	20,988	609	(820)	20,777
Completed assets not classified	248,413	--	(102,710)	145,703
Total	2,121,656	149,389	(103,953)	2,167,092
Less accumulated depreciation for				
Building and improvements	(103,580)	(8,533)	--	(112,113)
Equipment	(536,353)	(40,623)	418	(576,558)
Vehicles	(13,611)	(1,152)	819	(13,944)
Completed assets not classified	(4,640)	--	--	(4,640)
Total	(658,184)	(50,308) (2)	1,237	(707,255)
Net property, plant and equipment in service	1,463,472	99,081	(102,716)	1,459,837
Other capital assets not depreciated				
Construction in progress	232,170	161,901	(22,898)	371,173
Total capital assets	$ 1,831,815	261,989	(126,057)	1,967,747

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 24,412
Wastewater	25,896
Total accumulated depreciation	$ 50,308

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 58,690	--	--	58,690
Arts and treasures	459	296	--	755
Total	59,149	296	--	59,445
Depreciable property, plant and equipment in service				
Building and improvements	575,013	24,439	--	599,452
Equipment	14,704	1,413	(387)	15,730
Vehicles	3,722	377	(37)	4,062
Completed assets not classified	21,796	--	(18,976)	2,820
Total	615,235	26,229	(19,400)	622,064
Less accumulated depreciation for				
Building and improvements	(78,768)	(14,794)	--	(93,562)
Equipment	(5,523)	(927)	210	(6,240)
Vehicles	(1,969)	(333)	37	(2,265)
Completed assets not classified	(323)	--	323	--
Total	(86,583)	(16,054) (1)	570	(102,067)
Net property, plant and equipment in service	528,652	10,175	(18,830)	519,997
Other capital assets not depreciated				
Construction in progress	19,368	11,883	(7,775)	23,476
Total capital assets	$ 607,169	22,354	(26,605)	602,918

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 16,054
Total accumulated depreciation	$ 16,054

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 40,795	6,601	(58)	47,338
Arts and treasures	268	336	--	604
Total	41,063	6,937	(58)	47,942
Depreciable property, plant and equipment in service				
Building and improvements	341,862	11,077	(625)	352,314
Equipment	22,762	4,970	(207)	27,525
Vehicles	40,390	3,986	(2,102)	42,274
Completed assets not classified	30,611	21	(11,336)	19,296
Total	435,625	20,054	(14,270)	441,409
Less accumulated depreciation for				
Building and improvements	(75,093)	(8,721)	2	(83,812)
Equipment	(16,585)	(1,804)	94	(18,295)
Vehicles	(17,844)	(3,617)	1,938	(19,523)
Completed assets not classified	(760)	--	278	(482)
Total	(110,282)	(14,142) (1)	2,312	(122,112)
Net property, plant and equipment in service	325,343	5,912	(11,958)	319,297
Other capital assets not depreciated				
Construction in progress	49,870	28,457	(14,996)	63,331
Nuclear fuel, net of amortization	--	--	(0)	(0)
Plant held for future use	--	--	0	0
Total capital assets	$ 416,276	41,306	(27,012)	430,570

(1) Components of accumulated depreciation increases:	
Current year depreciation	
Convention Center	$ 6,445
Other nonmajor enterprise funds	7,666
Adjustment to accumulated depreciation	31
Total accumulated depreciation	$ 14,142

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 270,600	10,278	(501)	280,377
Arts and treasures	727	632	--	1,359
Total	271,327	10,910	(501)	281,736
Depreciable property, plant and equipment in service				
Building and improvements	1,862,542	97,611	(625)	1,959,528
Equipment	3,848,527	399,145	(13,411)	4,234,261
Vehicles	84,419	6,763	(3,639)	87,543
Completed assets not classified	328,437	887	(140,052)	189,272
Total	6,123,925	504,406	(157,727)	6,470,604
Less accumulated depreciation for				
Building and improvements	(507,997)	(49,909)	2	(557,904)
Equipment	(1,578,768)	(119,985)	10,472	(1,688,281)
Vehicles	(48,343)	(5,763)	3,473	(50,633)
Completed assets not classified	(8,616)	(874)	601	(8,889)
Total	(2,143,724)	(176,531) (2)	14,548	(2,305,707)
Net property, plant and equipment in service	3,980,201	327,875	(143,179)	4,164,897
Other capital assets not depreciated				
Construction in progress	661,157	362,311	(343,909)	679,559
Nuclear fuel, net of amortization	21,805	--	(3,872)	17,933
Plant held for future use	31,379	--	(634)	30,745
Total capital assets	$ 4,965,869	701,096	(492,095)	5,174,870

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

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

Business-type activities:	
Electric	$ 95,525
Water	24,412
Wastewater	25,896
Airport	16,054
Convention Center	6,445
Other nonmajor enterprise funds	7,666
Total business-type activities depreciation expense	175,998
Adjustment to accumulated depreciation	533
Total increases in accumulated depreciation	$ 176,531

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are City-wide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2003. Membership in the plans at December 31, 2003 is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,619	338	392	4,349
Current employees	7,432	1,406	969	9,807
Total	11,051	1,744	1,361	14,156

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

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

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

8 – RETIREMENT PLANS, continued

b -- Funding Policy

	City of Austin Employees' Retirement and Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	9.0%	13.7% until June 2003; 15.7% thereafter
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers and Fire Fighters plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2004, are as follows (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
City	$	25,268	14,358	9,835	49,461
Employees		25,218	7,179	8,554	40,951
Total contributions	$	50,486	21,537	18,389	90,412

c -- Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost of $55,367,000 for fiscal year ended September 30, 2004, was $5,906,000 more than the City’s actual contributions. Three-year trend information is as follows (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):					
2002	$	25,986	12,160	9,089	47,235
2003		26,093	13,626	9,608	49,327
2004		31,174	14,358	9,835	55,367
Percentage of APC contributed:					
2002		100%	100%	100%	N/A
2003		100%	100%	100%	N/A
2004		81%	100%	100%	N/A
Net Pension Obligation:					
2002	$	--	--	--	--
2003		--	--	--	--
2004		5,906	--	--	5,906

8 – RETIREMENT PLANS, continued

The latest actuarial valuations were completed as of December 31, 2003. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.5%	4%	4.5%
Projected Annual Salary Increases	4% to 14%	6.8% average	6.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	Infinite	28.6 years	33.7 years

d -- Trend Information (Unaudited)

Information pertaining to the latest actuarial valuations for each Plan is as follows (in thousands):

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1995	$ 707,300	623,000	(84,300)	113.5%	221,000	(38.1%)
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
Police Officers						
1995	$ 127,572	164,865	37,293	77.4%	36,211	103.0%
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
Fire Fighters						
1995	$ 213,403	236,994	23,591	90.0%	32,496	72.6%
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%
2003	421,136	452,669	31,533	93.0%	55,939	56.4%

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

9 – SELECTED REVENUES

a -- Governmental Funds - General Fund

Hospital lease payments
Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton") to operate City-owned Brackenridge Hospital. This lease agreement qualifies as an operating lease for accounting purposes.

The lease agreement specifies a minimum lease payment in addition to a supplemental rent payment based on approximately 46% of net disproportionate share revenue proceeds. In fiscal year 2004, General Fund revenues included minimum lease payments of $1.3 million and additional rent of $12.2 million.

In March 2004, the Austin Women's Hospital began operations. The facility is a separately licensed facility located on the 5th floor of Brackenridge Hospital. The City has entered into an agreement with the University of Texas Medical Branch at Galveston to operate the facility. Total construction costs were approximately $9.3 million; approximately $6.8 million of these costs were related to enhancing the capacity of OB services related to Brackenridge, in addition to providing certain reproductive services that Seton is not capable of performing. The remaining $2.5 million of costs were related to licensing requirements. Construction costs will be amortized over the remaining life of the original lease agreement with Seton, which has approximately twenty-two years remaining. For further information, please refer to the Subsequent Events Note (Note 16).

b -- Major enterprise funds

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

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. At September 30, City management had decided not to enter the retail market, as allowed by State law. Because the effects of entering retail competition are uncertain, a change in accounting policy is not warranted at this time.

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

Airport
The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2004, the Airport Fund revenues included minimum concession guarantees of $8,251,503.

9 – SELECTED REVENUES, continued

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to thirty years for the Airport Fund as of September 30, 2004 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2005	$ 7,609
2006	7,194
2007	7,021
2008	6,719
2009	4,533
2010-2014	811
2015-2019	392
2020-2024	392
2025-2029	392
2030-2034	65
Totals	$ 35,128

10 – DEBT AND NON-DEBT LIABILITIES

a -- Long-Term Liabilities

The following is a summary of long-term liabilities. Balances at September 30, 2004 are (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 738,533	20,240	758,773
Certificates of obligation	91,021	58,616	149,637
Contractual obligations	33,970	14,575	48,545
Other tax supported debt	--	10,369	10,369
General obligation bonds and other tax supported debt total	863,524	103,800	967,324
Commercial paper notes	--	315,616	315,616
Revenue notes	--	28,000	28,000
Revenue bonds	--	2,969,758	2,969,758
Contract revenue bonds	--	13,740	13,740
Capital lease obligations	813	12,753	13,566
Debt service requirements total	864,337	3,443,667	4,308,004
Other long-term obligations			
Accrued compensated absences	70,456	20,110	90,566
Claims payable	27,440	--	27,440
Accrued landfill closure and postclosure costs	--	7,612	7,612
Decommissioning expense payable	--	100,019	100,019
Pension obligation payable	3,102	2,804	5,906
Deferred credits and other liabilities	81,895	527,297	609,192
	182,893	657,842	840,735
Total long-term obligations	$ 1,047,230	4,101,509	5,148,739

This schedule excludes short-term liabilities of $48,781 for governmental activities and $221,008 for business-type activities and long-term interest payable of $166,868 for business-type activities.

Payments on bonds payable for governmental activities will be made in the General Obligation Debt Service Funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund and Special Revenue Funds. Claims payable will be liquidated by Internal Service Funds. Deferred credits and other liabilities that pertain to governmental activities will be liquidated by the General Fund, Special Revenue Funds, and General Government Capital Improvement Projects Funds.

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2004 are (in thousands):

Description	September 30, 2003	Increases	Decreases	September 30, 2004	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 708,200	70,293	(39,960)	738,533	41,470
Certificates of obligation	95,328	600	(4,907)	91,021	5,034
Contractual obligations	26,230	13,950	(6,210)	33,970	6,162
General obligation bonds and other tax supported debt total	829,758	84,843	(51,077)	863,524	52,666
Capital lease obligations	793	343	(323)	813	475
Debt service requirements total	830,551	85,186	(51,400)	864,337	53,141
Other long-term obligations					
Accrued compensated absences	69,243	2,878	(1,665)	70,456	30,719
Claims payable	34,748	12,653	(19,961)	27,440	18,595
Pension obligation payable	--	3,102	--	3,102	--
Deferred credits and other liabilities	75,923	44,094	(38,122)	81,895	56,594
Governmental activities total	1,010,465	147,913	(111,148)	1,047,230	159,049
Business-type activities:					
Electric activities					
General obligation bonds	1,326	--	(6)	1,320	5
Contractual obligations	2,001	--	(439)	1,562	485
General obligation bonds and other tax supported debt total	3,327	--	(445)	2,882	490
Commercial paper notes	54,672	40,312	--	94,984	--
Revenue bonds, net	1,410,965	--	(152,264)	1,258,701	89,949
Capital lease obligations	9,107	127	(2,048)	7,186	1,983
Debt service requirements total	1,478,071	40,439	(154,757)	1,363,753	92,422
Other long-term obligations					
Accrued compensated absences	9,766	1,228	(1,572)	9,422	6,799
Decommissioning expense payable	90,687	9,332	--	100,019	--
Pension obligation payable	--	1,260	--	1,260	--
Deferred credits and other liabilities	86,613	14,043	(16,329)	84,327	12,807
Electric activities total	1,665,137	66,302	(172,658)	1,558,781	112,028
Water and Wastewater activities					
General obligation bonds, net	7,504	--	(1,460)	6,044	1,473
Contractual obligations	5,639	3,780	(1,632)	7,787	1,779
Other tax supported debt, net	11,527	--	(1,158)	10,369	1,095
General obligation bonds and other tax supported debt total	24,670	3,780	(4,250)	24,200	4,347
Commercial paper notes	73,812	146,820	--	220,632	--
Revenue bonds, net	1,199,630	124,931	(188,701)	1,135,860	40,796
Contract revenue bonds, net	16,177	--	(2,437)	13,740	2,035
Capital lease obligations	5,796	62	(1,035)	4,823	1,109
Debt service requirements total	1,320,085	275,593	(196,423)	1,399,255	48,287
Other long-term obligations					
Accrued compensated absences	4,863	393	(541)	4,715	3,435
Pension obligation payable	--	648	--	648	--
Deferred credits and other liabilities	410,889	23,875	(1,173)	433,591	5,557
Water and Wastewater activities total	1,735,837	300,509	(198,137)	1,838,209	57,279

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

Business-type activities (continued):

Description	September 30, 2003	Increases	Decreases	September 30, 2004	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	529	--	(64)	465	45
Contractual obligations	183	--	(68)	115	64
General obligation bonds and other tax supported debt total	712	--	(132)	580	109
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	357,262	52,802	(58,418)	351,646	7,650
Capital lease obligations	22	483	(11)	494	173
Debt service requirements total	385,996	53,285	(58,561)	380,720	7,932
Other long-term obligations					
Accrued compensated absences	1,362	222	(206)	1,378	1,116
Pension obligation payable	--	229	--	229	--
Deferred credits and other liabilities	7,136	--	(814)	6,322	1,883
Airport activities total	394,494	53,736	(59,581)	388,649	10,931
Nonmajor activities					
General obligation bonds, net	13,660	--	(1,249)	12,411	1,650
Certificates of obligation, net	34,701	25,491	(1,576)	58,616	2,371
Contractual obligations	1,817	4,100	(806)	5,111	720
General obligation bonds and other tax supported debt total	50,178	29,591	(3,631)	76,138	4,741
Revenue bonds, net	234,046	53,859	(64,354)	223,551	3,520
Capital lease obligations	240	142	(132)	250	157
Debt service requirements total	284,464	83,592	(68,117)	299,939	8,418
Other long-term obligations					
Accrued compensated absences	4,928	636	(969)	4,595	4,072
Accrued landfill closure and postclosure costs	7,370	242	--	7,612	--
Pension obligation payable	--	667	--	667	--
Deferred credits and other liabilities	2,657	403	(3)	3,057	3,057
Nonmajor activities total	299,419	85,540	(69,089)	315,870	15,547
Total business-type activities					
General obligation bonds, net	23,019	--	(2,779)	20,240	3,173
Certificates of obligation, net	34,701	25,491	(1,576)	58,616	2,371
Contractual obligations	9,640	7,880	(2,945)	14,575	3,048
Other tax supported debt, net	11,527	--	(1,158)	10,369	1,095
General obligation bonds and other tax supported debt total	78,887	33,371	(8,458)	103,800	9,687
Commercial paper notes	128,484	187,132	--	315,616	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,201,903	231,592	(463,737)	2,969,758	141,915
Contract revenue bonds	16,177	--	(2,437)	13,740	2,035
Capital lease obligations	15,165	814	(3,226)	12,753	3,422
Debt service requirements total	3,468,616	452,909	(477,858)	3,443,667	157,059
Other long-term obligations					
Accrued compensated absences	20,919	2,479	(3,288)	20,110	15,422
Accrued landfill closure and postclosure costs	7,370	242	--	7,612	--
Decommissioning expense payable	90,687	9,332	--	100,019	--
Pension obligation payable	--	2,804	--	2,804	--
Deferred credits and other liabilities	507,295	38,321	(18,319)	527,297	23,304
Business-type activities total	4,094,887	506,087	(499,465)	4,101,509	195,785
Total long-term liabilities	$ 5,105,352	654,000	(610,613)	5,148,739	354,834

This schedule excludes short-term liabilities of $48,781 for governmental activities and $221,008 for business-type activities and long-term interest payable of $166,868 for business-type activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Governmental Activities Long-Term Liabilities

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2004, including those reported in certain proprietary funds (in thousands):

	Date Issued	Original Issue	Amount Outstanding at September 30, 2004	Aggregate Interest Requirements at September 30, 2004		Interest Rates of Debt Outstanding at September 30, 2004	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	39,255	6,045	(1)	5.60 - 5.75%	9/1/2005-2009
Series 1995	October 1995	30,250	1,885	138	(1)	7.30%	9/1/2005
Series 1995	October 1995	8,660	420	20	(1)	4.75%	9/1/2005
Series 1996	October 1996	30,550	8,160	1,791	(1)	5.00 - 6.00%	9/1/2005-2009
Series 1997	October 1997	29,295	28,215	12,773	(1)	5.00 - 5.75%	9/1/2005-2017
Series 1997	October 1997	13,975	1,155	26	(2)	4.50%	11/1/2004
Series 1997	October 1997	2,120	1,610	637	(1)	4.60 - 5.25%	9/1/2005-2017
Series 1998	January 1998	110,300	104,590	34,000	(1)	4.60 - 5.25%	9/1/2005-2016
Assumed MUD Debt	December 1997	33,680	12,037	5,892	(3)	4.40 - 10.50%	11/15/2004-2018
Series 1998	October 1998	13,430	13,030	5,871	(1)	4.40 - 7.13%	9/1/2005-2018
Series 1998	October 1998	22,770	18,455	7,291	(1)	4.10 - 4.75%	9/1/2005-2018
Series 1998	October 1998	14,975	4,340	177	(2)	4.00%	11/1/2004-2005
Series 1999	October 1999	51,100	50,390	29,410	(1)	4.50- 5.75%	9/1/2005-2019
Series 1999	October 1999	10,335	4,130	299	(2)	4.75%	11/1/2004-2006
Series 1999	October 1999	5,590	4,670	2,263	(1)	5.00 - 6.00%	9/1/2005-2019
Series 2000	October 2000	52,930	51,045	32,178	(1)	4.40 - 6.00%	9/1/2005-2020
Series 2000	October 2000	6,060	5,320	2,715	(1)	5.00 - 5.38%	9/1/2005-2020
Series 2001	June 2001	123,445	62,995	16,040	(1)	4.75 - 5.50%	9/1/2005-2022
Series 2001	October 2001	79,650	78,685	41,089	(1)	4.00 - 5.25%	9/1/2005-2021
Series 2001	October 2001	2,650	1,825	173	(2)	3.00 - 3.88%	11/1/2004-2008
Series 2001	October 2001	65,335	56,750	22,013	(1)	4.38 - 5.25%	9/1/2005-2021
Series 2002	July 2002	12,190	12,190	4,507	(1)	3.00 - 5.00%	3/1/2005-2017
Series 2002	July 2002	2,495	2,130	258	(1)	4.00 - 5.00%	3/1/2005-2009
Series 2002	September 2002	99,615	99,100	48,053	(1)	2.50 - 5.00%	9/1/2005-2022
Series 2002	September 2002	8,690	7,130	690	(2)	2.50 - 4.00%	11/1/2004-2009
Series 2002	September 2002	34,095	31,950	15,822	(1)	2.50 - 5.38%	9/1/2005-2022
Series 2003	June 2003	62,585	58,150	10,743	(1)	2.25 - 5.00%	9/1/2006-2013
Series 2003	September 2003	68,855	68,555	37,677	(1)	2.00 - 5.00%	9/1/2006-2023
Series 2003A	September 2003	2,530	2,325	623	(1)	4.00 - 5.00%	9/1/2005-2013
Series 2003	September 2003	4,450	4,310	2,183	(1)	4.00 - 4.80%	9/1/2005-2023
Series 2003	September 2003	8,610	8,135	833	(2)	2.00 - 3.38%	11/1/2004-2010
Series 2004	September 2004	67,835	67,835	37,244	(1)	3.00 - 5.00%	9/1/2007-2024
Series 2004A	September 2004	2,430	2,430	724	(1)	4.00 - 4.75%	9/1/2006-2014
Series 2004	September 2004	25,000	25,000	14,462	(1)	2.00 - 5.00%	9/1/2005-2024
Series 2004	September 2004	21,830	21,830	2,622	(2)	1.85 - 3.35%	5/1/2005-2011
			$ 960,032				

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid four times a year on March 1, May 15, September 1, and November 15.

10 – DEBT AND NON-DEBT LIABILITIES, continued

In September 2004, the City issued Public Improvement and Refunding Bonds, Series 2004, in the amount of $67,835,000. The proceeds from the issue will be used as follows: street improvements ($35,503,000); right of way acquisition and utility relocation ($15,000,000); parks and recreation facilities ($11,532,000); libraries ($2,875,000); and to refund a court settlement ($2,925,000). These bonds will be amortized serially on September 1 of each year from 2007 to 2024. Certain of these bonds are callable beginning September 1, 2014. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these bonds, at rates ranging from 3% to 5%, are $37,244,485.

In September 2004, the City issued Public Improvement Refunding Bonds, Taxable Series 2004A, in the amount of $2,430,000. Proceeds from the issue will be used to finance certain payment obligations relating to the City's liability under a settlement agreement. These bonds will be amortized serially on September 1 of each year from 2006 to 2014. These bonds are not subject to optional redemption prior to maturity. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these bonds, at rates ranging from 4% to 4.75%, are $723,615.

In September 2004, the City issued Certificates of Obligation, Series 2004, in the amount of $25,000,000. The proceeds from the issue will be used as follows: convention center garage ($16,400,000); School for the Deaf renovation ($600,000); and closed landfill remediation at Mabel Davis Park ($8,000,000). These certificates of obligation will be amortized serially on September 1 of each year from 2005 to 2024. Certain of these obligations are callable beginning September 1, 2014. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these obligations, at rates ranging from 2% to 5%, are $14,462,050.

In September 2004, the City issued Public Property Finance Contractual Obligations, Series 2004, in the amount of $21,830,000. The proceeds from the issue will be used as follows: systems backup and enhancements ($500,000); communications technology upgrades ($11,420,000); public works capital equipment ($2,100,000); Solid Waste Services capital equipment ($2,000,000); fire capital equipment ($2,030,000); and capital equipment vehicles ($3,780,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2005 to 2011. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2005. These contractual obligations are not subject to optional redemption prior to maturity. The total interest requirements for these obligations, at rates ranging from 1.85% to 3.35%, are $2,622,163.

General obligation bonds authorized and unissued amounted to $123,275,000 at September 30, 2004. Bond ratings at September 30, 2004, were Aa2 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's) and AA+ (Fitch).

c -- Business -Type Activities Long-Term Liabilities

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

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

The total Combined Utility Systems revenue bond obligations at September 30, 2004, exclusive of discounts, premiums and loss on refundings consist of $929,104,135 prior lien bonds and $253,444,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $862,408,727 at September 30, 2004. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2004 for the prior lien and subordinate lien bonds were, respectively, A2 and A2 (Moody's Investor Services, Inc.), A+ and A (Standard & Poor's), and A+ and A+ (Fitch).

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1990B Refunding	February 1990	$ 236,009	3,668
1992 Refunding	March 1992	265,806	30,116
1992A Refunding	May 1992	351,706	108,111
1993 Refunding	February 1993	203,166	88,841
1993A Refunding	June 1993	263,410	35,029
1994 Refunding	October 1994	142,559	26,894
1995 Refunding	June 1995	151,770	4,000
1996AB Refunding	September 1996	249,235	227,940
1997 Refunding	August 1997	227,215	218,210
1998 Refunding	August 1998	180,000	169,575
1998A Refunding	August 1998	123,020	16,720
1998 Refunding	November 1998	139,965	139,730
1998A Refunding	November 1998	105,350	105,350
1998B	November 1998	10,000	8,365
			$ 1,182,549

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2004 were P-1 (Moody's Investor Services, Inc.), A-1 (Standard & Poor's), and F1+ (Fitch). The notes will be in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2004, the Electric Fund had outstanding commercial paper notes of $94,984,000 and the Water and Wastewater Fund had $220,632,000, of commercial paper notes outstanding. Interest rates on the notes range from 1.11% to 1.64%, adjusted daily, and subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes, (the "taxable notes"), in an aggregate principal amount not to exceed $50,000,000 outstanding at any one time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2004 were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

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

At September 30, 2004, the Electric Fund and the Water and Wastewater Fund had no taxable notes outstanding.

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

Electric Utility System Revenue Debt -- Revenue Bond Defeasance - In August 2004 the City defeased $84,328,789 of the City's outstanding Combined Utility System Prior Lien Revenue Refunding Bonds, Series 1993 and Series 1993A issued for the Electric Utility System. A total of $87,928,103 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligations for the defeased debt and the liability has been removed from the financial statements. The City recognized an accounting loss of $17,008,036 on this defeasance.

Bond ratings at September 30, 2004 were A3 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
2001 Refunding	February 2001	$ 126,700	126,200
2002 Refunding	March 2002	74,750	74,750
2002A Refunding	August 2002	172,880	159,085
2003 Refunding	March 2003	182,100	182,100
			$ 542,135

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

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues - In August 2004, the City issued Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004, in an aggregate principal amount of $132,475,000. Proceeds from the variable rate bond refunding were used to refund $126,605,000 of the City's outstanding Combined Utility System Revenue Refunding Bonds, Series 1993, Series 1993A, Series 1994, and Subordinate Lien Revenue Bonds, Series 1994 issued for the Water and Wastewater Utility System. The debt service requirements on the variable rate refunding bonds were $187,919,782 with interest calculated using a constant rate of 3.66%. During fiscal year 2004, interest rates on the bonds ranged from 1.30% to 1.70%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 12%. The City realized an economic gain of $17,385,292 on this transaction. The change in net cash flows that resulted was a decrease of $21,137,829. An accounting loss of $7,080,369, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on this refunding.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Water and Wastewater System Revenue Debt -- Revenue Bond Defeasance - In August 2004, the City defeased $46,446,211 of the City's outstanding Combined Utility System Prior Lien Revenue Refunding Bonds, Series 1992A, Series 1993 and Series 1993A issued for the Water and Wastewater Utility System. A total of $51,693,235 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligations for the defeased debt and the liability has been removed from the financial statements. The City recognized an accounting loss of $10,035,826 on this defeasance.

Bond ratings at September 30, 2004 were A2 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A+ (Fitch).

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
Maple Run MUD, 1992	May 1992	$ 17,955	9,130
Tanglewood Forest MUD, 1993	December 1993	1,350	145
North Austin MUD #1, 2003 RFD	August 2003	4,510	4,510
2000 Refunding	June 2000	100,000	98,500
2001A Refunding	June 2001	152,180	149,680
2001B Refunding	June 2001	73,200	72,000
2001C Refunding	December 2001	95,380	80,980
2002A Refunding	August 2002	139,695	132,400
2003 Refunding	March 2003	121,500	121,500
2004 Refunding	August 2004	132,475	132,475
			$ 801,320

Airport -- Revenue Bonds - The City's Airport Fund issues Airport System revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. At September 30, 2004 the total Airport System obligation for prior lien bonds is $360,125,000 exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior lien bonds are $287,431,616 at September 30, 2004. Revenue bonds authorized and unissued amount to $735,795,000 at that date.

Airport System Revenue Debt -- Revenue Bond Refunding Issues - In December 2003, the City issued Airport System Prior Lien Revenue Refunding Bonds, Series 2003, in an aggregate principal amount of $54,250,000. Proceeds from the prior lien bond refunding were used to refund $52,290,000 of the City's outstanding Airport System Prior Lien Revenue Bonds, Series 1995A. The debt service requirements on the prior lien refunding bonds were $85,899,110. The City realized an economic gain of $3,132,423 on this transaction. The change in net cash flows that resulted was a decrease of $3,418,051. An accounting loss of $5,717,945, which will be deferred and amortized in accordance with GASB Statement No. 23, was recognized on this refunding. These bonds are callable beginning November 15, 2013.

Bond ratings at September 30, 2004 for the prior lien bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1989	September 1989	$ 30,000	1,000
1995A	August 1995	362,205	276,700
1995B Refunding	August 1995	31,040	28,175
2003	December 2003	54,250	54,250
			$ 360,125

10 – DEBT AND NON-DEBT LIABILITIES, continued

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue Airport System variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2004, the Airport System had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $384,941, including accrued interest, at September 30, 2004 and was restricted within the Airport System. During fiscal year 2004, interest rates on the notes ranged from 0.90% to 1.73%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the Airport System.

The bond rating at September 30, 2004 for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

Nonmajor fund:
Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues Convention Center revenue bonds and Hotel Occupancy Tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2004 the total Convention Center obligation for prior and subordinate lien bonds is $228,140,000, exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $186,899,903 at September 30, 2004. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2004.

Convention Center Revenue Debt -- Revenue Bond Refunding Issues - In February 2004, the City issued Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004, in an aggregate principal amount of $52,715,000. Proceeds from the prior lien bond refunding were used to refund $60,960,000 of the City's outstanding Convention Center Prior Lien Revenue Bonds, Series 1993A. The debt service requirements on the revenue bonds were $79,004,526. The City realized an economic gain of $3,717,537 on this transaction. The change in net cash flows that resulted was a decrease of $11,462,427. An accounting loss of $2,601,339, which will be deferred and amortized in accordance with GASB Statement No. 23, was recognized on this refunding. These bonds are callable beginning November 15, 2013.

Bond ratings at September 30, 2004 for the revenue bonds were NUR (Moody's Investor Services, Inc.), NUR (Standard & Poor's), and NUR (Fitch).

The following table summarizes all Convention Center original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1999 Refunding	June 1999	$ 6,445	2,205
1999A	June 1999	25,000	24,570
1999 Refunding	September 1999	110,000	109,000
1999	November 1999	40,000	39,650
2004 Refunding	February 2004	52,715	52,715
			$ 228,140

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
2005	$ 41,470	35,346	5,034	4,335	6,162	844
2006	48,593	33,355	5,175	4,109	5,961	756
2007	48,539	30,963	5,456	3,877	4,766	597
2008	45,706	28,590	5,733	3,602	4,455	483
2009	43,553	26,423	6,053	3,330	4,538	360
2010-2014	224,725	99,701	31,133	12,063	8,088	353
2015-2019	186,712	48,623	23,516	5,659	--	--
2020-2024	90,723	10,192	8,921	777	--	--
	730,021	313,193	91,021	37,752	33,970	3,393
Less: Unamortized bond discounts	(382)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,041)	--	--	--	--	--
Add: Unamortized bond premiums	9,935	--	--	--	--	--
Net debt service requirements	738,533	313,193	91,021	37,752	33,970	3,393

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
2005	475	9	53,141	40,534	93,675
2006	286	6	60,015	38,226	98,241
2007	52	--	58,813	35,437	94,250
2008	--	--	55,894	32,675	88,569
2009	--	--	54,144	30,113	84,257
2010-2014	--	--	263,946	112,117	376,063
2015-2019	--	--	210,228	54,282	264,510
2020-2024	--	--	99,644	10,969	110,613
	813	15	855,825	354,353	1,210,178
Less: Unamortized bond discounts	--	--	(382)	--	(382)
Unamortized gain(loss) on bond refundings	--	--	(1,041)	--	(1,041)
Add: Unamortized bond premiums	--	--	9,935	--	9,935
Net debt service requirements	$ 813	15	864,337	354,353	1,218,690

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
2005	$ 5	69	485	47	94,984	91
2006	5	68	358	30	--	--
2007	53	68	202	19	--	--
2008	88	65	140	14	--	--
2009	98	60	146	11	--	--
2010-2014	588	222	231	8	--	--
2015-2019	483	57	--	--	--	--
Net debt service requirements	1,320	609	1,562	129	94,984	91

Fiscal Year Ended September 30	Revenue Bonds 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
2005	89,949	67,906	1,983	457	187,406	68,570	255,976
2006	75,905	63,057	1,960	332	78,228	63,487	141,715
2007	101,312	58,866	2,003	202	103,570	59,155	162,725
2008	87,063	59,036	29	61	87,320	59,176	146,496
2009	75,650	75,666	31	60	75,925	75,797	151,722
2010-2014	428,579	292,981	178	274	429,576	293,485	723,061
2015-2019	204,147	102,612	229	224	204,859	102,893	307,752
2020-2024	144,025	51,898	294	159	144,319	52,057	196,376
2025-2029	108,267	17,839	377	75	108,644	17,914	126,558
2030-2034	18,500	938	102	4	18,602	942	19,544
	1,333,397	790,799	7,186	1,848	1,438,449	793,476	2,231,925
Less: Unamortized bond discounts	(8,750)	--	--	--	(8,750)	--	(8,750)
Unamortized gain(loss) on bond refundings	(104,386)	--	--	--	(104,386)	--	(104,386)
Add: Unamortized bond premiums	38,440	--	--	--	38,440	--	38,440
Net debt service requirements	$ 1,258,701	790,799	7,186	1,848	1,363,753	793,476	2,157,229

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt Principal	Tax Supported Debt Interest
2005	$ 1,473	413	1,779	207	1,095	1,223
2006	854	340	1,671	170	864	1,189
2007	1,143	296	1,059	120	642	430
2008	789	237	853	93	594	401
2009	524	196	784	69	532	374
2010-2014	2,531	527	1,641	80	3,321	1,427
2015-2019	578	93	--	--	3,360	406
2020-2024	88	7	--	--	--	--
	7,980	2,109	7,787	739	10,408	5,450
Less: Unamortized bond discounts	(28)	--	--	--	(67)	--
Unamortized gain(loss) on bond refundings	(2,283)	--	--	--	--	--
Add: Unamortized bond premiums	375	--	--	--	28	--
Net debt service requirements	6,044	2,109	7,787	739	10,369	5,450

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds Principal	Revenue Bonds Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest
2005	220,632	222	40,796	54,053	2,035	670
2006	--	--	42,584	52,019	2,025	573
2007	--	--	44,095	50,378	2,170	466
2008	--	--	50,992	50,951	2,325	345
2009	--	--	47,567	58,673	2,475	216
2010-2014	--	--	260,858	277,273	2,755	75
2015-2019	--	--	269,391	259,816	--	--
2020-2024	--	--	215,497	87,440	--	--
2025-2029	--	--	171,042	34,082	--	--
2030-2034	--	--	36,000	2,709	--	--
	220,632	222	1,178,822	927,394	13,785	2,345
Less: Unamortized bond discounts	--	--	(10,264)	--	(26)	--
Unamortized gain(loss) on bond refundings	--	--	(56,652)	--	(55)	--
Add: Unamortized bond premiums	--	--	23,954	--	36	--
Net debt service requirements	$ 220,632	222	1,135,860	927,394	13,740	2,345

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Water and Wastewater Debt Service Requirements Principal	Interest	Total
2005	$ 1,109	335	268,919	57,123	326,042
2006	1,164	249	49,162	54,540	103,702
2007	1,225	155	50,334	51,845	102,179
2008	1,325	54	56,878	52,081	108,959
2009	--	--	51,882	59,528	111,410
2010-2014	--	--	271,106	279,382	550,488
2015-2019	--	--	273,329	260,315	533,644
2020-2024	--	--	215,585	87,447	303,032
2025-2029	--	--	171,042	34,082	205,124
2030-2034	--	--	36,000	2,709	38,709
	4,823	793	1,444,237	939,052	2,383,289
Less: Unamortized bond discounts	--	--	(10,385)	--	(10,385)
Unamortized gain(loss) on bond refundings	--	--	(58,990)	--	(58,990)
Add: Unamortized bond premiums	--	--	24,393	--	24,393
Net debt service requirements	$ 4,823	793	1,399,255	939,052	2,338,307

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest
2005	$ 45	23	64	4	--	484
2006	18	21	40	2	--	484
2007	49	20	11	--	--	484
2008	36	17	--	--	--	484
2009	31	16	--	--	--	484
2010-2014	168	52	--	--	--	2,420
2015-2019	95	12	--	--	28,000	1,699
2020-2024	6	1	--	--	--	--
	448	162	115	6	28,000	6,539
Less: Unamortized bond discounts	(1)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	9	--	--	--	--	--
Add: Unamortized bond premiums	9	--	--	--	--	--
Net debt service requirements	465	162	115	6	28,000	6,539

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Airport Debt Service Requirements Principal	Total Airport Debt Service Requirements Interest	Total Airport Debt Service Requirements Total
2005	7,650	21,169	173	13	7,932	21,693	29,625
2006	8,415	20,659	170	9	8,643	21,175	29,818
2007	7,720	20,180	151	4	7,931	20,688	28,619
2008	9,965	19,710	--	--	10,001	20,211	30,212
2009	10,535	19,167	--	--	10,566	19,667	30,233
2010-2014	63,100	85,875	--	--	63,268	88,347	151,615
2015-2019	88,530	63,915	--	--	116,625	65,626	182,251
2020-2024	111,835	33,501	--	--	111,841	33,502	145,343
2025-2029	52,375	3,256	--	--	52,375	3,256	55,631
	360,125	287,432	494	26	389,182	294,165	683,347
Less: Unamortized bond discounts	(6,022)	--	--	--	(6,023)	--	(6,023)
Unamortized gain(loss) on bond refundings	(6,790)	--	--	--	(6,781)	--	(6,781)
Add: Unamortized bond premiums	4,333	--	--	--	4,342	--	4,342
Net debt service requirements	$ 351,646	287,432	494	26	380,720	294,165	674,885

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

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
2005	$ 1,650	639	2,371	2,624	720	103
2006	1,636	563	2,150	2,539	730	116
2007	994	480	2,259	2,466	647	99
2008	1,261	433	2,372	2,378	641	85
2009	1,106	369	2,497	2,286	672	67
2010-2014	5,162	949	14,542	9,722	1,701	84
2015-2019	977	95	17,994	5,920	--	--
2020-2024	40	4	13,278	1,718	--	--
	12,826	3,532	57,463	29,653	5,111	554
Less: Unamortized bond discounts	(35)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(921)	--	--	--	--	--
Add: Unamortized bond premiums	541	--	1,153	--	--	--
Net debt service requirements	12,411	3,532	58,616	29,653	5,111	554

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds 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
2005	3,520	12,284	157	3	8,418	15,653	24,071
2006	3,830	12,077	80	1	8,426	15,296	23,722
2007	3,525	11,878	13	--	7,438	14,923	22,361
2008	5,815	11,669	--	--	10,089	14,565	24,654
2009	7,210	11,406	--	--	11,485	14,128	25,613
2010-2014	41,280	51,634	--	--	62,685	62,389	125,074
2015-2019	53,465	39,059	--	--	72,436	45,074	117,510
2020-2024	44,885	24,928	--	--	58,203	26,650	84,853
2025-2029	52,245	11,603	--	--	52,245	11,603	63,848
2030-2034	12,365	362	--	--	12,365	362	12,727
	228,140	186,900	250	4	303,790	220,643	524,433
Less: Unamortized bond discounts	(1,182)	--	--	--	(1,217)	--	(1,217)
Unamortized gain(loss) on bond refundings	(7,745)	--	--	--	(8,666)	--	(8,666)
Add: Unamortized bond premiums	4,338	--	--	--	6,032	--	6,032
Net debt service requirements	$ 223,551	186,900	250	4	299,939	220,643	520,582

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
2005	$ 3,173	1,144	2,371	2,624	3,048	361
2006	2,513	992	2,150	2,539	2,799	318
2007	2,239	864	2,259	2,466	1,919	238
2008	2,174	752	2,372	2,378	1,634	192
2009	1,759	641	2,497	2,286	1,602	147
2010-2014	8,449	1,750	14,542	9,722	3,573	172
2015-2019	2,133	257	17,994	5,920	--	--
2020-2024	134	12	13,278	1,718	--	--
	22,574	6,412	57,463	29,653	14,575	1,428
Less: Unamortized bond discounts	(64)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,195)	--	--	--	--	--
Add: Unamortized bond premiums	925	--	1,153	--	--	--
Net debt service requirements	20,240	6,412	58,616	29,653	14,575	1,428

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
2005	1,095	1,223	315,616	313	--	484
2006	864	1,189	--	--	--	484
2007	642	430	--	--	--	484
2008	594	401	--	--	--	484
2009	532	374	--	--	--	484
2010-2014	3,321	1,427	--	--	--	2,420
2015-2019	3,360	406	--	--	28,000	1,699
	10,408	5,450	315,616	313	28,000	6,539
Less: Unamortized bond discounts	(67)	--	--	--	--	--
Add: Unamortized bond premiums	28	--	--	--	--	--
Net debt service requirements	$ 10,369	5,450	315,616	313	28,000	6,539

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Fiscal Year Ended September 30	Business-Type Activities (in thousands) Revenue Bonds		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 141,915	155,412	2,035	670	3,422	808
2006	130,734	147,812	2,025	573	3,374	591
2007	156,652	141,302	2,170	466	3,392	361
2008	153,835	141,366	2,325	345	1,354	115
2009	140,962	164,912	2,475	216	31	60
2010-2014	793,817	707,763	2,755	75	178	274
2015-2019	615,533	465,402	--	--	229	224
2020-2024	516,242	197,767	--	--	294	159
2025-2029	383,929	66,780	--	--	377	75
2030-2034	66,865	4,009	--	--	102	4
	3,100,484	2,192,525	13,785	2,345	12,753	2,671
Less: Unamortized bond discounts	(26,218)	--	(26)	--	--	--
Unamortized gain(loss) on bond refundings	(175,573)	--	(55)	--	--	--
Add: Unamortized bond premiums	71,065	--	36	--	--	--
Net debt service requirements	2,969,758	2,192,525	13,740	2,345	12,753	2,671

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2005	472,675	163,039	635,714
2006	144,459	154,498	298,957
2007	169,273	146,611	315,884
2008	164,288	146,033	310,321
2009	149,858	169,120	318,978
2010-2014	826,635	723,603	1,550,238
2015-2019	667,249	473,908	1,141,157
2020-2024	529,948	199,656	729,604
2025-2029	384,306	66,855	451,161
2030-2034	66,967	4,013	70,980
	3,575,658	2,247,336	5,822,994
Less: Unamortized bond discounts	(26,375)	--	(26,375)
Unamortized gain(loss) on bond refundings	(178,823)	--	(178,823)
Add: Unamortized bond premiums	73,207	--	73,207
Net debt service requirements	$ 3,443,667	2,247,336	5,691,003

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997 the City issued several series of bonds; the aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Since 1997, the City has issued various series of bonds, with the original issues totaling $84.4 million; and $83.6 million is outstanding at September 30, 2004.

The City has issued various facility revenue bonds to provide for facilities located at the airport and convention center. These bonds are special limited obligations, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The original issues totaled $367.4 million, with $360.5 million outstanding at September 30, 2004.

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2004, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 9	--
	Nonmajor governmental funds	28,819	--
	Water and Wastewater	--	4,234
	Nonmajor enterprise funds	--	1,647
	Internal service funds	--	278
Business-type funds:			
Electric	Internal service funds	21	419
	Nonmajor enterprise funds	--	2,579
Water and Wastewater (restricted)	Internal service funds	27	161
	Nonmajor governmental funds	6	--
Airport (restricted)	General Fund	617	1,851
	Nonmajor governmental funds	--	230
Nonmajor enterprise funds	Nonmajor governmental funds	1,164	116
Internal service funds	Nonmajor governmental funds	16	--
	Internal service funds	394	--
		$ 31,073	11,515

Interfund receivables and payables reflect temporary loans between funds. Of the above current amount, $13.4 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2004 were as follows (in thousands):

	Transfers In				
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Nonmajor Enterprise**	**Internal Service Funds**	**Total**
General Fund	$ --	11,413	37,353	--	48,766
Nonmajor governmental funds	--	16,092	23,690	--	39,782
Electric	76,674	--	--	--	76,674
Water and Wastewater	19,220	2,848	--	--	22,068
Nonmajor enterprise funds	--	1,565	58	--	1,623
Internal service funds	--	1,062	--	17	1,079
Total transfers out	$ 95,894	32,980	61,101	17	189,992

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund operating transfers are authorized through City Council approval. Significant transfers include the Electric and Water and Wastewater transfers to the General Fund, which are comparable to a return on investment to owners.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2004. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with City funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was $43.3 million as of September 30, 2004. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

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

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

b -- South Texas Project

Austin Energy is one of four participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Texas Genco LP, formerly known as Reliant Energy, American Electric Power, formerly known as Central Power and Light Company, and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2004, Austin Energy's investment in the STP was approximately $564 million, net of accumulated depreciation.

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

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

14 – COMMITMENTS AND CONTINGENCIES, continued

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required to decommission the plant. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2004, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2004
Estimated cost to decommission STP	$ 245,191,822
Restricted decommissioning fund assets	101,808,700

Austin Energy and other STP participants have provided the required information to the NRC and have been collecting decommissioning funds through rates since 1989. Austin Energy has established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2004, Austin Energy collected $4,958,221 for decommissioning expenses.

d -- Energy Risk Management Program

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

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

Brokerage	Credit Rating
Citigroup Global Market Holding Inc.	AA-
Man Group	A3

The hedging related contracts are reported at cost on the statement of net assets. The gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2004, Austin Energy's options, futures, and basis swaps, valued at mark-to-market, netted to an unrealized loss of $58,022. This reflects the difference between the cost and the fair market value of these contracts at September 30, 2004. Initial margins are flat fees per contract and are paid in cash. Fair market values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by the New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the financial statements at September 30, 2004.

Futures	
Contracts effective date	August 2004
Contracts maturity date	Through January 2006
Initial margin	$ 135,000
Cost	2,680,000
Fair market value	2,826,000
Unrealized Gain/(Loss)	146,000

Options	
Contracts effective date	June through September 2004
Contracts maturity date	Through December 2007
Fair Value	$ (259,382)
Unrealized Gain/(Loss)	(1,662,082)

14 – COMMITMENTS AND CONTINGENCIES, continued

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

Swaps	
Contracts effective date	August through September 2004
Contracts maturity date	Through September 2007
Cost	$ 9,126,500
Fair market value	10,584,560
Unrealized Gain/(Loss)	1,458,060

The swap agreements expose Austin Energy to credit, termination, and non-performance risk. However, Austin Energy does not expect the swap counterparty to fail to meet its obligation given its high credit rating of A by S&P, and A3 by Moody's. Austin Energy's exposure to termination and non-performance risk is minimal due to the high credit rating of the counterparty, and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to the swaps.

e -- Derivative Instruments

Swap for the Water & Wastewater System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into a swap in connection with its Series 2004 Water and Wastewater System Variable Rate Revenue Refunding Bonds (the "Series 2004 Bonds"). The variable rate bonds were issued to advance refund various outstanding Combined Utility System Revenue Refunding Bonds. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City. The swap had closing costs of $561,302.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swap, as of September 30, 2004, are included in the table below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004 with a principal amount of $132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds. The counterparty to the swap is JPMorgan Chase Bank. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA-/AA-	68% of 1-month LIBOR	3.657%	$ (5,161,263)

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

Fair value. The swap had a negative fair value as of September 30, 2004 of $(5,161,263). This fair value takes into consideration the prevailing interest rate, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London InterBank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

14 – COMMITMENTS AND CONTINGENCIES, continued

Credit risk. As of September 30, 2004, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to credit risk in the amount of the derivative's fair value. This amount may become positive if interest rates increase in the future. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of the JPMorgan Chase Bank are Aa2/AA-/AA- by Moody's/Standard & Poor's/Fitch, respectively. The City will be exposed to interest rate risk only if the counterparty defaults or if the swap is terminated.

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

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. Basis risk exists since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. Exposure to basis risk may occur should the floating rate be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 68% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

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

Swap payments and associated debt. As of September 30, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total
	Principal	Interest		
2005	$ 5,900	2,180	2,510	4,690
2006	3,000	2,123	2,444	4,567
2007	7,000	2,029	2,335	4,364
2008	1,200	1,975	2,273	4,248
2009	--	1,961	2,258	4,219
2010-2014	26,095	9,229	10,624	19,853
2015-2019	53,740	4,461	5,134	9,595
2020-2024	35,540	1,704	1,962	3,666
Total	$ 132,475	25,662	29,540	55,202

14 – COMMITMENTS AND CONTINGENCIES, continued

Swap for the Airport System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into an interest rate swap in connection with its Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds"). The variable rate bonds will be issued to forward refund various outstanding bonds of the airport. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2004, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds will be issued on August 17, 2005 with a principal amount of $306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc ("Morgan Stanley") with a guarantee from Morgan Stanley. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	Aa3/A+/AA-	71% of 1-month LIBOR	4.051%	$ (11,507,263)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against *potential* increases in long-term interest rates. Other than the aforementioned swap agreement, there are no other monetary fees for the swap transaction.

Fair value. The swap had a negative fair value as of September 30, 2004 of $(11,507,263). This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2004, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to credit risk in the amount of the derivative's fair value. This amount may become positive if interest rates increase in the future. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

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

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

14 – COMMITMENTS AND CONTINGENCIES, continued

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to non-issuance of the Series 2005 Bonds and credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased insurance to mitigate the possibility of termination risk.

Market-access risk. Market access risk describes the possibility that the City may not be able to access the debt market efficiently on the anticipated issuance date. This outcome is estimated to be very unlikely.

f -- Certificates of Participation

The City has entered into several capital lease arrangements through the issuance of Certificates of Participation as follows:

$ 23,060,000 Certificates of Participation, City of Austin, Texas Electric Utility Office Project, Series 1987

$ 14,000,000 Certificates of Participation, City of Austin, Texas Water and Wastewater Utility Office Project, Series 1987

The certificates represent proportionate interests in lease payments to be made by the City to a third-party lessor. The City has title to the office projects, pursuant to general warranty deeds; however, the trustee maintains a vendor's lien and superior title to the properties until all sums due are paid in full.

The City's obligations under the lease agreements are subject to and dependent upon annual appropriations by the City Council and do not obligate the City to levy or pledge any form of taxation. Thus, the certificates are treated as capital lease obligations rather than as long-term bonds and are recorded as a liability in the respective utility's funds.

The following table presents information regarding these certificates:

Description	Electric Fund Office Project (1)	Water and Wastewater Fund Office Project (1)
Date issued	February 1987	August 1987
Amount issued	$ 23,060,000	$ 14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and	May 15 and
	September 15	November 15
Maturity dates	September 15	November 15
	1988 - 2007	1989 - 2007
Present value of lease payments	$ 5,600,493	$ 4,890,980
Reserve Fund (2)	$ 2,000,000	$ 1,250,000

(1) Subject to mandatory redemption upon the occurrence of certain events.
(2) Held by trustee, to be used to make final payments.

14 – COMMITMENTS AND CONTINGENCIES, continued

g -- Federal and State Financial Assistance Programs

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

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate funds to the federal government. The estimated amounts payable at September 30, 2004 are as follows (in thousands):

	Business-type Activities			
Governmental Activities	Electric	Water and Wastewater	Nonmajor	Total
$ 244	1,320	406	20	$ 1,990

i -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* (Capital Budget) that is an anticipated spending plan for projects in the upcoming and future years. The City's 2005 Capital Budget includes new appropriations of $231.9 million for the City's enterprise funds and $56.8 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include parks development and improvements, financial and administrative, transportation improvements, electric system improvements, water and wastewater system improvements and annexations and airport improvements as shown below (in thousands). Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Parks development and improvements	$ 107,159	13,672
Financial and administrative	37,007	11,187
Transportation improvements	367,144	80,405
Other governmental	132,143	27,207
Business-type activities:		
Electric system improvements	1,225,334	180,971
Water and wastewater system improvements and annexations	1,263,028	703,268
Airport improvements	96,139	129,786
Nonmajor enterprise	142,443	222,458
Total	$ 3,370,397	1,368,954

j -- Operating Lease with Daughters of Charity Health Services of Austin

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton"). Under the terms of the lease, Seton will operate City-owned Brackenridge Hospital and will provide all necessary medical services for residents of Austin regardless of their ability to pay. The City will reimburse Seton for services provided through three programs. Under the Charity Care Program, the City will reimburse Seton a maximum of $5.6 million annually for providing medical care to the medically indigent; provided however, that Seton must first provide charity care in the amount of 4% of net revenues as required by State law. Under the Medical Assistance Program (MAP), the City paid Seton approximately $10.6 million in fiscal year 2004 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately $5.8 million during fiscal year 2004 for providing physician services to patients in the first two programs.

14 – COMMITMENTS AND CONTINGENCIES, continued

In May 2003, the City amended the lease agreement to accommodate capacity issues related to the Children's Hospital at Brackenridge. In order to meet future community needs for pediatric medical services, the City Council approved moving the Children's Hospital to the former site of Robert Mueller Airport. The new Children's Hospital will be owned and operated by Seton. Other provisions of the amendment include lengthening the lease term from an original term of 30 years to 60 years (with an optional 30 year extension), increasing the breach of contract penalty from $5 million to $50 million, and adding a requirement that Seton spend a minimum of $50 million for capital improvements at Brackenridge over the next 20 years; of which $30 million must be spent within the next 10 years. The lease amendment also strengthens financial provisions related to the operation of the Austin Women's Hospital. The cost of the leased assets as of September 30, 2004 is as follows (in thousands):

	Cost	Accumulated Depreciation
Land and other nondepreciable assets	$ 745	--
Property, plant and equipment in service	73,977	(38,499)

Due to the creation of the Travis County Hospital District, assets associated with Brackenridge Hospital, Children's Hospital and the Austin Women's Hospital will convey to the Travis County Hospital District. For further information, please refer to the Subsequent Events Note (Note 16).

k -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports in the Solid Waste Services Fund, a nonmajor enterprise fund, a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The $7.6 million reported as accrued landfill closure and postclosure costs at September 30, 2004, represents the cumulative amount reported to date based on the use of 82.3% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.6 million as the remaining estimated capacity is filled over the next eight years. The total estimated costs of $9.2 million include costs of closure in 2012 of $2.3 million and postclosure costs over the subsequent thirty years of $6.9 million. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. Actual costs may be higher due to inflation, changes in technology or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

l -- Risk-Related Contingencies

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

Fund name	Description
Employee Benefits	City employees and retirees may choose between a self-insured PPO or an HMO. Approximately 27% of City employees and 55% of retirees use the HMO option; approximately 73% of City employees and 45% of retirees use the PPO. Costs are charged to City funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	This self-insured program charges premiums to other City funds each year based on historical costs.

14 – COMMITMENTS AND CONTINGENCIES, continued

The City purchases stop loss insurance for the City's PPO. This stop loss insurance covers individual claims that exceed $500,000 per calendar year beginning in calendar year 2002 and $150,000 per calendar year prior to calendar year 2002, up to a maximum of $1 million. During fiscal year 2004, no claims exceeded the stop loss limit of $500,000; During fiscal year 2003, one claim exceeded the stop loss limit of $500,000; and no claims exceeded the stop loss limit of $500,000 in fiscal year 2002. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the insurance coverage that has been procured. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund; liabilities for the Liability Reserve Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 2004. The possible range of loss is $27.4 to $41.2 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2004	2003	2004	2003	2004	2003
Liability balances, beginning of year	$ 5,541	4,618	20,080	21,899	9,127	6,864
Claims and changes in estimates	4,460	5,328	3,601	9,586	4,592	6,587
Claim payments	(5,061)	(4,405)	(10,523)	(11,405)	(4,377)	(4,324)
Liability balances, end of year	$ 4,940	5,541	13,158	20,080	9,342	9,127

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $4.4 million discounted at 4.78% in 2004 and $4.9 million discounted at 5.02% in 2003.

In fiscal year 2004, the City reached a settlement agreement in a litigation matter with Christopher Ochoa in the amount of $4.8 million. This amount is included in the financial statements as presented.

m -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of $11.5 million at September 30, 2004. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2005 and future years.

The EPA issued an Administrative Order to the Water and Wastewater Utility on April 29, 1999. The Administrative Order requires the Utility perform a series of activities designed to result in an improved system free from sanitary sewer overflows. These activities include Infiltration/Inflow, Sanitary Sewer Evaluation Studies, as well as subsequent design and construction of necessary improvements to the wastewater collection system to eliminate overflows by December 2007. Construction costs are estimated to be $150 million and the Utility is on schedule to comply with the Administrative Order.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $1.5 million in the financial statements.

14 – COMMITMENTS AND CONTINGENCIES, continued

n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2004 was $19.2 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements, including the certificates of participation, as lessee for financing equipment purchases for Electric and Water and Wastewater Utilities and for financing personal computers for both governmental and business-type departments. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

The following summarizes assets recorded at September 30, 2004, under capital lease obligations (in thousands):

		Business-type Activities				
Assets	**Governmental Activities**	**Electric**	**Water and Wastewater**	**Airport**	**Nonmajor**	**Total**
Building and improvements	$ --	21,604	12,750	--	--	34,354
Equipment	2,289	1,334	284	917	652	3,187
Accumulated depreciation	(1,157)	(10,169)	(4,432)	(59)	(300)	(14,960)
Net assets	$ 1,132	12,769	8,602	858	352	22,581

15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

Years of Service	Retiree only	Dependent only
Less than 5 years	14% - 16%	8% - 15%
5 to 9 years	22% - 24%	13% - 23%
10 to 14 years	38% - 40%	23% - 38%
15 to 20 years	55% - 56%	33% - 53%
Greater than 20 years	79% - 80%	49% - 75%

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

The City pays 100% of the retiree's life insurance premium. Group dental coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental premium.

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,443 retirees was $13.7 million in 2004, and $12.5 million in 2003 for 2,298 retirees.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2003, the City's portion of this obligation, $7,883,039, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS

a -- Water and Wastewater System Revenue Bond Refunding Issue

In October 2004, the City issued $165,145,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2004A. Proceeds from the bonds were used to refund $175,000,000 of the City's outstanding Tax-Exempt Commercial Paper issued for the Water and Wastewater System. The refunding resulted in future interest requirements to service the debt of $134,342,208. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

b -- Travis County Hospital District

In May 2004, voters in Travis County approved the creation of the Travis County Hospital District. In August 2004, the City and Travis County appointed members to serve on the Board of the District, which is comprised of nine members. The Board consists of four appointees from the City, four from Travis County, and one selected jointly. The District budget, which is required to be approved by the Travis County Commissioner's Court, was approved for operations beginning on October 1, 2004.

On October 1, 2004, the City transferred $10.7 million to the District to fund a significant portion of a financial reserve fund. Of this amount, $3 million was transferred from remaining operating and capital reserves that existed in the Primary Care Fund at the end of fiscal year 2004. The City's General Fund transferred the remaining amount of $7.7 million.

Certain City assets, obligations and rights will transfer to the District, including title to the land and buildings of Brackenridge Hospital, Children's Hospital and the Austin Women's Hospital. In addition, upon federal approval related to transfer of the federally-qualified status of the Community Health Center, assets associated with the City's Federally Qualified Health Centers will also transfer to the District. On November 22, 2004, the Board approved the conveyance of land, buildings, and equipment pertaining to Brackenridge Hospital, Children's Hospital and Austin Women's Hospital.

The District has assumed the rights and obligations related to the lease with Seton to operate Brackenridge Hospital and the Children's Hospital. The assumption of the lease includes provisions for the District to continue funding certain indigent healthcare costs previously funded by the City. The District has also assumed the agreement with the University of Texas Medical Branch at Galveston to operate Austin Women's Hospital. An interlocal agreement approved by the District allows the City to operate the Federally Qualified Health Centers and administer the City and County Medical Assistance Programs.

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2004
(In thousands)

	2004					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance Positive (Negative) (3)
REVENUES						
Taxes	$ 281,720	--	281,720	273,751	273,751	7,969
Franchise fees	29,018	--	29,018	27,132	27,132	1,886
Fines, forfeitures and penalties	16,976	--	16,976	17,317	17,317	(341)
Licenses, permits and inspections	15,317	--	15,317	16,884	16,884	(1,567)
Charges for services/goods	15,565	(1,185)	14,380	15,239	15,239	(859)
Interest and other	19,168	(475)	18,693	13,167	13,167	5,526
Total revenues	377,764	(1,660)	376,104	363,490	363,490	12,614
EXPENDITURES						
General government						
Municipal Court	8,199	32	8,231	8,713	8,613	382
Public safety						
Police	159,344	(1,652)	157,692	161,445	162,745	5,053
Fire	82,786	(14)	82,772	84,089	84,089	1,317
Emergency Medical Services	19,956	(437)	19,519	20,058	20,058	539
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	8,493	311	8,804	9,277	9,277	473
Street lighting	176	--	176	160	160	(16)
Public health:						
Health	15,728	(244)	15,484	16,362	16,362	878
Social services management	9,579	505	10,084	10,293	10,293	209
Public recreation and culture						
Parks and Recreation	26,952	(271)	26,681	26,788	26,788	107
Austin Public Library	16,303	(116)	16,187	16,587	16,587	400
Urban growth management						
Neighborhood Planning and Zoning	3,088	6	3,094	3,413	3,413	319
Development Services and Watershed Protection	7,158	(220)	6,938	7,433	7,433	495
General city responsibilities (4)	46,983	(32,823)	14,160	12,705	12,705	(1,455)
Total expenditures	404,745	(34,923)	369,822	377,323	378,523	8,701
Excess (deficiency) of revenues over expenditures	(26,981)	33,263	6,282	(13,833)	(15,033)	21,315
OTHER FINANCING SOURCES (USES)						
Capital leases	634	(634)	--	--	--	--
Transfers in	95,894	1,725	97,619	97,619	97,619	--
Transfers out	(48,766)	(36,968)	(85,734)	(83,786)	(83,886)	(1,848)
Total other financing sources (uses)	47,762	(35,877)	11,885	13,833	13,733	(1,848)
Excess (deficiency) of revenues and other sources over expenditures and other uses	20,781	(2,614)	18,167	--	(1,300)	19,467
Special items - hospital district reserve payment	(7,700)	7,700	--	--	--	--
Fund balance at beginning of year	93,206	(58,854)	34,352	34,245	34,245	107
Fund balance at end of year	$ 106,287	(53,768)	52,519	34,245	32,945	19,574

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

BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on cash and available resources (budget basis) which differs from generally accepted accounting principles (GAAP basis). In governmental funds, encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget reporting for the General Fund are the reporting of encumbrances and the reporting of certain operating transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ 20,781
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(475)
Net compensated absences accrual	(126)
Outstanding encumbrances established in current year	(4,247)
Payments against prior year encumbrances	2,550
Advance from Airport Fund	(450)
Other	134
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ 18,167

c -- Budget Amendments

The original budget of the General Fund was amended twice during fiscal year 2004 for increased public safety costs and an increase in transfers out offset by a decrease in expenditures for Municipal Court.

The original and amended budget is presented in the accompanying financial statements. The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The amended expenditure budget for these general city requirements includes the following: tuition reimbursement ($85,000), accrued payroll ($1,435,000), expenditures for workers' compensation ($7,146,683), liability reserve ($2,500,000) and public safety ($1,538,700).

APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

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ORDINANCE NO. 0006008-56A

AN ORDINANCE providing for the issuance WATER AND WASTEWATER SYSTEM revenue obligations; making provision for the payment of such obligations from the revenues of the City's Water and Wastewater System; enacting provisions incident and related to the issuance, payment and security of such Obligations, including covenants and agreements relating to the operation and management of the Water and Wastewater System, the revenues derived from its operation and ownership, the establishment and maintenance of funds and accounts for the payment of such obligations, specifying the terms and conditions for the issuance of parity revenue obligations and other matters incident and related to their issuance and security; suspending the rule requiring ordinances be read on three separate days; and declaring an emergency.

WHEREAS, the City of Austin, Texas (the "City" or the "Issuer"), a "home-rule" city operating under a home-rule charter adopted pursuant to Section 5 of Article XI of the Texas Constitution has heretofore financed improvements and extensions to the City's Water and Wastewater System (the "System") by the issuance and sale of revenue obligations payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Water and Wastewater System and the City's Electric Light and Power System; and

WHEREAS, the revenue obligations currently outstanding payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Water and Wastewater System and the City's Electric Light and Power System include:

(a) "Prior First Lien Obligations" more particularly identified as follows : (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986A", dated April 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986C", dated November 15, 1986, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (v) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993,(xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (xiv) "City of Austin, Texas, Combined Utility

Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xviii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, (xix)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997,

(b) "Prior Subordinate Lien Obligations" more particularly described as follows: (i) "City of Austin, Texas, Water, Sewer and Electric Refunding Revenue Bonds, Series1982", dated March 15, 1982, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (iii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iv) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998", dated August 1, 1998, (v)"City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (vi) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998, and

(c) "Commercial Paper Obligations" more particularly described as follows: (i) City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A", authorized for issuance pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A currently authorized up to an aggregate principal amount of $350,000,000 and (ii) "City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes", authorized for issuance pursuant to Ordinance No. 980513-B currently authorized up to an aggregate principal amount of $60,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No. 980513-B; and

AND WHEREAS, in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations, the City retained the authority to issue "Separate Lien Obligations" payable solely from either the Net Revenues of the Water and Wastewater System or the Net Revenues of the Electric Light and Power System , but not both, without specifying any terms or limitations on the issuance of such "Separate Lien Obligations"; and

WHEREAS, the City has determined future financing of capital improvements for the City's Water and Wastewater System and the City's Electric Light and Power System should be undertaken and accomplished through the issuance of "Separate Lien Obligations" which will enable the City to restructure provisions governing the issuance of such obligations and relating to the operations of such systems and provide financing flexibility to both systems, particularly the Electric Light and Power System in a more competitive market resulting from a change in laws affecting the regulation, generation, distribution and sale of electric energy, and

WHEREAS, in furtherance of its determination that future financing of capital improvements to the City's Water and Wastewater System shall be undertaken through the issuance of revenue obligations payable solely from and secured by a lien on and pledge of the Net Revenues of the City's Water and Wastewater System, the Council hereby finds a master ordinance governing and pertaining to their issuance should be adopted and enacted; and

WHEREAS, the terms used in this Ordinance and not otherwise defined shall have the meaning given Exhibit A to this Ordinance attached hereto and made a part hereof;

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN, TEXAS:

Section 1. REVENUE OBLIGATION FINANCING FOR THE CITY'S WATER AND WASTEWATER SYSTEM. From and after the date hereof, all revenue obligations, other than Commercial Paper Obligations, to finance capital improvements for the Water/Wastewater System shall be payable from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and from the funds and accounts hereinafter provided in this Ordinance and in any Supplement. This Ordinance is intended to provide for and govern the issuance of such Parity Water/Wastewater Obligations and establish the security for their payment, the agreements and covenants with the holders or owners of such obligations in regard to the management and operation of the Water/Wastewater System, the application and disbursement of revenues derived from its operation and ownership and other matters incident and related to the issuance of such revenue obligations. Each issue or series of Parity Water/Wastewater Obligations shall be issued, incurred or assumed pursuant to the terms of a Supplement, and each such Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, terms of payment and redemption, and any other related matters not inconsistent with the Constitution and laws of the State of Texas or the provisions of this Ordinance.

Section 2. PLEDGE OF REVENUES/SECURITY FOR PAYMENT. Subject to the prior claim on and lien on the Net Revenues of the Water/Wastewater System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations, the Net Revenues of the Water/Wastewater System are hereby pledged to the payment of the Parity Water/Wastewater Obligations and such Parity Water/Wastewater Obligations, together with the Prior Subordinate Lien Obligations and Previously Issued Separate Lien Obligations currently Outstanding, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water/Wastewater System in accordance with the terms of this Ordinance and any Supplement. Additionally, Parity Water/Wastewater Obligations shall be secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, Reserve Fund and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Water/Wastewater Obligations pending expenditure in accordance with the terms of this Ordinance and any Supplement. Parity Water/Wastewater Obligations are and will be secured by and payable only from the Net Revenues of the Water/Wastewater System, and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, of the Water/Wastewater System. The owners of the Parity Water/Wastewater Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Ordinance or any Supplement.

Section 3. NO ADDITIONAL PRIOR FIRST LIEN /PRIOR SUBORDINATE LIEN COMBINED UTILITY SYSTEMS REVENUE OBLIGATIONS. From and after the date of the adoption of this Ordinance, the City hereby provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations and at such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations currently Outstanding and the Commercial Paper Obligations have been fully paid and discharged in a manner such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations of the Water/Wastewater System then Outstanding shall be Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations, or obligations subordinate to the Parity Water/Wastewater Obligations then Outstanding, and payable only from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance, including this Ordinance with respect to Parity Water/Wastewater Obligations and any Supplement.

Section 4. RATE COVENANT. The City will fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water/Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient:

(i) to pay all current Operating Expenses,

(ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Water/Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations or (y) an amount, when added to Other Available Water/Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations, and

(iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water/Wastewater System reasonably anticipated to be paid from Gross Revenues.

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

Section 5. GENERAL COVENANTS. Subject to the provisions contained in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations which may be in conflict herewith and control to the extent of any conflict, the City hereby covenants and agrees with the Holders of the Parity Water/Wastewater Obligations to the extent permitted by law as follows:

(a) **PERFORMANCE.** All covenants, undertakings, stipulations, and provisions contained in this Ordinance and any Supplement shall be duly performed and honored at all times; the principal amount of and interest on Parity Water/Wastewater Obligations shall be timely paid as the same shall become due and payable on the dates, at the places and in the manner prescribed in each Supplement and such Parity Water/Wastewater Obligations; and all deposits to the credit of the Funds and Accounts shall be made at the times, in the amounts and in the manner specified by this Ordinance and in any Supplement; and any Holder may require the City, its officials and employees to perform, honor or enforce the covenants and obligations of this Ordinance, or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City, its officials and employees.

(b) **CITY'S LEGAL AUTHORITY.** The City is a duly created and existing home rule municipality of the State of Texas, and is duly authorized under the laws of the State of Texas to issue the Parity Water/Wastewater Obligations; with the adoption of each Supplement, all action on the City's part for the issuance of the Parity Water/Wastewater Obligations shall have been duly and effectively taken; and the Parity Water/Wastewater Obligations upon issuance and delivery to the Holders shall and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) **OPERATION AND MAINTENANCE.** The Water/Wastewater System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Water/Wastewater System shall be maintained, preserved and kept in good repair, working order and condition, and proper maintenance, repairs and replacements of such property, facilities and plants shall occur to preserve and keep the Water/Wastewater System operating in a business like manner.

(d) **TITLE.** The City has or will have lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Water/Wastewater System; the City warrants it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof against the claims and demands of all persons whomsoever; and the City is lawfully qualified to pledge the Net Revenues to the payment of the Parity Water/Wastewater Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(e) **LIENS.** All taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon the Water/Wastewater System, its properties or revenues, shall be paid before the same become delinquent; all lawful claims for rents, royalties, labor, materials and supplies shall be paid in a timely manner, which if unpaid might by law become a lien or charge on the revenues of the Water/Wastewater System or the Water/Wastewater System's properties prior to or interfere with the liens hereof, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the lien on and pledge of the Net Revenues of the Water/Wastewater System for the Parity Water/Wastewater Obligations granted by this Ordinance or any Supplement might or could be impaired; provided however, that no such tax, assessment or charge, and no such claims that might result in a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the City.

(f) **NO FREE SERVICE**. Save and except as provided by V.T.C.A., Government Code, Section 1502.057, as amended, no free service of the Water/Wastewater System shall be allowed.

(g) **FURTHER ENCUMBRANCE**. Save and except for the issuance of Parity Water/Wastewater Obligations, the Net Revenues of the Water/Wastewater System shall not hereafter be encumbered in any manner unless such encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance and any Supplement; but the right to issue Subordinated Debt payable in whole or in part from a subordinate lien on the Net Revenues is specifically recognized and retained.

(h) **SALE, LEASE OR DISPOSAL OF SYSTEM PROPERTY**. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the Water/Wastewater System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the Water/Wastewater System. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Water/Wastewater System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the Water/Wastewater System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Water/Wastewater System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations or for any other Water/Wastewater System purpose..

(i) **BOOKS, RECORDS AND ACCOUNTS**. Proper books, records and accounts pertaining to the operation and ownership of the Water/Wastewater System shall be established and maintained in accordance with generally accepted accounting principles, and such books, records and accounts shall be kept and maintained separate and apart from all other records and accounts of the City. Accurate and complete entries of all transactions relating to the Water/Wastewater System shall be recorded in such books, records and accounts, and such books and records relating to the financial operations of the Water/Wastewater System shall be kept current on a month to month basis.

(j) **INSURANCE.** Except as otherwise permitted below, insurance shall be obtained and maintained on the properties of the Water/Wastewater System in a manner and to the extent municipal corporations operating like properties carry and maintain such insurance, and such insurance shall be maintained with one or more responsible insurance companies and cover such risks, accidents or casualties customarily carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage caused by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times during regular business hours. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds available for such purpose as the City in its sole desecration shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance Account or Fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the Water/Wastewater System.

In lieu of obtaining policies for insurance as provided above, the City may self-insure against risks, accidents, claims or casualties described above, or such risks, accidents, claims or casualties may be covered under one or more blanket insurance policies maintained by the City. The annual audit hereinafter required shall contain a section commenting on whether the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing the areas of insurance for which the City is self-insuring, all policies carried, and whether all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(k) **AUDITS.** After the close of each Fiscal Year while any of the Parity Water/Wastewater Obligations are Outstanding, an annual audit of the books, records and accounts relating to the operations of the Water/Wastewater System shall be made by an Accountant as part of the City's overall annual comprehensive audit. After such annual audit has been completed and approved by the City, a copy thereof shall be sent to the Municipal Advisory Council of Texas and to any owner of $100,000 or more in Outstanding Principal Amount of Parity Water/Wastewater Obligations who shall request a copy of such annual audit in writing. A copy of such annual audit shall be available for the inspection at the administrative offices of the Water/Wastewater System by the owners of the Parity Water/Wastewater Obligations and their agents and representatives at all reasonable times during regular business hours.

(l) **GOVERNMENTAL AGENCIES**. Any and all franchises, licences, permits and authorizations received or obtained from any governmental agency or department and applicable to or necessary with respect to the operations of the Water/Wastewater System shall be kept current and in effect, and no franchise, permit, license or authorization required or necessary for the acquisition, construction, equipment, operation and maintenance of the Water/Wastewater System shall be allowed to expire or terminate by a failure of the City to act or shall the City fail to comply with any terms or conditions that results in a forfeiture or early termination of any such franchise, permit, license, or authorization.

(m) **NO COMPETITION**. To the extent it legally possible, the City will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a material substitute for the Water/Wastewater System's facilities, and, to the extent that it legally may, the City will prohibit any such competing facilities.

(n) **RIGHTS OF INSPECTION**. Subject to public safety and other restrictions as may be reasonably imposed, the owner of Parity Water/Wastewater Obligations shall have the right at all reasonable times during regular business hours to inspect properties of the Water/Wastewater System and all records, accounts and data relating thereto, and copies of such records, accounts and data will be furnished to such owner from time to time, upon the written request and at the payment of the cost of making such copies by the owner making such request.

Section 6. SYSTEM FUND. In accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Water/Wastewater Obligations are Outstanding a separate fund or account known and designated as the "Water and Sewer System Fund" (herein called the "Water and Wastewater System Fund" or "System Fund"). All funds deposited to the credit of the System Fund and disbursements from such Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of Water/Wastewater System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

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

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

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

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

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

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

Section 7. DEBT SERVICE FUND. For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (other than Operating Expenses) incurred in connection with Parity Water/Wastewater Obligations, there is hereby created and there shall be established and maintained on the books of the City a separate fund designated as the "Water/Wastewater Revenue Obligation Debt Service Fund" (the "Debt Service Fund") and moneys to the credit of such Debt Service Fund shall be placed in a special fund or account maintained at an official depository of funds of the City.

The amount of the deposits to be made to the credit of the Debt Service Fund to pay the principal of and interest on the Parity Water/Wastewater Obligations as the same shall become due and payable and the manner for making such deposits shall be addressed and contained in each Supplement. In addition, the City reserves the right in any Supplement to establish within the Debt Service Fund various Accounts to facilitate the timely payment of Parity Water/Wastewater Obligations as the same become due and owing.

Section 8. RESERVE FUND. (a) Establishment. There is hereby created and there shall be established and maintained on the books of the City a separate fund or account designated as the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). Except as provided in subsection (f) below, the Reserve Fund shall be maintained for the benefit of the owners of the Parity Water/Wastewater Obligations. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. The amounts deposited to the credit of the Reserve Fund shall be deposited in a special fund maintained at an official depository of City. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the Parity Water/Wastewater Obligations as they become due or paying principal of and interest on the Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund shall be an amount equal to the Required Reserve Amount. The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount.

(b) Credit Facility. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer.

(c) Priority of Draws. If the City is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the City shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency.

In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subject to the provisions of Section 8(d) below and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

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

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

(f) Application to Commercial Paper/Credit Agreements For the purpose of this Section, the Reserve Fund shall not secure Parity Water/Wastewater Obligations issued in the form of commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplement.

Section 9. SYSTEM SURPLUS REVENUE ACCOUNT. At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water/Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water/Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water/Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water/Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water/Wastewater Funds". The amount so designated as "Other Available Water/Wastewater Fund" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

Section 10. ISSUANCE OF ADDITIONAL OBLIGATIONS. (a)Parity Water/Wastewater Obligations. The City reserves and shall have the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law pursuant to the provisions of this Ordinance and a Supplement hereafter adopted. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if:

(i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in this Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of this Ordinance and any Supplement contain the amounts then required to be therein or the proceeds of sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and

(ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water/Wastewater System, after deducting amounts expended from the Water/Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water/Wastewater Revenues, are equal to 1.25 times the average Annual Debt Service Requirements of the Parity

Water/Wastewater Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations.

For purposes of paragraph (a) (ii), if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the certificate, report or opinion of the Accountant required above shall give effect to the issuance of the proposed refunding Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded following their cancellation or provision being made for their payment).

(b) Short-Term Parity Water/Wastewater Obligations. The City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of this subsection, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

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

(d) Credit Agreements. Payments to be made under a Credit Agreement may be treated as Parity Water/Wastewater Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Water/Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water/Wastewater Obligations then Outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

(e) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water/Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water/Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

Section 11. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS. (a) Any Parity Water/Wastewater Obligation shall be deemed to be paid, retired and cease to be Outstanding within the meaning of this Ordinance, and the Supplement pursuant to which it was issued, when payment of the principal amount of, redemption premium, if any, on such Parity Water/Wastewater Obligation, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either shall have been (i) made in accordance with the terms thereof or (ii) provided by irrevocably depositing with, or making available to, a Paying Agent (or escrow agent) therefor, in trust and set aside exclusively for such payment, in accordance with the terms and conditions of an agreement between the City and said Paying Agent (or escrow agent), (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such Paying Agent pertaining to the Parity Water/Wastewater Obligation with respect to which such deposit is made shall have been paid or the payment thereof duly provided (and irrevocable instructions shall have been given by the City to such Paying Agent to give notice of such redemption in the manner required by the Supplement authorizing the issuance of such Parity Water/Wastewater Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Water/Wastewater Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Water/Wastewater Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Water/Wastewater Obligation was issued. In addition, in connection with a defeasance, such Paying Agent shall give notice of redemption, if necessary, to the owners of any Parity Water/Wastewater Obligation in the manner provided in the Supplement for such Parity Water/Wastewater Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Water/Wastewater Obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or the Supplement pursuant to which it was issued or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys deposited with a Paying Agent (or escrow agent) may, at the direction of the City, also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Paying Agent pursuant to this Section which is not required for the payment of the principal of the Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City for deposit to the credit of the Debt Service Fund.

(c) Except as provided in clause (b) of this Section, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon, shall be applied solely to and used solely for the payment of such Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon.

Section 12. AMENDMENT OF ORDINANCE. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Water/Wastewater Obligations so as to:

(1) Make any change in the maturity of any of the Outstanding Parity Water/Wastewater Obligations;

(2) Reduce the rate of interest borne by any of the Outstanding Parity Water/Wastewater Obligations;

(3) Reduce the amount of the principal payable on the Outstanding Parity Water/Wastewater Obligations;

(4) Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Parity Water/Wastewater Obligations or impose any conditions with respect to such payment;

(5) Affect the rights of the owners of less than all of the Parity Water/Wastewater Obligations then Outstanding;

(6) Amend this subsection (a) of this Section; or

(7) Change the minimum percentage of the principal amount of Parity Water/Wastewater Obligations necessary for consent to any amendment;

unless such amendment or amendments be approved by the owners of all of the Parity Water/Wastewater Obligations affected by the change or amendment then Outstanding.

(b) Notice of Amendment Requiring Consent. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations for inspection by all Holders of Parity Water/Wastewater Obligations. Such publication is not required, however, if notice in writing is given by mail, first class postage prepaid, to each Holder of Parity Water/Wastewater Obligations.

(c) Time Period for Obtaining Consent If within one year from (i) the date of the first publication of said notice or (ii) the date of the mailing by the Paying Agent of written notice to the owners of the Parity Water/Wastewater Obligations, whichever date first occurs if both methods of giving notice are used, the City shall receive an instrument or instruments executed by the owners of at least a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations consenting to and approving such amendment in substantially the form of the copy thereof on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Revocation of Consent. Any consent given by the owner of a Parity Water/Wastewater Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, and shall be conclusive and binding upon all future owners of the same Parity Water/Wastewater Obligation during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, such consent may be revoked by the owner who gave such consent, or by a successor in title, by filing written notice thereof with the Paying Agent or Registrar, as the case may be, for such Parity Water/Wastewater Obligation and the City, but such revocation shall not be effective if the owners of at least a majority in Outstanding Principal Amount of the then Outstanding Parity Water/Wastewater Obligations as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(e) Implementation of Amendment. Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations of the City under this Ordinance and all the owners of then Outstanding Parity Water/Wastewater Obligations and all future Parity Water/Wastewater Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(f) Amendment without Consent. The foregoing provisions of this Section notwithstanding, the City by action of its governing body may amend this Ordinance for any one or more of the following purposes:

(1) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the owners of the Parity Water/Wastewater Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations then outstanding;

(3) To modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after all Parity Water/Wastewater Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(4) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(5) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Water/Wastewater Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Water/Wastewater Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Parity Water/Wastewater Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(7) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Water/Wastewater Obligations. Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Parity Water/Wastewater Obligations may be determined as provided in each Supplement and unless otherwise provided in a Supplement, the owners of the Parity Water/Wastewater Obligations insured as to the payment of principal of and interest thereon shall be deemed to be the insurance company providing the insurance coverage on such Parity Water/Wastewater Obligations; provided such amendment to this Ordinance is an amendment that can be made with the consent of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations and such insurance company is not in default with respect to its obligations under its insurance policy.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Parity Water/Wastewater Obligations then Outstanding under such Supplement a priority over the owners of any other Parity Water/Wastewater Obligations then Outstanding.

Section 13. DEFICIENCIES; EXCESS NET REVENUES. (a) Revenue Deficiency. If on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Funds and Accounts established in accordance with this Ordinance and any Supplement, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other source available for such purpose.

(b) Excess Revenue. Subject to making the required deposits to the credit of the Funds and Accounts established in accordance with this Ordinance and any Supplement, when and as required by this Ordinance and any Supplement, the excess Net Revenues may be used by the City for any lawful purpose.

Section 14. FUNDS SECURED. Moneys in all Funds and Accounts created in accordance with this Ordinance and any Supplement shall be secured in the manner prescribed by law for securing funds of the City.

Section 15. INVESTMENTS. Moneys in any Fund or Account established pursuant to this Ordinance and any Supplement may, at the option of the City, be placed or invested in Eligible Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually during the last month of each Fiscal Year. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Fund or Account from which moneys used to acquire such investment shall have come.

Section 16. BENEFITS OF ORDINANCE. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

Section 17. GOVERNING LAW. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 18. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 19. CONSTRUCTION OF TERMS. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

Section 20. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 21. PUBLIC MEETING. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

Section 22. EMERGENCY. The public importance of this measure and the fact that there is an urgent public need for the City to obtain the funds from the sale of the Bonds as soon as possible and without delay for the immediate preservation of the public peace, health and safety of the citizens of the City constitute and create an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

PASSED AND ADOPTED, this June 8, 2000.

CITY OF AUSTIN, TEXAS

Kirk Watson

KIRK WATSON
Mayor

ATTEST:

Shirley A. Brown

SHIRLEY A. BROWN
City Clerk

(City Seal)

APPROVED:

Andrew Martin

ANDREW MARTIN
City Attorney

EXHIBIT "A"

DEFINITIONS

As used in the Ordinance, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Account" means any account created, established and maintained on the books and records of the City under the terms of any Supplement.

"Accountant" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"Annual Debt Service Requirements" means, for any Fiscal Year, the principal of and interest on all Parity Water/Wastewater Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(i) Committed Take Out. If the City has entered into a Credit Agreement with a Credit Provider to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased by the Credit Provider shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(ii) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable by reason of any required purchase of such Funded Debt by the City) in any Fiscal Year is either (a) equal to 25%, or more, of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or (b) exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(iii) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer executes a certificate to the effect that such Balloon Debt (a) may be treated as being retired in installments (and the instrument creating such Balloon Debt expressly permits such Debt to be treated as being retired in installments), or (b) paid from the funding and accumulation of a sinking fund (and the instrument creating such Balloon Debt expressly permits the funding and accumulation of a sinking fund) according to a fixed schedule stated in such certificate, then the principal of (and, in the case of retirement, or to the extent provided for the funding and accumulation of a sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such fixed schedule, provided this clause (iii) shall apply only to Balloon Debt when installments due and payable prior to such certificate have been duly paid or all deposits to the sinking fund established for such Debt have been duly credited to the sinking fund on or before the times required by such schedule; and provided further this clause (iii) shall not apply when the City has elected to apply the rule set forth in clause (ii) above;

(iv) Prepaid Debt. Principal of and interest on Parity Water/Wastewater Obligations, or portions thereof, payable from capitalized interest, accrued interest and amounts deposited or set aside in trust for the payment thereof with a financial institution shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year;

(v) Variable Rate. As to any Parity Water/Wastewater Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the City, either (a) an interest rate equal to the average rate borne by such Parity Water/Wastewater Obligations (or by comparable debt in the event that such Parity Water/Wastewater Obligations has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be used for this purpose;

(vi) Commercial Paper. Any Parity Water/Wastewater Obligations issued in the form of commercial paper shall use an interest rate for such Parity Water/Wastewater Obligations calculated in the manner provided in clause (v) of this definition and the maturity schedule shall be calculated in the manner provided in clause (ii) of this definition; and

(vii) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (i) through (vi) above and any payments otherwise included above under (i) through (vi) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"Bond Counsel" means Messrs. Fulbright & Jaworski L.L.P. or other firm engaged by the City with legal experience and expertise in the issuance and sale of obligations by municipalities in the State of Texas and with respect to the exclusion of interest on obligations from federal income taxation under Section 103(a) of the Code.

"City" and **"Issuer"** mean the City of Austin, Texas.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

"Commercial Paper Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Credit Agreement" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Water/Wastewater Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City in connection with the authorization, issuance, security, or payment of Parity Water/Wastewater Obligations and on a parity therewith.

"Credit Facility" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Water/Wastewater Obligations would rate the Parity Water/Wastewater Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Water/Wastewater Obligations would assign a rating to the Parity Water/Wastewater Obligations of one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Water/Wastewater Obligations and the interest thereon.

"Credit Provider" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

"Debt" of the City payable from Net Revenues means all:

(i) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Water/Wastewater System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(ii) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Net Revenues of the Water/Wastewater System, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (A) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (B) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"Debt Service Fund" means the "Water/Wastewater System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"Designated Financial Officer" shall mean the Director of Finance, Treasurer or such other financial or accounting official of the City so designated by the governing body of the City.

"Eligible Investments" means those investments in which the City is now or hereafter authorized by law, including, but not limited to, the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), as amended, to purchase, sell and invest its funds and funds under its control.

"Fiscal Year" means the twelve month financial accounting period for the Water/Wastewater System which currently ends on September 30 of each calendar year.

"Fund" means any fund created, established and maintained under the terms of the Ordinance and any Supplement.

"Funded Debt" of the Water/Wastewater System means all Parity Water/Wastewater Obligations (and, for purposes of Section 10(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"Government Obligations" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

"Gross Revenues" means all revenues, income, and receipts derived or received by the City from the operation and ownership of the Water/Wastewater System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Water/Wastewater System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code, and Other Available Water/Wastewater System Revenues . The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts and grants in aid of construction or impact fees charged under authority of Chapter 395, Texas Local Government Code, which by law are restricted as to use.

"Holder" or **"Bondholder"** or **"owner"** means the registered owner appearing on the books and records of the Registrar of any Parity Water/Wastewater Obligation registered as to ownership and the holder of any Parity Water/Wastewater Obligation payable to bearer.

"Maturity" when used with respect to any Debt means the date the principal of such Debt or any installment thereof becomes due and payable, whether at its Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

"Net Revenues" and **"Net Revenues of the Water/Wastewater System"** with respect to any period of time means the Gross Revenues for such period less Operating Expenses incurred during such period.

"Operating Expenses" means the expenses of operation and maintenance of the Water/Wastewater System, including all salaries, labor, materials repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Water/Wastewater Obligations. Operating Expenses shall include the purchase of water, the treatment and disposal of wastewater, and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

"Opinion of Counsel" means a written opinion of counsel acceptable to the City.

"Ordinance" means this Ordinance No. 000608-56A pertaining to the issuance Parity Water/Wastewater Obligations, and any amendments thereto.

"Other Available Water/Wastewater System Revenues" means an amount of unencumbered funds accumulated in the Water/Wastewater System Surplus Revenue Account designated as Other Available Water/Wastewater Funds and deposited to the credit of the System Fund as provided in Section 9 hereof; provided, the maximum amount which may be so designated in any Fiscal Year for purposes of complying with the provisions of Sections 4 and 10 of this Ordinance cannot exceed twenty-five per cent (25%) of the Debt Service Requirements for the Parity Water/Wastewater Obligations for such Fiscal Year.

"Outstanding" when used with respect to Parity Water/Wastewater Obligations means, as of the date of determination, all Parity Water/Wastewater Obligations theretofore delivered under this Ordinance and any Supplement, except:

(i) Parity Water/Wastewater Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(ii) Parity Water/Wastewater Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;

(iii) Parity Water/Wastewater Obligations upon transfer of or in exchange for and in lieu of which other Parity Water/Wastewater Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and

(iv) Parity Water/Wastewater Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless acquired for purposes of cancellation, Parity Water/Wastewater Obligations owned by the City shall be deemed to be Outstanding as though owned by any other owner.

"Outstanding Principal Amount" means, with respect to all Parity Water/Wastewater Obligations or to a series of Parity Water/Wastewater Obligations, the outstanding and unpaid principal amount of such Parity Water/Wastewater Obligations paying interest on a current basis and the accreted value as of each compounding date for Parity Water/Wastewater Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Water/Wastewater Obligations

"Prior First Lien Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Prior Subordinate Lien Obligations" means to obligations identified and described in the preamble of the Ordinance.

"Parity Water/Wastewater Obligations" means all Debt of the City, except Previously Issued Separate Lien Obligations, issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

"Paying Agent" means bank, trust company or other entity selected by the City in a Supplement undertaking the duties and responsibilities for the payment to the Holders of the principal of and interest on the series or issue of Parity Water/Wastewater Obligations.

"Previously Issued Separate Lien Obligations" means those obligations payable, in whole or in part under a contract with the City, from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and more particularly described as follows: (i) Circle C MUD#4 City of Austin, Texas Contract Revenue Bonds, Series 1990,dated date February 1, 1990 and currently outstanding in the principal amount of $2,745,000, (ii) Circle C MUD #3 City of Austin, Texas Contract Revenue Bonds, Series 1991,dated date June 15, 1991, and currently outstanding in the principal amount of $26,835,000, (iii) Village at Western Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $17,570,000, (iv) Southland Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $20,525,000, (v) Maple Run at Austin MUD City of Austin, Texas Contract Revenue Bonds, Series 1992, dated February 1, 1992, and currently outstanding in the principal amount of $13,255,000, and (vi) North Austin MUD#1 City of Austin, Texas Refunding Contract Revenue Bonds, Series 1994, dated February 1, 1994, and currently outstanding in the principal amount of $13,035,000.

"Prudent Utility Practice" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act at the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the Water/Wastewater System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"Rating Agency" means a nationally recognized securities rating agency which has assigned a rating to the Parity Water/Wastewater Obligations.

"Required Reserve Amount" means an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations then Outstanding, to the extent such Parity Water/Wastewater Obligations are to be secured by the Reserve Fund in accordance with the terms and provisions of Section 8 of the Ordinance and the provisions of any Supplement.

"Reserve Fund" means the "Water/Wastewater System Revenue Obligation Reserve Fund" established pursuant to Section 8 of the Ordinance.

"Reserve Fund Obligations" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

"Registrar" means bank, trust company or other entity selected by the City in a Supplement to serve as the registrar for the registration and transfer of a series or issue of Parity Water/Wastewater Obligations issued in fully registered form as to the payment of principal of and interest thereon.

"Stated Maturity" when used with respect to Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"Subordinated Debt" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Water/Wastewater Obligations then Outstanding or subsequently issued.

"Supplement" or **"Supplemental Ordinance"** means an ordinance supplemental to, and authorized and adopted by the governing body of the City pursuant to the terms of, the Ordinance.

"System Fund" means the **"Water and Sewer System Fund"** affirmed in Section 6 of the Ordinance.

"Term of Issue" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term in any Supplement authorizing the issuance of commercial paper) or (ii) twenty-five years.

"Utility System Consultant" means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal water and wastewater facilities and systems similar in size to the Water/Wastewater System.

"Value of Investment Securities" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

"Water/Wastewater System"means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of water and the collection, treatment and disposal or reuse/reclaim of wastewater, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Water/Wastewater System shall not include facilities of any kind which are declared not to be a part of the Water/Wastewater System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities.

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APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

SECTION : Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues." Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B," dated February 1, 1990, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992," dated March 1, 1992, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A," dated May 15, 1992, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993," dated January 15, 1993, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A," dated June 1, 1993, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994," dated September 1, 1994, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995," dated June 1, 1995, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A," dated August 1, 1996, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B," dated August 1, 1996, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997," dated August 1, 1997, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998," dated July 1, 1996, and (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A," dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994," dated March 1, 1994, (ii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998," dated August 1, 1998, (iii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (iv) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A," dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION : <u>Pledge</u>. (a) <u>Electric Light and Power System</u>. 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) <u>Waterworks and Sewer System</u>. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net

Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

SECTION : Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

(1) To pay the respective Maintenance and Operating Expenses thereof,

(2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,

(3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and

(4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

SECTION : Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

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

SECTION : Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

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

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

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

SECTION : Reserve Fund. (a) In connection with the issuance of the Prior Lien Bonds and Subordinate Lien Bonds, the City agrees and covenants to keep and maintain with its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on (i) the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement noted below, whichever date is the last to occur. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which, subject to the limitations hereinafter specified, may be withdrawn and transferred from the Reserve Fund) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is $106,790,235.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund.

Currently, the Required Reserve is fully funded with Financial Commitments of Financial Security Assurance Inc. in the amounts of $30,000,000 (the Initial Financial Commitment acquired) and $76,790,325.15 (an additional Financial Commitment acquired on or about August 31, 2004).

When and so long as the money and investments, or Financial Commitments, are on deposit to the credit of the Reserve Fund in an amount equal to or exceeding the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the Required Reserve deficiency occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve. During such time as the

Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the "Interest and Redemption Fund" created and established for the payment and redemption of the Subordinate Lien Bonds while the same remain outstanding and, at such time as the Subordinate Lien Bonds are no longer outstanding, such surplus may be deposited in the Bond Fund.

Notwithstanding any provision contained herein to the contrary, the Required Reserve may be funded, in whole or in part, by depositing to the credit of the Reserve Fund (i) cash, (ii) investments, and (iii) one or more Financial Commitments. The term Financial Commitments means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength meeting the requirements below. Such insurance policy or surety bond shall provide for payment thereunder of moneys when other funds available to the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, in the interest and sinking fund maintained for the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, is insufficient on a payment date when interest or principal, or both, is due and payable for such obligations.

The financial strength of the insurance company or association providing the Financial Commitment must be rated on the date of the deposit of the Financial Commitment to be credit of the Reserve Fund in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by A.M. Best . In the event the rating of the financial strength of a provider of a Financial Commitment falls below (i) "Aa2" by Moody's Investors Service, Inc., (ii) "AA" by Standard & Poor's Ratings Services, (iii) "AA" by Fitch Ratings or (iv) if applicable, "A+" by A.M. Best, the City will be required to replace the Financial Commitment with (a) cash and Authorized Securities or (b) a substitute Financial Commitment issued by an insurance company or association that satisfies the ratings requirements summarized above in this paragraph (but in no event less than the ratings described in clauses (i), (ii), (iii) and (iv) of this sentence.).

Notwithstanding any provision herein to the contrary, the City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following the substitution of one or more Financial Commitments for cash and securities held in the Reserve Fund, the cash and securities released from the Reserve Fund**,** net of costs incurred with respect to the initial substitution of the Financial Commitment, shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Lien Bonds and Subordinate Lien Bonds in a manner that reduces the principal amount and Maturity Amount of outstanding Prior Lien Bonds and Subordinate Lien Bonds.

(b) Initial Financial Commitment. As permitted in paragraph (a) above, the City has determined to acquire initially a Financial Commitment for the Reserve Fund with coverage in the maximum amount of $30,000,000 to fund in part the Required Reserve from Financial Security Assurance Inc., a New York domiciled insurance company (hereinafter referred to as "FSA"). In accordance with FSA's terms for the issuance of a "Municipal Bond Debt Service Reserve Insurance Policy" (the "Reserve Policy"), an Insurance Agreement by and between the City and FSA has been submitted to the City for approval and execution, and such Insurance Agreement, substantially in the form and content of Exhibit A attached hereto, is hereby approved and authorized to be executed by the City Manager and such Insurance Agreement, as executed and delivered by the City Manager, shall be deemed the Insurance Agreement herein approved by the City Council and authorized for execution.

To the extent the City should make a draw under the Reserve Policy, the City acknowledges and agrees the repayment of "Policy Costs," as defined in the Insurance Agreement, shall constitute a payment of an amount required to be deposited in the Reserve Fund to establish and maintained the Required Reserve, and insofar as the priority of uses of the revenues of (i) Electric Light and Power System and (ii) the Waterworks and Sewer System, such Policy Costs shall be entitled to the same priority of payment identified in the Prior Lien Bond Ordinances for payments required to be deposited in the Reserve Fund to establish and maintain the Required Reserve.

SECTION : Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchasers of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

SECTION : Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

SECTION : Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

SECTION : Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Bonds are Outstanding, the City agrees to maintain insurance, for the benefit of the Holders of the Bonds, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

SECTION : Sale, Lease or Disposal of System Property. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the System. In the event the property, facilities or assets of the System sold or exchanged represents more than 5% of the total assets of the System, the City agrees to notify the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations and bond insurance companies insuring the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations of such sale, exchange or disposal of property and facilities. Prior to the sale or exchange of any assets or properties representing more than 5% of the total assets of the System being completed, a written response shall be obtained from the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations to the effect that such sale or exchange of such assets or properties in and of itself will not result in a rating category change of the ratings then assigned on such obligations. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used either (i) to acquire other property necessary or desirable for the safe or efficient operation of the System, or (ii) to redeem, defease or retire Prior Lien Bonds, Subordinate Lien Bonds or Separate

Lien Obligations.

SECTION : Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

SECTION : Deficiencies; Excess Net Revenues. (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 : Final Deposits; Governmental Obligations. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

SECTION : Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION : Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

APPENDIX E

FORM OF BOND COUNSEL'S OPINION

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Fulbright & Jaworski l.l.p.
A Registered Limited Liability Partnership
2200 Ross Avenue, Suite 2800
Dallas, Texas 75201-2784
www.fulbright.com

telephone: (214) 855-8000 facsimile: (214) 855-8200

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2005" (the "Bonds"), dated May 15, 2005 (the "Bond Date"), in the principal amount of $198,485,000, 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 May 15 and/or November 15 in each of the years stated in the ordinance (the "Ordinance") authorizing the issuance of the Bonds, unless redeemed prior to maturity in accordance with the applicable optional or mandatory redemption provisions. The Bonds accrue interest or accrete in value 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, the defeasance and discharge of the City's outstanding obligations being refunded by the Bonds, 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"); a Special Escrow Agreement between the City and Deustche Bank Trust Company Americas, New York, New York (the "Escrow Agreement"), a special report of The Arbitrage Group, Inc., Certified Public Accountants (the "Accountants"), executed initial Bond; certifications of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and to certain other facts within the knowledge and control of the City; and such other material and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATION, 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.

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

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

We express no opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

APPENDIX F

SPECIMEN BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Assistant Secretary

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

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