OFFICIAL STATEMENT
Dated May 5, 2008

See "OTHER RELEVANT INFORMATION – Ratings" herein.

NEW ISSUE – Book-Entry-Only

Delivery of the Bonds is subject to the receipt of the opinion of Fulbright & Jaworski L.L.P., Dallas, Texas, Bond Counsel, to the effect that, assuming continuing compliance by the City with certain covenants contained in the Fifteenth Supplement described herein and subject to the matters described under "TAX MATTERS" 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.

$170,605,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008

Dated Date: May 15, 2008 **Due: May 15, 2031**

The bonds offered hereby are the City of Austin, Texas (the "City") $170,605,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 (the "Bonds"). The Bonds represent the fifteenth 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 and pricing certificate delegated thereunder (the "Fifteenth Supplement"). The Master Ordinance provides for the terms for the issuance of Parity Water/Wastewater Obligations and the covenants and security provisions related thereto. The City is also incurring additional Parity Water/Wastewater Obligations in connection with the issuance of the Bonds, specifically the City's obligations related to scheduled payments under the Series 2008 Interest Rate Management Agreement (other than termination payments thereunder) and the Credit Facility related to the Bonds as more fully described herein. The City also has outstanding its 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 Master Ordinance provides that no 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 shall be issued. Commercial Paper Obligations having a combined pledge of Electric Utility System and Water and Wastewater System revenues may continue to be issued on a subordinate 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 Fifteenth 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 will initially bear interest at an initial rate to be established on or about May 14, 2008 and to be in effect during the Initial Rate Period, which is anticipated to commence on the date of their initial issuance and delivery and continue to (but not include) May 22, 2008. Thereafter, the Bonds will bear interest at a Weekly Rate and the interest rate on the Bonds will be adjusted on each Wednesday (or the immediately preceding Business Day if Wednesday is not a Business Day) of each week by Goldman, Sachs & Co., as the Remarketing Agent for the Bonds. The Bonds will continue to bear interest at a Weekly Rate unless, at the direction of the City and subject to the satisfaction of certain conditions precedent included in the Fifteenth Supplement, the interest rate on the Bonds is changed to another type of interest rate mode. **This Official Statement describes terms and provisions applicable to the Bonds only while they are in the Weekly Mode. In the event of a conversion to an Interest Rate Mode other than a Weekly Mode, the Bonds will be subject to mandatory tender and potential purchasers of the converted Bonds will be provided with separate offering materials containing descriptions of the terms of the Bonds applicable to the Mode to which the Bonds are being converted.** The Bonds are subject to optional, extraordinary and mandatory redemption prior to maturity and to optional and mandatory tender, all as described herein. See "DESCRIPTION OF THE BONDS" herein.

Goldman, Sachs & Co.

The Bonds are issuable only in fully registered form in the denomination of $100,000 or any integral multiple of $5,000 in excess of $100,000, and, when issued, 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. Principal of and interest on the Bonds will be payable by the Paying Agent named herein to the registered owners of the Bonds (or to Cede & Co., as long as the book-entry-only system is in effect and DTC is the Securities Depository). Subsequent disbursements of such principal and interest will be made to the individual purchases of beneficial interests in the Bonds. Interest on the Bonds during a Weekly Rate Period will be payable on the fifteenth day of each month (or the next succeeding Business Day if the fifteenth day is not a Business Day), commencing June 15, 2008. Principal at maturity or upon redemption will be payable upon presentation and surrender at the Designated Payment/Transfer Office of the Paying Agent, which is U.S. Bank National Association, St. Paul, Minnesota (the "Designated Payment/Transfer Office"). The purchase price of the Bonds upon optional or mandatory tender for purchase will be payable by the Tender Agent (as hereafter defined) upon presentation and surrender of the Bonds at the designated tender office of the Tender Agent, which is U.S. Bank National Association in New York, New York (the "Tender Office"). The Tender Office shall be established and maintained in accordance with the Fifteenth Supplement. Notwithstanding the foregoing during any period in which the beneficial ownership of the Bonds is determined by a book-entry at a security depository, the requirements in the Fifteenth Supplement for holding, registering, delivering exchanging or transferring the Bonds are deemed modified to confirm to the arrangements between the City and the securities depository.

Holders will (a) have the option to tender their Bonds for purchase at a price equal to the principal amount thereof, plus accrued interest, while in a Weekly Rate Period on seven days prior notice to the Tender Agent and at other times and subject to the conditions described herein, (b) be required to tender their Bonds for purchase upon conversion of the interest rate on the Bonds to any other interest rate Mode that is not a Weekly Mode, (c) be required to tender their Bonds for purchase upon the expiration or replacement of the Credit Facility or Liquidity Facility (as defined and described herein), and (d) be required to tender their Bonds for purchase under other circumstances described herein. All tenders are required to be made to the Tender Agent. Tendered Bonds may be remarketed and remain outstanding. Bonds tendered for purchase will be paid first, from the proceeds of remarketing, if any, and second, from money furnished pursuant to an irrevocable direct pay letter of credit (the "Initial Letter of Credit") issued pursuant to a Reimbursement Agreement dated May 1, 2008 (the "Reimbursement Agreement") between the City and Dexia Credit Local, acting through its New York Branch (the "Bank"). The Initial Letter of Credit provides liquidity only for the Bonds that are in a Weekly Mode. **The City has no obligation to purchase tendered Bonds.** (See "DESCRIPTION OF THE BONDS – Tender Provisions.")

DEXIA

Payment of principal and interest on the Bonds will be made from funds drawn under the Initial Letter of Credit issued by the Bank.

In connection with the issuance of the Bonds, the City has entered into an interest rate management agreement (the "Series 2008 Interest Rate Management Agreement") with Goldman, Sachs Capital Markets, L.P. ("Goldman"), in which the City agrees to pay a fixed interest rate of 3.60% to Goldman and Goldman agrees to pay a floating interest rate to the City (see "THE INTEREST RATE MANAGEMENT AGREEMENT").

Price: 100%

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

It is expected that the Bonds will be delivered through the facilities of DTC on or about May 15, 2008.

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CITY OF AUSTIN

Elected Officials

		Term Expires June 20
Will Wynn	Mayor	2009
Lee Leffingwell	Councilmember Place 1	2008
Mike Martinez	Councilmember Place 2	2009
Jennifer Kim	Councilmember Place 3	2008
Betty Dunkerley, Mayor Pro Tem	Councilmember Place 4	2008
Brewster McCracken	Councilmember Place 5	2009
Sheryl Cole	Councilmember Place 6	2009

Appointed Officials

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

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

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

FINANCIAL ADVISOR
The PFM Group
Austin, Texas

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

For additional information regarding the City, please contact:

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The PFM Group
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Austin, Texas 78701
(512) 472–7194
allenc@pfm.com

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 fiscal years ended September 30, 2003 through 2007 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				
	2007	2006	2005	2004	2003
Combined Gross Revenues	$1,393,344	$1,412,853	$1,260,401	$1,076,511	$1,189,672
Combined Maintenance and Operating Expenses	846,005	824,870	730,697	626,412	663,651
Combined Net Revenues	$ 547,339	$ 587,983	$ 529,704	$ 450,099	$ 526,021
Principal and Interest on Revenue Bonds (1)	$ 137,553	$ 108,258	$ 131,749	$ 169,039	$ 173,010
Debt Service Coverage on Revenue Bonds (1)	3.98x	5.43x	4.02x	2.66x	3.05x

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

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Water and Wastewater System Only

The selected financial information below presents selected historical information related to the Water and Wastewater System of the City. The financial information for the fiscal years ended September 30, 2003 through 2007 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				
	2007	2006	2005	2004	2003
Gross Revenues	$296,475	$309,188	$270,867	$234,970	$245,943
Maintenance and Operating Expenditures	134,824	129,599	116,478	109,555	109,416
Net Revenues	$161,651	$179,589	$154,389	$125,415	$136,527
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Obligations (1)	$ 19,602	$ 19,577	$ 19,805	$ 37,251	$ 40,630
Net Revenues Available for Water and Wastewater System Separate Lien Obligations	$142,049	$160,012	$134,184	$ 88,164	$ 95,897
Principal and Interest on Water and Wastewater System Separate Lien Obligations (2)	$ 91,898	$ 86,969	$ 82,156	$ 56,881	$ 36,819
Debt Service Coverage (Water and Wastewater Separate Lien Obligations) (3)	1.55x	1.84x	1.64x	1.55x	2.60x

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

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For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document constitutes an Official Statement of the City with respect to the Bonds that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

No dealer, salesman or any other person has been authorized by the City or by the Underwriter 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 Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, any of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

The price and other terms representing the offering and sale of the Bonds may be changed from time to time by the Underwriter 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 Underwriter 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 THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED ANY OF THE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

Neither the City, The PFM Group, Financial Advisor to the City, nor the Underwriter makes any representation regarding the information contained in this Official Statement regarding The Depository Trust Company, or its book-entry-only system, as such information has been furnished by the Depository Trust Company or regarding the Bank or its letter of credit and reimbursement agreement, as such information has been furnished by the Bank. 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

$170,605,000

Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008

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 $170,605,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 (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 of the City Council adopted by the City Council on March 6, 2008 (the "Supplemental Ordinance"), which delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" (the Supplemental Ordinance and the Pricing Certificate collectively herein after referred to as the "Fifteenth Supplement") providing the specific terms of the Bonds. A summary of certain provisions of the Master Ordinance is attached hereto as APPENDIX C. **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance, the Fifteenth Supplement or the Prior Lien Ordinance (as hereinafter defined), as applicable (see APPENDICES C and D)**. The references herein to Credit Facility, which is defined in the Master Ordinance and Credit Enhancement and Liquidity Facility, which are defined in the Fifteenth Supplement are for purposes of this Official Statement, referencing the Initial Letter of Credit. 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 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 $158,805,000 of the City's outstanding Combined Utility Systems Revenue Bonds issued for the Water and Wastewater System and Previously Issued Parity Water/Wastewater Obligations (collectively the "Refunded Bonds"). See APPENDIX F for a listing of the Refunded Bonds. The refunding will result in debt service savings to the City. Proceeds of the Bonds will also be used to pay costs of issuance and to fund the required reserve amount for the Bonds. The Bonds represent the obligations to be issued or incurred as Parity Water/Wastewater Obligations to be issued as bonds under the Master Ordinance. The City is also incurring additional Parity Water/Wastewater Obligations in connection with the issuance of the Bonds, specifically the City's obligations related to scheduled payments under the Series 2008 Interest Rate Management Agreement (other than the termination payments thereunder) and the Credit Facility related to the Bonds, as more fully described herein. 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.

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 $540.9 million of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of April 1, 2008 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 Special Escrow Agreement (the "Escrow Agreement") between the City and U.S. Bank National Association, Houston, Texas (the "Escrow Agent"). The Fifteenth 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 "Escrowed 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 Underwriter the mathematical accuracy of the schedules that demonstrate that the Escrowed 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 Escrowed Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the Bonds.

By the deposit of the Escrowed 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 Escrowed 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 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	$170,605,000.00
Total	$170,605,000.00
Uses:	
Deposit to Escrow Fund	$163,935,176.29
Deposit to the Reserve Fund	5,505,419.57
Underwriter's Discount	511,815.00
Cost of Issuance	652,589.14
Total	$170,605,000.00

OBLIGATIONS PAYABLE FROM SYSTEMS REVENUES
(As of April 1, 2008)

Combined Utility Systems Obligations	
Prior First Lien Obligations (a)	$ 292,456,086
Prior Subordinate Lien Obligations	248,454,512
Sub-Total	$ 540,910,598
Parity Electric Utility Obligations	$ 877,520,000
Water & Wastewater System Separate Lien Obligations (a) (b)	
Parity Water & Wastewater Obligations (a) (c)	$1,358,465,000
North Austin MUD No. 1	1,695,000
Sub-Total	$1,360,160,000
Commercial Paper (d)	$ 247,778,000
General Obligation Bonds (e)	$ 18,373,357
Assumed Bonds and Obligations	
Assumed District Bonds (f)	$ 7,628,768
TOTAL	$3,052,370,723

(a) Excludes the Refunded Bonds.
(b) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only.
(c) Includes the Bonds and the City's obligations related to the Series 2008 Interest Rate Management Agreement (other than termination payments thereunder) and the Credit Facility.
(d) 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 for $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 Obligations, the Prior Subordinate Lien Obligations, the Parity Electric Utility Obligations and the Water/Wastewater System Separate Lien Obligations. The City's current Financial Policy provides that Commercial Paper Note proceeds can only be utilized (i) for voter authorized projects (although such voter authorization is not required by State law), or (ii) to finance routine capital improvements required for normal business operation or improvements to comply with local, state and federal mandates without prior voter authorization. The Electric Utility System may utilize commercial paper for all improvements, excluding major generation needs.
(e) Contractual Obligations and Public Improvement Refunding Bonds are 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.
(f) Such bonds are payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

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DEBT SERVICE REQUIREMENTS (a)

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds (a) (b)	Outstanding Subordinate Lien Bond	Total Prior & Subordinate Lien Bond Requirements	The Bonds		Electric Utility System Obligations	Water & WW Separate Lien Obligation Bonds (a) (b)	Assumed MUD Obligations (d)	Total Separate Lier and Combined Utility Systems Requirements
				Principal	Interest (c)				
2008	$ 25,474,244	$ 8,317,074	$ 33,791,318	$ -	$ -	$ 21,100,550	$ 39,447,480	$ 765,671	$ 95,105,019
2009	110,487,438	15,447,071	125,934,509	1,135,000	6,121,350	71,641,728	101,529,460	906,295	307,268,342
2010	110,553,144	15,117,876	125,671,020	2,595,000	6,054,210	76,366,013	89,828,661	911,470	301,426,374
2011	106,530,006	15,912,755	122,442,761	6,135,000	5,897,070	80,920,134	77,531,454	914,612	293,841,032
2012	101,218,069	16,861,853	118,079,921	6,380,000	5,671,800	79,135,863	82,265,888	915,777	292,449,250
2013	61,565,588	17,129,078	78,694,665	6,640,000	5,437,440	106,777,476	98,274,972	930,072	296,754,625
2014	5,967,175	18,579,978	24,547,153	22,600,000	5,089,320	147,876,423	112,114,136	1,077,183	313,304,214
2015	6,045,000	30,478,963	36,523,963	9,425,000	4,334,670	98,149,161	107,434,978	1,078,343	256,946,114
2016	6,045,000	31,239,715	37,284,715	1,805,000	4,132,530	61,302,680	119,845,748	1,088,425	225,459,097
2017	42,150,000	21,563,885	63,713,885	4,070,000	4,026,780	59,513,892	92,310,902	947,019	224,582,477
2018	62,050,000	21,805,425	83,855,425	4,130,000	3,879,180	45,690,422	70,825,579	650,355	209,030,960
2019	31,735,000	21,129,813	52,864,813	4,190,000	3,729,420	45,529,373	71,387,506	-	177,701,112
2020	-	23,728,400	23,728,400	4,260,000	3,577,320	45,240,548	78,356,895	-	155,163,163
2021	-	23,806,325	23,806,325	3,210,000	3,442,860	42,536,078	78,583,699	-	151,578,963
2022	-	29,843,513	29,843,513	530,000	3,375,540	36,504,042	78,011,032	-	148,264,127
2023	-	28,853,025	28,853,025	10,940,000	3,355,470	36,468,585	68,981,156	-	148,598,236
2024	-	28,640,038	28,640,038	10,675,000	2,972,160	36,390,894	69,733,082	-	148,411,173
2025	-	25,298,938	25,298,938	11,035,000	2,587,860	36,567,499	56,534,739	-	132,024,035
2026	-	9,630,775	9,630,775	7,800,000	2,190,600	36,485,024	60,374,394	-	116,480,792
2027	-	10,046,013	10,046,013	30,000	1,909,800	36,542,843	66,505,550	-	115,034,205
2028	-	10,138,313	10,138,313	12,560,000	1,908,720	36,535,329	54,149,050	-	115,291,412
2029	-	-	-	12,950,000	1,456,560	36,369,201	53,800,125	-	104,575,886
2030	-	-	-	13,530,000	990,360	23,168,831	45,634,625	-	83,323,816
2031	-	-	-	13,980,000	503,280	23,251,094	26,015,538	-	63,749,912
2032	-	-	-	-	-	13,442,551	25,994,988	-	39,437,538
2033	-	-	-	-	-	13,352,417	26,074,881	-	39,427,299
2034	-	-	-	-	-	9,397,500	26,105,875	-	35,503,375
2035	-	-	-	-	-	9,372,500	26,070,375	-	35,442,875
2036	-	-	-	-	-	9,327,500	17,559,500	-	26,887,000
2037	-	-	-	-	-	-	17,554,250	-	17,554,250
2038	-	-	-	-	-	-	8,743,250	-	8,743,250

(a) Debt outstanding as of 4/1/08.
(b) Excludes the Refunded Bonds.
(c) Calculated using synthetic fixed rate of 3.60% to be paid by the City pursuant to the Series 2008 Interest Rate Management Agreement.
(d) Includes Assumed MUD's, 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 ordinances 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 fifteenth encumbrance issued or incurred as Parity Water/Wastewater Obligations for the benefit of the City's Water and Wastewater System. The Master Ordinance and the Fifteenth Supplement pledge the Net Revenues of the Water and Wastewater System to the payment of the "Parity Water/Wastewater Obligations" (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.

In addition, the City is also incurring additional Parity Water/Wastewater Obligations in connection with the issuance of the Bonds, specifically the City's obligations related to scheduled payments under the Series 2008 Interest Rate Management Agreement (other than termination payments thereunder) and the Credit Facility under the Master Ordinance, all as more fully described herein (see "THE SWAP AGREEMENT" and "INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT"). Such additional Parity Water/Wastewater Obligations are secured by a lien on Net Revenues of the Water and Wastewater System on parity with the Bonds.

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

In the Prior Lien Ordinance, the City 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 and (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.

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 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 or obligations incurred by the City under the Series 2008 Interest Rate Management Agreement. 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. The Initial Letter of Credit is not a Credit Facility as such term is used under this heading.

In accordance with the provisions of the Master Ordinance and Supplements authorizing the issuance of the Previously Issued Parity Water/Wastewater Obligations, there is currently on deposit in the Reserve Fund surety bonds issued by MBIA Insurance Corporation ("MBIA"), XL Capital Assurance Inc. ("XL"), Financial Security Assurance Inc. ("Financial Security") and Ambac Assurance Corporation ("Ambac"). In addition, in connection with the issuance of the Series 2008 Bonds, cash in an amount equal to 50% of the Average Annual Debt Service Requirement of the Bonds is expected to be deposited to the credit of the Reserve Fund.

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 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. No deposits to the Reserve Fund shall be required with respect to the City's obligations under the Series 2008 Interest Rate Management Agreement or the Credit Facility. The Reserve Fund may not be used to pay the City's obligations with respect to the Series 2008 Interest Rate Management Agreement.

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, S&P and 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 is $106,790,325.15 (the "Required Reserve") and is funded with Financial Commitments issued by Financial Security. 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 and Subordinate Lien Bonds Precluded

The Master Ordinance provides that no additional revenue obligations 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 Net Revenues of 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 hereof and thereof, 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 and the City's obligations related to the Series 2008 Interest Rate Management Agreement (other than termination payments thereunder) and the Credit Facility (initially, the Initial Letter of Credit) are being incurred in satisfaction of the requirements described in this paragraph.

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

In making a determination of Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water and Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water and Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion. In connection with the adoption of the Fiscal Year 2007-08 operating budget, the City Council adopted a rate increase, which became effective November 1, 2007. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates".

Short-Term Parity Water/Wastewater Obligations

Pursuant to the Master Ordinance, the City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of satisfying the Net Revenues coverage test for additional Parity Water/Wastewater Obligations, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, are to be contained in a Supplement relating to their issuance.

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and, subject to obtaining the consent of the Credit Providers of the Credit Agreements for the Commercial Paper, Subordinated Debt may be incurred by the City without limitation.

Credit Agreements

Under the Master Ordinance, payments to be made under a Credit Agreement may be treated as Parity Water and 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. The Series 2008 Interest Rate Management Agreement, and the Initial Letter of Credit issued pursuant to the Reimbursement Agreement, are Credit Agreements within the meaning of the Master Ordinance and the City's obligations thereunder are Parity Water and Wastewater Obligations.

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 "2004 Variable Rate Bonds") and delivered on August 27, 2004. In conjunction with the delivery of the 2004 Variable Rate Bonds, and pursuant to a sixth supplemental ordinance to the Master Ordinance, the City entered into an Interest Rate Swap Agreement (the "2004 Swap Agreement") with JPMorgan Chase Bank ("JPM"), pursuant to which the City is obligated to make payments to JPM calculated on a notional amount equal to the scheduled outstanding principal amount of the 2004 Variable Rate Bonds and a fixed interest rate of 3.657% per annum, and JPM is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the 2004 Variable Rate Bonds and a variable rate equal to 68% of the one-month London Interbank Borrowing Rate (LIBOR) for U.S. deposits. Payments under the 2004 Swap Agreement will be made on a net basis on the fifteenth day of each month, commencing in September 2004 and ending in May 2024. Interest on the 2004 Variable Rate Bonds is calculated on the basis of an index that differs from the LIBOR index used to calculate amounts payable to the City under the terms of the 2004 Swap Agreement. The City entered into the 2004 Swap Agreement in conjunction with the issuance of the 2004 Variable Rate Bonds in order to effect and quantify a debt service savings on outstanding bonds that were refunded with the proceeds of the 2004 Variable Rate Bonds. On the effective date of the 2004 Swap Agreement, JPM was rated "Aa2" by Moody's, "AA-" by S&P and "AA-" by Fitch. Payments to be made by the City, if any, under the terms of the 2004 Swap Agreement (other than a "termination payment" as discussed below) are payable solely from and equally and ratably secured by a lien on the Net Revenues of the Water/Wastewater System of equal rank and dignity with the lien and pledge securing the payment of Parity Water/Wastewater Obligations. See APPENDIX B – "EXCERPTS FROM THE ANNUAL FINANCIAL REPORT – Note 14e – Swap for the Water & Wastewater System" for a discussion relating to the valuation of and risks associated with the 2004 Swap Agreement. As of the date of this Official Statement, the net aggregate monthly payments the City has made under the 2004 Swap Agreement equal $311,309.

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

The debt service payments on the 2004 Variable Rate Bonds and the scheduled monthly payments to be made by the City under the terms of the 2004 Swap Agreement were insured by policies issued by Financial Security; 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 Financial Security.

System Fund

Under the Master Ordinance and 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 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 therein 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.

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.

Financial Guaranty Disclosure

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Service, a division of The McGraw Hill Companies, Inc. ("S&P"), and Fitch, Inc. ("Fitch") (collectively referred to as the "Rating Agencies") have each released statements on the health of the financial guaranty industry that cite financial guarantors' exposure to subprime mortgage risk, among other things, as an area of stress for the financial guaranty industry. In various releases, the Ratings Agencies have each outlined the processes they are implementing in evaluating the effect of this risk on their respective ratings of financial guarantors, and have issued reports stating the results of the evaluations. For some financial guarantors, the result of evaluations could be a rating affirmation, a change in rating outlook, a review for downgrade, or a downgrade. As of January 18, 2008, Fitch downgraded the rating of Ambac from "AAA" to "AA". On January 24, 2008, Fitch downgraded the Insurer Financial Strength rating of Security Capital Assurance, the parent company of XL from "AAA" to "A", and on March 26, 2008, Fitch further downgraded the Insurer Financial Strength of Security Capital Assurance, the parent company of XL, from "A" to "BB". On February 7, 2008, Moody's downgraded the Insurer Financial Strength rating of Security Capital Assurance, the parent company of XL, from "Aaa" to "A3". On February 25, 2008, S&P downgraded the Insurer Financial Strength rating of Security Capital Assurance, the parent company of XL, from "AAA" to "A-". As of April 4, 2008, Fitch downgraded the Insurer Financial Strength rating of MBIA from "AAA to "AA". Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors, including XL, MBIA, Financial Security and Ambac, the issuers of the surety bonds presently deposited to the credit of the Reserve Fund. According to all three of the Rating Agencies, Financial Security currently has a stable rating outlook, while the Rating Agencies have announced that MBIA and Ambac may be subject to ratings downgrades (to the extent a ratings downgrade has not yet been announced, as was the case with both Ambac and MBIA by Fitch).

DESCRIPTION OF THE BONDS

The Bonds will be issued in the aggregate amount of $170,605,000 and will mature on May 15, 2031 (the "Maturity Date") subject to prior redemption. The Bonds shall bear interest as described below.

General

Book-Entry-Only System The Bonds will be issued under a book-entry-only system, and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as bond depository for the Bonds. Principal or redemption price of and interest on the Bonds are payable by the Paying Agent/Registrar to Cede & Co., so long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, which will, in turn, remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners (See "BOOK-ENTRY-ONLY SYSTEM" herein).

Authorized Denominations. Initially, the Bonds will be issued in denominations of $100,000 and integral multiples of $5,000 in excess thereof. The authorized denominations are subject to change if the Interest Rate Mode is converted to a mode other than the Weekly Mode or the Daily Mode.

Calculation of Interest. Interest on the Bonds during the Initial Rate Period, and in the Weekly Mode or the Daily Mode, will be calculated on the basis of a 365-day or 366-day year, as applicable, for the actual number of days elapsed at the applicable Weekly Rate or Daily Rate. Initially the Bonds are issued at the Weekly Rate; provided, that from the date of issuance of the Bonds to, but not including Thursday, May 22, 2008, the Bonds will bear interest at a per annum rate to be established on or about May 14, 2008 (such period referred to herein as the "Initial Rate Period"). The interest rate for the Bonds in the Daily Mode or Weekly Mode is to be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the Bonds in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to the principal amount thereof, plus interest, if any accrued through the Rate Determination Date during the then current Interest Accrual Period. Initially, the Rate Determination Date for Bonds in the Weekly Mode is each Wednesday, or the immediately succeeding Business Day if Wednesday is not a Business Day.

The Remarketing Agent is required to establish each Weekly Rate by 4:00 p.m., New York City time, and each Daily Rate by 10:00 a.m., New York City time, on the applicable Rate Determination Date, and to make the new rate available by no later than 5:00 p.m. on the Business Day following the Rate Determination Date by the telecopy, facsimile, email or other means specified in the Fifteenth Supplement to the City, the Paying Agent/Registrar, the Tender Agent, and the Bank requesting such rate. If the Remarketing Agent fails for any reason to determine the Weekly Rate or the Daily Rate, then such Bonds shall bear a rate per annum equal to 110% of the SIFMA Municipal Swap Index of Municipal Market Data most recently available as of the date of determination or as otherwise set forth in the Fifteenth Supplement.

In no circumstances, may interest on the Bonds (other than Bonds held by the Bank or its assignees) exceed the lesser of (a) 12% or (b) the maximum lawful nonusurious interest rate allowed by applicable law.

Interest Payment Method. Other than as provided in the Fifteenth Supplement with respect to the Bonds held in the Book-Entry System, interest is to be paid with respect to Bonds in the Weekly Mode or the Daily Mode to each Holder at the address shown in the Security Register on the applicable Record Date (i) by federal funds by wire transfer by the Paying Agent/Registrar to an account specified by the Holder in writing delivered to the Paying Agent/Registrar, or (ii) by such other customary banking arrangement acceptable to the Paying Agent/Registrar at the request of and at the risk and expense of the Holder.

Record Date for Interest Payment. The record date ("Record Date"), for the interest payable on any interest payment date on Bonds bearing interest at a Weekly Rate or Daily Rate, means the Business Day immediately preceding the interest payment date.

Interest Payment Dates. Interest on the Bonds in the Weekly Mode or the Daily Mode is to be paid on the 15th day of each month commencing June 15, 2008, in an amount equal to the interest accrued during the Interest Accrual Period preceding the applicable Interest Payment Date. If such date is not a Business Day, such interest will be paid on the next Business Day.

Paying Agent/Registrar. U. S. Bank National Association will serve as Paying Agent/Registrar and may resign at any time and may be replaced in accordance with the Fifteenth Supplement; provided, however, that any such resignation shall not take effect until a successor is appointed. The address of U. S. Bank National Association for purposes of its duties as Paying Agent/Registrar is 60 Livington Avenue, First Floor, Attention: Bond Operations, St. Paul, MN 55107.

Tender Agent. U.S. Bank National Association will serve as initial Tender Agent for the Bonds and may resign at any time and may be replaced in accordance with the Fifteenth Supplement; provided, however, that any such resignation shall not take effect until a successor is appointed. All notices and Bonds required to be delivered to the Tender Agent shall be delivered by mail delivery/overnight mail to: U. S. Bank National Association (the "Tender Agent"), 100 Wall Street, Suite 1600, New York, New York 10005.

Remarketing Agent. Goldman, Sachs & Co. has been appointed to serve as the initial remarking agent (the "Remarketing Agent") for the Bonds. Goldman, Sachs & Co. may resign or be removed as Remarketing Agent and a successor may be appointed in accordance with the Fifteenth Supplement. The office of Goldman, Sachs & Co. for purposes of its duties as Remarketing Agent is Goldman Sachs & Co., 85 Broad Street, New York, NY, phone (212) 902-6373.

Interest Rate Modes; Conversion

The Fifteenth Supplement permits the City, by complying with certain conditions, to convert the interest rate on the Bonds from a Weekly Rate to another interest rate, including a Daily Rate or a different form of adjustable rate, or a rate that is fixed to the maturity of the Bonds. If Bonds are converted from a Weekly Mode to a Daily Mode or from a Daily Mode to a Weekly Mode, Holders will receive notice of such conversion at least 20 days prior to the Mode Change Date. Holders of Bonds are not required to tender their Bonds in connection with a change between a Weekly Mode and a Daily Mode unless an Alternate Credit Enhancement or an Alternate Liquidity Facility is required in connection with any such mode change. During each Weekly Mode, Holders retain their rights, subject to the conditions described herein under the caption "Tender Provisions – Optional Tender" below to tender their Bonds for purchase at a price of the principal amount thereof plus unpaid accrued interest to the tender date.

Upon conversion of the Bonds to any Interest Rate Mode from Weekly Mode, Holders will be required to tender their Bonds for purchase of the principal amount thereof plus unpaid accrued interest to the tender date, as described under the caption "Tender Provisions – Mandatory Tenders" below. Holders will not have the option to retain Bonds that are required to be tendered due to such an Interest Rate Mode change.

This Official Statement describes terms and provisions applicable to the Bonds only while they are in the Weekly Mode. In the event of a conversion to another Mode, the Bonds will be subject to mandatory tender. The converted Bonds would be remarketed and potential purchasers of those converted Bonds will be provided with separate offering materials containing descriptions of the terms of the Bonds applicable to the Bonds in the Mode to which the Bonds are being converted.

Tender Provisions

In order to provide for the payment of the purchase price of tendered Bonds in a Weekly Mode, the City has entered into a Reimbursement Agreement with Dexia Credit Local, acting through its New York Branch (the "Bank"), pursuant to which an irrevocable, direct pay letter of credit (the "Initial Letter of Credit") is being issued. The Bank will be the initial Letter of Credit Provider under the Fifteenth Supplement. Subject to the conditions set forth in the Initial Letter of Credit, during the term of the Initial Letter of Credit the Bank has agreed to purchase Bonds in Weekly Mode which are tendered to the Tender Agent pursuant to the Fifteenth Supplement, but not remarketed by the Remarketing Agent, at a purchase price equal to 100% of the principal amount plus interest accrued thereon to the date of tender (the "Purchase Price") (See "THE INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT"). The Bonds are not subject to optional or mandatory tender for purchase if the Bank is not obligated to purchase Bonds under the Initial Letter of Credit. Any such Bonds so purchased by the Bank are sometimes referred to herein as "Bank Bonds".

Optional Tender. While the Bonds are in the Weekly Mode, the registered owners shall have the right to tender the Bonds (or portions thereof) for purchase in the amount of $100,000 or integral multiples of $5,000 in excess thereof at a price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the Purchase Date (unless the Purchase Date is an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course), upon compliance with the conditions described below. In order to exercise the right to tender, the registered owners must deliver to the Tender Agent and Paying Agent/Registrar a written irrevocable notice of tender satisfactory to the Tender Agent and to the Remarketing Agent. Bonds in the Weekly Mode will be purchased on the Business Day specified in such Tender Notice, provided that such Notice is received at 5:00 P.M., New York City time, on such date that is at least seven calendar days prior to applicable Purchase Date.

Notice of tender of the Bonds is irrevocable. If the registered owner of a Bond has elected to require purchase as provided above, the registered owner shall be deemed, by such election, to have agreed irrevocably to sell such Bond to any purchaser, on the date fixed for purchase at the Purchase Price. The Purchase Price of the Bonds shall be paid to the registered owners by the Paying Agent/Registrar on the Purchase Date or any subsequent Business Day on which such Bonds are delivered to the Paying Agent/Registrar. From and after the Purchase Date, no further interest on the Bonds shall be payable to the registered owners who gave notice of tender for purchase, provided that there are sufficient funds available on the Purchase Date to pay the Purchase Price.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of holders of Bonds may be exercised only by DTC by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above and delivery of Bonds required to be tendered for purchase shall be effected by the transfer on the applicable Purchase Date of a book-entry credit to the account of the Tender Agent of a beneficial interest in such Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Mandatory Tender. The Bonds are subject to mandatory tender for purchase at the Purchase Price (unless the Mandatory Purchase Date is an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course) (i) on any Conversion Date (except a change in Interest Rate Mode between the Weekly Mode and the Daily Mode unless an Alternate Liquidity Facility is required in connection therewith), (ii) on any Substitution Date, (iii) on the fifth Business Day prior to the Expiration Date, (iv) on the date selected by the Paying Agent/Registrar following the occurrence of an event of default under the Reimbursement Agreement, which date shall be a Business Day not more than ten (10) days after the Paying Agent/Registrar's receipt of notice of such event of default from the Credit Provider or the Liquidity Provider and in no event later than the day preceding the termination date specified by such Credit Provider or such Liquidity Provider, (v) the date specified by the Paying Agent/Registrar following receipt of notice by the Paying Agent/Registrar from the Credit Provider that the Credit Enhancement will not be reinstated following a drawing to pay interest on the Bonds (other than interest on Bonds no longer Outstanding after such drawing) which date shall be a Business Day not more than five days after the Paying Agent/Registrar's receipt of such notice and (vi) on any Business Day specified by the City in a notice to the Paying Agent/Registrar not less than twenty days after the Paying Agent/Registrar's receipt of such notice and in no event later than the day preceding the Expiration Date. (See "THE INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT"). Notice of mandatory tender shall be given by the Tender Agent in writing to the registered owners of the Bonds subject to mandatory tender no less than twenty (20) days prior to the Mandatory Purchase Date, except for clauses (iv) and (v) above which shall be given no less than fourteen (14) days or three days, respectively, prior to such Mandatory Purchase Date. From and after the Purchase Date, no further interest on the Bonds shall be payable to the registered owners thereof, provided that there are sufficient funds available on the Purchase Date to pay the purchase price.

Payment of the Purchase Price of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its designated office or by wire transfer in immediately available funds, but solely from and to the extent of the funds described below under "Remarketing and Purchase."

Interest on any Bond that is not tendered on mandatory tender date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory tender date. Thereafter, the Holder of such Bond will not be entitled to any payment other than the Purchase Price for such bond from money held by the Paying Agent/Registrar for such payment, and such payment, and such bond will not otherwise be outstanding or entitled to the benefits of the Fifteenth Supplement. On the mandatory tender date, the Paying Agent/Registrar will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. The Remarketing Agent shall use its best efforts, subject to the terms and conditions of the Remarketing Agreement, to offer for sale at par:

(i) all of the Bonds or portions thereof as to which notice of optional tender has been given; and
(ii) all of the Bonds required to be purchased on (A) a Mandatory Purchase Date constituting any Conversion Date (except between the Weekly Mode and the Daily Mode unless an Alternate Liquidity Facility is required in connection therewith), (B) a Mandatory Purchase Date on which an Alternate Credit Facility is substituted for the Credit Facility then in effect and (C) a Mandatory Purchase Date designated by the Authority as described in clause (vi) under "Mandatory Tender" above; and
(iii) any Bank Bonds.

Anything in the Fifteenth Supplement, to the contrary notwithstanding, if there shall have occurred and be continuing a Liquidity Provider Failure or a Credit Provider Failure, the Remarketing Agent shall not remarket any Bonds. All other provisions of the Fifteenth Supplement, including without limitation, those relating to the setting of interest rates and Interest Periods and mandatory and optional purchases, shall remain in full force and effect during the continuance of such Event of Default.

On each date on which a Bond is to be purchased, if the Remarketing Agent shall have given notice to the Tender Agent pursuant to the Fifteenth Supplement that it has been unable to remarket any of the Bonds or if the Tender Agent has not received from the Remarketing Agent an amount sufficient to pay the Bonds by the time the Tender Agent must draw on the Initial Letter of Credit, the Tender Agent shall direct the Trustee (if the two are separate entities) to draw on the Initial Letter of Credit in an amount equal to the Purchase Price of all such Bonds which have not been successfully remarketed.

Except as set forth in the Fifteenth Supplement, the Tender Agent shall purchase tendered Bonds from the tendering owners at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and none of the City, the Tender Agent, the Paying Agent or the Remarketing Agent shall be obligated to provide funds from any other source:
(i) immediately available funds on deposit in the Remarketing Proceeds Account derived from the remarketing of tendered Bonds; and
(ii) immediately available funds on deposit in the Credit Facility Purchase Account drawn under the Initial Letter of Credit; and
(iii) moneys of the City on deposit in the City Purchase Account.

The City may, but shall not be obligated to, deposit amounts into the City Purchase Account sufficient to pay the Purchase Price to the extent that amounts on deposit in subsections (i) and (ii) above are insufficient therefor.

If moneys sufficient to pay the Purchase Price of all tendered Bonds to be purchased on any Purchase Date are not available: (1) no purchase shall be consummated on such Purchase Date; (2) all tendered Bonds shall be returned to the holders thereof; and (3) all remarketing proceeds shall be returned to the Remarketing Agent for return to the persons providing such moneys. All Bonds shall bear interest at the Unremarketed Bonds Rate during the period of time from and including the applicable Purchase Date to (but not including) the date that all such tendered Bonds are successfully remarketed.

Draws of Liquidity Facility. On each date on which a Bond is to be purchased, the Paying Agent/Registrar, at the direction of the Tender Agent, shall draw on the Initial Letter of Credit in accordance with the terms thereof so as to receive thereunder an amount, in immediately available funds, sufficient, together with the proceeds of the remarketing of Bonds on such date, to enable the Tender Agent to pay the Purchase Price in connection therewith.

Remarketing Agent. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally tendered by the owners thereof, all as further described in this Official Statement. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account. The Remarketing Agent, in its sole discretion, routinely acquires tendered Bonds for its own inventory in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. If the Remarketing Agent purchases Bonds for its own account, it may offer those Bonds at a discount to par to some investors. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may reduce the supply of Bonds that may be tendered in a remarketing.

The Remarketing Agent is required to determine on the Rate Determination Date the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds at par plus accrued interest, if any, on the Effective Date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). The Fifteenth Supplement requires that the Remarketing Agent use its best efforts to sell tendered bonds at par, plus accrued interest. There may or may not be Bonds tendered and remarketed on a Rate Determination Date or an Effective Date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price.

While the Remarketing Agent may buy and sell Bonds, it is not obligated to do so and may cease doing so at any time without notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Summary of Certain Provisions of the Bonds

The table below summarizes the following information with respect to Bonds bearing interest at a Weekly Rate or Daily Rate:

(a) the 15^{th} day of each month (the "Interest Payment Dates");
(b) the date each interest rate will be determined in the case of Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) the Bonds become subject to the Daily Mode and in the case of the Weekly Mode (i) each Wednesday or, if Wednesday is not a Business Day, then the Business Day next succeeding such Wednesday and (ii) not later than the Business Day preceding a Conversion Date, a Substitution Date or a Mandatory Purchase Date as specified in the Fifteenth

Supplement; (the "Rate Determination Date");

(c) the date each interest rate will become effective (the "Effective Date of Rate");

(d) the period during which a Bond accrues interest payable on the next Interest Payment Date (the "Interest Accrual Period");

(e) the dates on which Registered Holders may, at their option, tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (the "Optional Purchase Dates; Holder's Notice of Optional Tender");

(f) the requirements for physical delivery of tendered Bonds and payment provision therefor ("Physical Delivery of and Payment for Bonds Subject to Optional and Mandatory Tender"), which are not applicable while the Bonds are in book-entry-only form;

(g) the notice requirements in order to change from one interest rate Interest Rate Mode to a different interest rate Interest Rate Mode ("Conversion Notice"); and

(h) the notice requirements for any mandatory tender of the Bonds ("Notice of Mandatory Tender").

All times shown are New York City time. A "Business Day" is defined in the Fifteenth Supplement to be any business day other than (i) a Saturday or Sunday or (ii) a day on which the cities in which the designated office of any of the Tender Agent, Paying Agent/Registrar, Remarketing Agent, Credit Provider or Liquidity Provider are required or authorized by law or executive order to be closed, (iii) a day on which The New York Stock Exchange is closed or (iv) a day on which the payment system of the Federal Reserve System is not operational.

	Weekly Rate	**Daily Rate**
Interest Payment Dates	15th day of each month.	15th day of each month.
Rate Determination Date	By 4:00 p.m. Wednesday, or if Wednesday is not a Business Day, the next succeeding Business Day.	By 10:00 a.m. on each Business Day.
Effective Date of Rate; Interest Accrual Period	Each Thursday; Weekly Rate effective through Wednesday of next week.	Commences on Rate Determination Date, continues through the next Rate Determination Date.
Optional Purchase Dates; Holder's Notice of Optional Tender	Any Business Day or, if not a Business Day, the next Business Day; Written notice to Tender Agent by owner at or prior to 5:00 p.m. on any Business Day not less than 7 calendar days prior to Purchase Date.	Any Business Day; Written notice to Tender Agent by owner at or prior to 11:00 a.m. on the same Business Day.
Physical Delivery* of and Payment of Bonds Subject to Optional Tender and Mandatory Tender *Subject to DTC Procedures	To Paying Agent/Registrar by 12:00 Noon on the designated purchase date; payment on designated purchase date.	To Paying Agent/Registrar by 12:00 Noon on the designated purchase date; payment on designated purchase date.
Conversion Notice	20 days prior to Conversion Date.	20 days prior to Conversion Date.
Notice of Mandatory Tender	20 days prior to Purchase Date.	20 days prior to Purchase Date.

Optional Redemption

During any Weekly Mode or Daily Mode, the Bonds are subject to redemption at the option of the City on any Business Day, in whole or in part, in authorized denominations, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

Mandatory Redemption

Mandatory Redemption. The Bonds are subject to mandatory redemption from money on deposit in the Debt Service Fund, at a price of par plus unpaid accrued interest to the date fixed for redemption, on May 15 and November 15 in each of the years and in the amounts set out below ("Mandatory Redemption").

Year	Amount	Year	Amount
11/15/2008	$ 1,135,000	11/15/2020	$ 3,210,000
11/15/2009	2,595,000	11/15/2021	530,000
11/15/2010	6,135,000	11/15/2022	585,000
11/15/2011	6,380,000	05/15/2023	10,355,000
11/15/2012	6,640,000	05/15/2024	10,675,000
11/15/2013	12,700,000	05/15/2025	11,035,000
05/15/2014	9,900,000	05/15/2026	7,800,000
11/15/2014	9,425,000	05/15/2027	30,000
11/15/2015	1,805,000	05/15/2028	12,560,000
11/15/2016	4,070,000	05/15/2029	12,950,000
11/15/2017	4,130,000	05/15/2030	13,530,000
11/15/2018	4,190,000	05/15/2031	13,980,000
11/15/2019	4,260,000		

No later than thirty (30) days prior to each mandatory redemption date for the Bonds, the Paying Agent/Registrar will select by lot the numbers of the Bonds to be redeemed on the next following May 15 or November 15, as applicable, from moneys set aside for that purpose in the Debt Service Fund. Any Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Bonds which, at least five (5) days prior to the mailing of the notice for the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions set forth in the Fifteenth Supplement and not theretofore credited against a mandatory redemption requirement.

Special Mandatory Redemption

Unless otherwise paid in full pursuant to the Reimbursement Agreement, and subject to the conditions that (i) no Event of Default under the Reimbursement Agreement has occurred and be continuing and (ii) the representations and warranties in the Reimbursement Agreement are true and correct in all material respects, Bank Bonds as hereinafter defined will be subject to Special Mandatory Redemption the earlier of the date that is 180 days after the Bonds became Bank Bonds, and the Termination Date of the Reimbursement Agreement. Such Bank Bonds will be redeemed in ten (10) substantially equal installments of principal due and payable on each May 15 and November 15, starting with the first May 15 or November 15 after the Amortization Start Date, together with interest then accrued. Interest on the Bank Bonds will accrue at the rate calculated pursuant to the Reimbursement Agreement.

Notice of Redemption

In the case of redemptions of Bonds at the option of the City, the City will select the maturities of the Bonds to be redeemed. Notwithstanding anything to the contrary, Bank Bonds shall be redeemed prior to the redemption of any other Bonds. If less than all of the Bonds are to be redeemed, the Paying Agent/Registrar shall treat such Bonds as representing the number of Bonds Outstanding which is obtained by dividing the principal amount of such Bonds by the minimum Authorized Denomination thereof and shall select the Bonds to be redeemed within such Stated Maturity by such random method as the Paying Agent/Registrar utilizes for such purpose.

Unless otherwise set forth in the Fifteenth Supplement, not less than fifteen (15) days prior to a redemption date for the Bonds, a notice of redemption shall be sent by United States Mail, first class postage prepaid, in the name of the City and at the City's expense, to each Holder of a Bond to be redeemed in whole or in part at the address of the Holder appearing on the Security Register 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 Holder.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the Designated Payment/Transfer Office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Holder. If a Bond is subject by its terms to prior redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as herein provided, such Bond (or the principal amount thereof to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date therefor, provided moneys sufficient for the payment of such Bonds (or of the principal amount thereof to be redeemed) at the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar.

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 (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, which Government Obligations are 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 pay the principal of, redemption premium, and interest on such Bonds. If the Bonds are subject to a change in interest rate from the date the defeasance deposit is made and prior to the date of redemption or payment at Stated Maturity, then for purposes of calculating interest requirements on the Bonds, the City shall assume interest at the maximum rate payable on the Bonds during such period, assuming, however, that no Bonds are or will become Bonds owned by a Credit Provider of Liquidity Provider as a result of a drawn upon Credit Facility or a Liquidity Facility (e.g., Bank Bonds purchased as a result of a draw upon the Initial Letter of Credit) during such period and that there will be no event of default related to the Bonds during such period.

Amendment of Fifteenth Supplement with the Consent of the Bondholders

With the consent of the Credit Provider (so long as a Credit Facility is in effect and the Credit Provider is not in payment default thereunder), the Liquidity Provider (so long as the Liquidity Facility is in effect and the Liquidity Provider is not in payment default thereunder) and the Holders of a majority in Outstanding Principal Amount of the Bonds, the City has the right from time to time to effect any amendment to the Fifteenth Supplement which may be deemed necessary or desirable by the City; provided, however, nothing contained in the Fifteenth Supplement will permit or be construed to permit an amendment to the Fifteenth Supplement so as to:

(1) Makes any change in the maturity of any of the Outstanding Bonds;
(2) Reduces the rate of interest borne by any of the Outstanding Bonds;
(3) Reduces the amount of the principal payable on the Bonds;
(4) Modifies the terms of payment of principal of, premium, if any, or interest on the Outstanding Bonds or impose any conditions with respect to such payment;
(5) Affects the rights of the Holders of less than all of the Bonds then Outstanding;
(6) Amends the provisions contained in this paragraph; or
(7) Changes the minimum percentage of the principal amount of Bonds necessary for consent to any amendment;

unless such amendment or amendments be approved by the Holders of all of the Bonds then Outstanding affected by the change or amendment.

Amendment of Fifteenth Supplement without the Consent of the Bondholders

The City by action of its governing body may amend the Fifteenth Supplement, with the consent of the Credit Provider, if any, and the Liquidity Provider (with respect to the issuance of the Initial Letter of Credit, the Bank), but without consent of any Holder of Bonds, for any one or more of the following purposes:

(1) To add to the covenants and agreements of the City contained in the Fifteenth Supplement, other covenants and agreements thereafter to be observed, to grant additional rights or remedies to the owners or to surrender, restrict or limit any right or power reserved to or conferred upon the City in the Fifteenth Supplement;
(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Fifteenth Supplement, or in regard to clarifying matters or questions arising under the Fifteenth Supplement, as are necessary or desirable and not contrary to or inconsistent with the Fifteenth Supplement and which do not adversely affect the interests of the Bondholders;
(3) To modify any of the provisions of the Fifteenth Supplement in any other respect whatever, provided that such modification are, and are expressed to be, effective only after all the Bonds outstanding at the date of the adoption of such modification cease to be outstanding;
(4) To make such amendments to the Fifteenth Supplement as may be required, in a Favorable 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 Bondholders to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Bonds, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of the Fifteenth Supplement and which will not adversely affect the interests of the Bondholders;
(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 Bonds by a Rating Agency or to obtain or maintain a Liquidity Facility or a Liquidity Facility or to obtain an Alternate Credit Facility or an Alternate Credit Facility;
(7) To make such changes, modifications or amendments as may be necessary or desirable, which will not adversely affect the interests of owner of the Bonds, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate management agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Bonds;
(8) To make any such changes, modifications, or amendments as may be necessary or desirable to implement or facilitate a change in New Mode pursuant to the Fifteenth Supplement;
(9) So long as a Credit Facility is in effect with respect to the Bonds and the Credit Provider is not in default thereunder to make any other changes, modifications or amendments (other than a change, modification or amendment described above under "Amendment of Fifteenth Supplement with the Consent of the Bondholders") consented to by the Credit Provider, if there is delivered to the City a Favorable Opinion of Bond Counsel to the effect that such amendment will not adversely affect the excludability of interest on the Bonds from the gross incomes of the owners thereof for federal income tax purposes; and
(10) Any other changes, modifications, or amendments which take effect after a mandatory tender, if there is delivered to the City a Favorable Opinion of Bond Counsel to the effect that such amendment will not adversely affect the excludability of interest on the Bonds from the gross incomes of the owners thereof for federal income tax purposes.

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 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. While the Bonds are in a Daily Mode or a Weekly Mode, new Bonds registered and delivered in an exchange or transfer shall be in denominations of $100,000 and any integral multiple of $5,000 in excess thereof for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" below for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Bondholders' Remedies

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

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

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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts.

This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC 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 and www.dtc.org.

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

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

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

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

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

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

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Tender Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Tender Agent's DTC account.

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 SWAP AGREEMENT

In connection with the issuance of the Bonds, the City has entered into an interest rate swap transaction under an agreement (the "Series 2008 Interest Rate Management Agreement") with Goldman Sachs Capital Markets, L.P. ("Goldman") to enable the City to substantially fix its interest obligation on the debt represented by Bonds. Under the Series 2008 Interest Rate Management Agreement the City is obligated to make payments to Goldman calculated on a notional amount equal to the scheduled outstanding principal amount of the Bonds and a fixed rate of 3.60% per annum, and Goldman is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the Bonds and a variable rate equal to the SIFMA index. Payments under the Series 2008 Interest Rate Management Agreement will be made on a net basis on the 15th day of each month, commencing in June 15, 2008 and ending in May 2031. Goldman will receive separate compensation for its participation as the counterparty to the City under the Series 2008 Interest Rate Management Agreement. Such compensation is not being paid from Bond proceeds. The obligations of Goldman are guaranteed by The Goldman Sachs Group, Inc., which, as of the date of this Official Statement, is rated "Aa3" by Moody's, "AA"- by S&P and "AA-" by Fitch.

Arrangements made in respect of the Series 2008 Interest Rate Management Agreement do not alter the City's obligation to pay principal of and interest on the Bonds. The Series 2008 Interest Rate Management Agreement does not provide a source of security or other credit for the Bonds. The City's obligations under the Series 2008 Interest Rate Management Agreement to make scheduled payments are payable on a parity with the City's obligation to pay principal of and interest on the Bonds and other outstanding Parity Water/Wastewater Obligations.

If either party to the Series 2008 Interest Rate Management 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 Series 2008 Interest Rate Management Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the Series 2008 Interest Rate Management Agreement will continue to be in existence. If the Series 2008 Interest Rate Management Agreement is terminated under certain market conditions, the City may owe a termination payment to Goldman or may receive a termination payment from Goldman. Such termination payment generally would be based on the market value of the Series 2008 Interest Rate Management Agreement on the date of termination and could be substantial. In addition, a partial termination of the Series 2008 Interest Rate Management Agreement could occur to the extent that any Bonds are redeemed pursuant to an optional redemption. If such optional redemption occurs, termination payments related to the portion of the Series 2008 Interest Rate Management Agreement to be terminated will be owed by either the City or Goldman, depending on market conditions. The obligation of the City to pay a termination payment to Goldman could result in the City issuing Parity Water and Wastewater Obligations or Subordinated Debt to make a termination payment.

THE INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Initial Letter of Credit and the Reimbursement Agreement. The Initial Letter of Credit and the Reimbursement Agreement each contain various provisions, covenants and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined elsewhere in this Official Statement, the Initial Letter of Credit or the Reimbursement Agreement, and reference is made thereto for a full understanding of their import.

General

The Bank and the City have entered into the Reimbursement Agreement dated May 1, 2008 (the "Reimbursement Agreement"). Pursuant to the Reimbursement Agreement, the Bank will issue the Initial Letter of Credit which will constitute the initial Credit Facility and the initial Liquidity Facility. By issuing the Initial Letter of Credit, the Bank is serving in the capacity as both the Credit Provider and the Liquidity Provider for the Bonds pursuant to the Fifteenth Supplement.

The Initial Letter of Credit will be issued in an amount equal to the aggregate principal amount of the outstanding Bonds plus an amount that represents interest thereon at an assumed rate of 12% per annum for 35 days.

The Paying Agent/Registrar is authorized to make drawings for the payment of principal of and interest on the Bonds (each, a "Credit Drawing") and a drawing for the payment of the purchase price of the Bonds bearing interest at the Weekly Rate (the "Covered Mode") that have been tendered and not remarketed (each, a "Liquidity Drawing"), subject to certain conditions set forth in the Initial Letter of Credit and in the Reimbursement Agreement. The Bonds purchased by the Bank ("Bank Bonds") shall bear interest at the rates set forth in the Reimbursement Agreement and shall be repaid as provided therein. All Liquidity Drawings and Credit Drawings shall be made under the Initial Letter of Credit in accordance with its terms. The City has directed the Bank to make payments under the Initial Letter of Credit in the manner provided in the Initial Letter of Credit.

The Initial Letter of Credit will terminate on the earliest of (a) May 15, 2011 (as extended from time to time); (b) the earlier of (i) the date which is 15 days following the date on which the rate on all of the Bonds has been converted to bear interest at a rate other than a Covered Mode (the "Conversion Date"), or (ii) the date on which the Bank honors a drawing under the Initial Letter of Credit on or after the Conversion Date; (c) the date which is 15 days following receipt by the Bank of a certificate from the Paying Agent/Registrar certifying that (i) no Bonds remain Outstanding within the meaning of the Master Ordinance; (ii) all drawings required to be made under the Fifteenth Supplement and available under the Initial Letter of Credit have been made and honored; or (iii) a substitute letter of credit has been issued to replace the Initial Letter of Credit; and (d) the date which is 15 days following receipt by the Paying Agent/Registrar of a written notice from the Bank specifying the occurrence of an Event of Default under the Reimbursement Agreement, and directing the Paying Agent/Registrar to cause a mandatory tender of the Bonds pursuant to the terms of the Master Ordinance and the Fifteenth Supplement.

Upon the Bank's honoring any Liquidity Drawing, the Bank shall be deemed to have purchased the Bank Bonds in respect of which such Drawing is made, and the City shall cause the Paying Agent/Registrar to hold such Bank Bonds for the benefit of the Bank and register such Bank Bonds in the name of the Bank or its nominee, or to otherwise deliver such Bank Bonds as directed by the Bank pursuant to the Fifteenth Supplement. During such time as the Bank is the owner of any Bonds, the Bank shall have all the rights granted to a Bondholder under the Master Ordinance and the Fifteenth Supplement and such additional rights as may be granted to the Bank under the Reimbursement Agreement.

Events of Default

The occurrence and continuance of any one or more of the following events shall be an "Event of Default" under the Reimbursement Agreement:

(a) the City fails to pay, or cause to be paid, when due (i) any principal of or interest on any Drawing or any Advance; or (ii) any principal of or interest on any Bonds for any reason other than the failure of the Bank to perform its obligations under the Reimbursement Agreement;

(b) any representation, warranty or statement made by or on behalf of the City in the Reimbursement Agreement or in any Program Document to which the City is a party or in any certificate delivered by the City proves to be untrue in any material respect on the date as of which made or deemed made; or the documents, certificates or statements of the City (including unaudited financial reports, budgets, projections and cash flows of the City) furnished to the Bank by or on behalf of the City in connection with the transactions contemplated by the Reimbursement Agreement, when taken as a whole, are materially inaccurate in light of the circumstances under which they were made and as of the date on which they were made;

(c) (i) the City fails to perform or observe certain terms, covenants or agreements contained in the Reimbursement Agreement and such failure is not cured by the specific grace period, if any, set forth in the Reimbursement Agreement;

(d) the City (i) defaults on any payment of any principal, premium, or interest on any of the City's long-term indebtedness in excess of $5,000,000 (other than the Bonds, the Drawings or the Advances), beyond the period of grace, if any, provided in the instrument or agreement under which such long-term indebtedness was created; or (ii) defaults in the observance or performance of any agreement or condition relating to any long-term indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such long-term indebtedness (or a trustee or agent on behalf of such holder or holders) to cause (determined without regard to whether any notice is required), any such long term indebtedness to become due prior to its stated maturity;

(e) (i) a court or other governmental authority with jurisdiction to rule on the validity of the Reimbursement Agreement, the Master Ordinance, the Fifteenth Supplement or any other Program Document to which the City is a party shall find, announce or rule that (A) any material provision of the Reimbursement Agreement and any other Program Document to which the City is a party; or (B) any provision of the Master Ordinance or the Fifteenth Supplement relating to the security for the Bonds or the Obligations, the City's ability to pay the Obligations or perform its obligations hereunder or the rights and remedies of the Bank, is not a valid and binding agreement of the City; or (ii) the City contests the validity or enforceability of the Reimbursement Agreement, any other Program Document to which the City is a party or any provision of the Master Ordinance or the Fifteenth Supplement relating to the security for the Bonds or the Obligations, the City's ability to pay the Obligations or perform its obligations hereunder or the rights and remedies of the Bank, or shall seek an adjudication that the Reimbursement Agreement, any other Program Document to which the City is a party or any provision of the Master Ordinance, the Fifteenth Supplement relating to the security for the Bonds or the Obligations, the City's ability to pay the Obligations or perform its obligations hereunder or the rights and remedies of the Bank, is not valid and binding on the City;

(f) any provision of the Master Ordinance or the Fifteenth Supplement relating to the security for the Bonds or the Obligations, the City's ability to pay the Obligations or perform its obligations hereunder or the rights and remedies of the Bank, or any Program Document to which the City is a party, except for any Remarketing Agreement which has been terminated due to a substitution of the Remarketing Agent, or any material provision thereof shall cease to be in full force or effect, or the City or any Person acting by or on behalf of the City shall deny or disaffirm the City's obligations under the Master Ordinance, the Fifteenth Supplement, the Fifteenth Ordinance or any other Program Document to which the City is a party;

(g) a final judgment or order for the payment of money from the revenues of the City's Water and Wastewater System in excess of $5,000,000 (in excess of the coverage limits of any applicable insurance therefore) has been rendered against the City and such judgment or order shall not have been satisfied, stayed, vacated, discharged or bonded pending appeal within a period of thirty (30) days from the date on which it was first so rendered;

(h) (i) a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any obligation secured by a lien, charge or encumbrance upon the Net Revenues; (ii) under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, the City seeks to have an order for relief entered with respect to it or seeking to adjudicate it insolvent or bankrupt or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts; (iii) the City seeks appointment of a receiver, trustee, custodian or other similar official for itself or for any substantial part of the City's property, or the City shall make a general assignment for the benefit of its creditors; (iv) there shall be commenced against the City any case, proceeding or other action of a nature referred to in clause (ii) above and the same shall remain undismissed; (v) there shall be commenced against the City any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distrait or similar process against all or any substantial part of its property which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal, within 60 days from the entry thereof; (vi) the City takes action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), (iii), (iv) or (v) above; or (vii) the City is generally unable to, or admits in writing its inability to, pay its debts as they become due;

(i) any of Moody's, Fitch or S&P has downgraded its long-term unenhanced rating of any debt of the City secured by a lien on and pledge of the Net Revenues to below "Baa3" (or its equivalent), "BBB-" (or its equivalent) or "BBB-" (or its equivalent), respectively, or suspended or withdrawn its rating of the same; or

(j) an event of default under the Master Ordinance or the Fifteenth Supplement shall have occurred.

Remedies If Event of Default Occurs

Upon the occurrence of any Event of Default the Bank may exercise any one or more of the following rights and remedies in addition to any other remedies in the Reimbursement Agreement or by law provided:

(a) by written notice to the City require that the City immediately prepay to the Bank in immediately available funds an amount equal to the Available Amount (such amount to be held by the Bank as collateral security for the Obligations); provided, however, that in the case of an Event of Default described above in clause (h) of the Events of Default section above, such prepayment of an amount equal to the Available Amount shall automatically become immediately due and payable without any notice (unless the coming due of such Obligations is waived by the Bank in writing);

(b) by notice to the City, declare all Obligations to be, and such amounts thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City; provided that upon the occurrence of an Event of Default described above in clause (h) such acceleration will automatically occur (unless such automatic acceleration is waived by the Bank in writing);

(c) give notice of the occurrence of any Event of Default to the Paying Agent/Registrar directing the Paying Agent to cause a mandatory tender of the Bonds pursuant to the terms of the Master Ordinance and the Supplemental Ordinance, thereby causing the Initial Letter of Credit to expire 15 days thereafter;

(d) pursue any rights and remedies it may have under the Program Documents; or

(e) pursue any other action available at law or in equity.

Alternate Credit Facility

In the Fifteenth Supplement, the City is required while the Bonds are in the Daily Mode or Weekly Mode, to maintain in effect a Credit Facility meeting the requirements set forth therein. The City is required to obtain an Alternate Credit Facility to replace the Credit Facility (which, at the time of issuance of the Bonds, is the Initial Letter of Credit) or cause the Bonds to be converted to bear interest at interest rate mode other than the Daily Mode or the Weekly Mode in the event that (i) the City terminates the Credit Facility pursuant to the terms thereof or (ii) the Bank furnishes a termination notice to the Tender Agent.

Any Alternate Credit Facility must require, as a condition to the effectiveness of the Alternate Credit Facility, that the Alternate Credit Facility will provide funds to the extent necessary, in addition to other funds available, on the date the Alternate Credit Facility becomes effective, for the purchase of all Bank Bonds at par plus interest (at the Bank Rate) through the date purchased. On such date any and all amounts owed to the Bank shall be payable in full to the Bank.

If, at any time, the City provides for an Alternate Credit Facility by delivering to the Paying Agent/Registrar or the Tender Agent (1) an Alternate Credit Facility in substitution for the Credit Facility then in effect (which, at the time of issuance of the Bonds, is the Initial Letter of Credit), (2) a Favorable Opinion of Bond Counsel specifying that such change will not adversely affect the excludability of interest on the Bonds subject to the change from the gross incomes of the owners thereof for federal income tax purposes and specifying that the City is authorized to execute the Alternate Credit Facility under Texas law, (3) a written Opinion of Counsel for the provider of the Alternate Credit Facility to the effect that such Alternate Credit Facility is a valid, legal and binding obligation of the provider thereof, (4) unless waived by such entity, written evidence satisfactory to Credit Provider, if any, and the Credit Provider of the provision for purchase from the Credit Provider of all Credit Provider Bonds (which, at the time of issuance of the Bonds, would be the Bank Bonds), at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due to the Liquidity Provider (which, at the time of issuance of the Bonds, is the Bank) under the applicable Reimbursement Agreement on or before the effective date of such Alternate Credit Facility, then the Paying Agent/Registrar or Tender Agent, as applicable, is required to accept such Alternate Credit Facility and surrender the Credit Facility then in effect to the Credit Provider on the Substitution Date, but only if all draws in connection with the mandatory tender occurring on such Substitution Date have been honored in full.

The City will provide notice of such proposed substitution by United States mail, first-class postage prepaid, to the Holders of the Bonds no less than twenty (20) days prior to the proposed Substitution Date.

THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") and a Water and Wastewater System (also referred to herein as the "Water and Wastewater Utility") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The Electric Utility System had approximately 1,642 full-time regular employees as of September 30, 2007. The Water and Wastewater System had approximately 1,033 full-time regular employees as of the same date.

THE WATER AND WASTEWATER SYSTEM

Management

Name	Title	Length of Service with City*
Greg Meszaros	Director	4 Months
Perwez Moheet, CPA	Deputy Director	28 Years
David Anders	Assistant Director, Finance and Business Services	19 Years
Jane Burazer	Assistant Director, Treatment	14 Years
Gopal Guthikonda	Assistant Director, Engineering	20 Years
George Calhoun	Assistant Director, Pipeline Operations	18 Years
David Juarez, P.E.	Assistant Director, Water Resource Management	16 Years**
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	11 Years**

* As of January 31, 2008.
**Length of service not continuous.

WATER SYSTEM

Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 450 square miles. The City also has contracted to supply treated water on a wholesale basis to seven municipal utility districts ("MUDs"), one water control and improvement district ("WCID"), five water supply corporations, two private utilities, and the Cities of Manor, Rollingwood, and Sunset Valley.

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

Water Supply

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

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

The combined storage capacity of the six lakes is around 3,300,000 acre-feet of water, or more than a trillion gallons. Approximately 800,000 acre feet of this capacity 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).

1981 – 1,626,000 Acre Feet	1990 – 692,300 Acre Feet	1999 – 803,240 Acre Feet
1982 – 1,356,000 Acre Feet	1991 – 829,700 Acre Feet	2000 – 627,370 Acre Feet
1983 – 587,000 Acre Feet	1992 – 5,419,000 Acre Feet	2001 – 1,371,435 Acre Feet
1984 – 764,000 Acre Feet	1993 – 978,000 Acre Feet	2002 – 1,674,985 Acre Feet
1985 – 751,000 Acre Feet	1994 – 708,200 Acre Feet	2003 – 1,017,294 Acre Feet
1986 – 886,500 Acre Feet	1995 – 896,700 Acre Feet	2004 – 928,065 Acre Feet
1987 – 3,399,000 Acre Feet	1996 – 758,300 Acre Feet	2005 – 1,077,031 Acre Feet
1988 – 834,000 Acre Feet	1997 – 3,013,512 Acre Feet	2006 – 528,785 Acre Feet
1989 – 667,900 Acre Feet	1998 – 1,313,831 Acre Feet	2007 – 2,155,974 Acre Feet

Using the last twenty-five years from 1983-2007, the average flow was 1,341,230 acre feet per year. Using the lowest year, 2006, the flow for the Colorado River at Austin was 528,785 acre feet, or 172 billion gallons, which is over 3 times the amount of water treated for distribution (46 billion gallons) by the City for the fiscal year ended September 30, 2007.

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

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

The City and LCRA entered into a Comprehensive Water Settlement Agreement (the "Settlement Agreement") in settlement of Cause No. 115,414-A-1 on December 10, 1987. The Settlement Agreement generally improves the independent water rights of both the City and LCRA. Such rights for the City include: the rights to maintain Tom Miller Dam and Lake Austin, Longhorn Dam and 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 and hereinafter referred to as "WTP No. 4"). The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication have been issued by the TCEQ.

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

The City and LCRA executed the First Amendment to the Settlement Agreement (the "First Amendment") on October 7, 1999. This First Amendment extends the existing Settlement Agreement through the year 2050, and gives the City a 50-year assured water supply by providing additional water that the City can take from the Highland Lakes, a chain of lakes formed on the Colorado River that includes Lake Travis, Lake Austin and 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 WTP 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 WTP No. 4.

Water Treatment Plants

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

The City's Water and Wastewater Utility includes a water distribution system having approximately 3,500 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 167 million gallons, 30,037 fire hydrants and 44 booster pump stations.

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

The Davis Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 118 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, 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 new rated capacity of 167 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, seven upflow-solids contact clarifiers, eighteen filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. A 67 mgd upgrade to the Ullrich Plant was completed in 2006. This expansion has increased the rated capacity of the plant from 100 mgd to 167 mgd.

Within the five year period commencing October 1, 2006, the City anticipates initiating construction of a new water treatment plant. WTP No. 4 is estimated to be completed by the spring of 2014. Located in northwest Austin, WTP No. 4 will draw its water from Lake Travis. To meet projected needs, the construction will add incremental initial capacity of up to 50-75 mgd with an intake structure rated at 100 to 300 mgd. Funding for the construction of the additional capacity is expected to come partially from $141 million of bonds for WTP No. 4, the issuance of which was deferred in the late 1980's. Additional costs are anticipated to be funded with current revenue of the Water and Wastewater Utility or by issuing commercial paper.

Water Conservation Plan

The Water and Wastewater Utility developed a water conservation plan for emergency purposes in the early 1980's after experiencing an equipment failure in the distribution system during a high summer demand period. Although the problems were short lived, they had sufficient impact to cause the development of a plan for any potential future problems. The plan is designed to educate customers to use water effectively and to reduce the peak demands on the Water and Wastewater Utility. The contingency plan, which is in effect from May 1 to September 30 of each year, has three stages with progressively more restrictive water use provisions. The plan 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. 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.

Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 1998 through 2007.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Million of Gallons)
1998	46,438	8.5	211
1999	46,422	(0.0)	216
2000	52,194	12.4	227
2001	50,140	(3.9)	243
2002	50,883	1.5	214
2003	51,111	.4	232
2004	48,469	(5.2)	197
2005	51,374	6.0	247
2006	56,603	10.1	217
2007	45,868	(19.0)	180

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)
2008	54,921	270
2009	55,972	275
2010	57,042	280
2011	58,109	285
2012	59,169	290
2013	60,264	295
2014	61,379	300
2015	62,514	306
2016	63,671	312
2017	64,498	318

Source: City's Water and Wastewater Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2003		2004		2005		2006		2007	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		51,110,847		48,468,963		51,373,925		56,602,592		45,867,627
Less: Sales to Other Water Utilities (1)		3,437,043		3,164,880		3,048,823		4,116,576		3,158,595
Thousand Gallons to System		47,673,804		45,304,083		48,325,102		52,486,016		42,709,032
Water Sales:										
Urban	169,839	35,644,803	173,445	34,228,582	177,431	36,138,345	182,417	41,300,660	186,888	34,867,508
Rural	13,512	2,302,234	12,787	2,029,242	12,535	2,263,397	12,142	2,763,320	11,504	1,981,852
	183,351	37,947,037	186,232	36,257,824	189,966	38,401,742	194,559	44,063,980	198,392	36,849,360
City Departments	387	553,582	388	669,551	435	972,462	483	1,290,559	491	1,001,517
Total Sales to Ultimate Consumer	183,737	38,500,619	186,620	36,927,375	190,401	39,374,204	195,042	45,354,539	198,883	37,850,877
Used by Water Utility		1,506,146		1,454,289		1,442,454		1,770,463		1,445,523
Other Unmetered Usage		3,460,215		3,281,351		2,745,350		1,664,116		1,348,508
Loss and Unaccounted For		4,206,824		3,641,068		4,763,094		3,696,898		2,064,124
Thousand Gallons to System		47,673,804		45,304,083		48,325,102		52,486,016		42,709,032
Maximum Daily Consumption		224,592		190,784		236,540		241,456		176,979
Average Daily Consumption in Thousands of Gallons		119,024		113,826		120,179		135,537		112,355

(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 (2003 - 2007)

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

	2003		2004		2005		2006		2007	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
Freescale, Inc. (1)	1,048,571	$ 2,654	1,003,329	$ 2,687	927,240	$ 2,694	848,429	$ 2,597	886,402	$ 2,909
University of Texas	962,813	2,563	909,593	2,577	893,173	3,337	936,929	3,203	855,424	4,799
Samsung	485,945	1,229	499,627	1,336	499,761	1,440	688,096	1,964	783,881	2,604
Water District 10	795,059	1,646	787,407	1,687	844,337	2,030	1,078,395	2,765	775,830	2,011
Spansion (formerly AMD)	792,393	2,009	652,030	1,870	635,518	1,853	613,290	1,931	552,661	1,687
Anderson Mill MUD	486,171	949	484,241	991	474,223	1,040	571,852	1,308	494,179	1,194
Wells Branch MUD	563,339	1,090	503,040	1,016	522,027	1,176	584,127	1,363	429,686	1,052
North Austin MUD	354,291	718	323,783	798	352,984	978	433,122	1,096	357,873	962
Lost Creek	304,709	654	276,227	617	286,023	701	346,036	900	251,273	667
Shady Hollow MUD	237,135	567	204,950	511	222,032	589	309,501	887	202,342	586
	6,030,427	$14,079	5,644,227	$14,090	5,657,318	$15,838	6,409,777	$18,014	5,589,551	$18,471

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

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WASTEWATER SYSTEM

Service Area

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

Facilities

The Water and Wastewater Utility has two main wastewater treatment plants with a permitted capacity of 150 mgd, one biosolids treatment and disposal facility, over 2,520 miles of sanitary wastewater mains and lines, and 120 lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant, which began operations in 1977, and the South Austin Regional Wastewater Treatment Plant, which started operating in 1986. A third plant, the Govalle Wastewater Treatment Plant, constructed in 1937 with permitted capacity of 10 mgd, was decommissioned in October 2006 after completion of a 25 mgd expansion at the South Austin Regional Wastewater Plant. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 2004, the City received from the TCEQ renewals of discharge permits (TPDES permits) for all its wastewater treatment plants. The permits are renewable again in 2009.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During 2007 average flow was 56 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant (which resulted in the plant's current capacity of 75 mgd) was completed in 2004.

The South Austin Regional Wastewater Treatment Plant began operation in April 1986. The plant is now permitted to discharge at a rate of 75 mgd after a 25 mgd upgrade was completed in August 2006. During 2007 average flow was 42 mgd. An interceptor transfers wastewater from the former Govalle plant to the South Austin Regional Plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant.

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

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

Similar to other municipal wastewater systems, the United States Environmental Protection Agency ("USEPA") has mandated that the City take corrective actions and make necessary infrastructure improvements to eliminate all overflows from its sanitary sewer system by June 30, 2009. The City is in the process of constructing necessary infrastructure improvements and expects to complete all USEPA mandated corrective actions and infrastructure improvements by the June 30, 2009 date.

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

Lift Stations

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

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

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

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 1998 through 2007.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
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)
2005	31,184	(0.4)
2006	28,399	(8.9)
2007	35,623	25.4

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)
2008	33,137
2009	33,797
2010	34,360
2011	34,909
2012	35,492
2013	36,085
2014	36,688
2015	37,301
2016	37,924
2017	38,728

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

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

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the current approved FY 2008-12 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately $1,373.2 million for system improvements. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of $1,114.5 million additional Parity Water/Wastewater Obligations and (2) the application of $228.7 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand.

Services Financed by Utility Districts

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

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

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

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

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

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

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

Water and Wastewater Rates

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

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

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

Water Service Rates Effective November 1, 2007 – TABLE FOURTEEN

Monthly Customer Charges

Customer Account Charge	Customer Account Charge per Month	Meter Size	Retail Meter Charge per Month	Wholesale Meter Charge per Month
		Equivalent Meter Charge		
Retail Customer Account Charge ($/Month)	$3.55	5/8	$ 1.80	$ 1.80
		3/4	2.70	2.70
Wholesale Customer Account Charge ($/Month)	$3.55	1	3.96	3.96
		1 ¼	5.76	5.76
		1 ½	7.56	7.56
		2	11.16	11.16
		3	27.00	27.00
		4	45.00	45.00
		6	90.00	90.00
		8	135.00	135.00
		10	180.00	180.00
		12	207.00	207.00

Volume Unit Charge (1)

Unit Cost per 1,000 Gallons	Inside City	Outside City
Single-Family Residential (2)		
0 – 2,000 Gallons	$ .93	$ .93
2,001 – 9,000 Gallons	2.43	2.43
9,001 – 15,000 Gallons	4.18	4.18
15,001 – Over Gallons	7.63	7.63
Multifamily (3)		
Off Peak	$3.16	$3.18
Peak	3.47	3.49
Commercial (3)		
Off Peak	$3.78	$4.13
Peak	4.18	4.55
Large Volume/Industrial (3)		
Off Peak	$3.48	N/A
Peak	3.85	N/A
Golf Courses (3)		
Off Peak	$3.78	$4.13
Peak	4.18	4.55

(1) Wholesale unit charges vary between $2.35 and $6.11 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).

Wastewater Service Rates Effective November 1, 2007 – TABLE FIFTEEN

Customer Account Charge

	Inside City	Outside City	Wholesale Customers
Customer Account Charge ($/month)	$7.10	$7.10	$7.10

Volume Unit Charge

	Unit Cost per 1,000 Gallons (1)	
	Inside City	Outside City
Retail Inside City:		
Single-Family		
0 - 2,000 Gallons	$3.18	$4.10
2,001 - Over Gallons	7.18	7.63
Multifamily	6.30	6.30
Commercial	6.93	6.93
Large Volume/Industrial	6.32	N/A
Golf Courses	6.93	6.93

Wholesale unit charges vary between $3.35 and $4.84 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.

The Water and Wastewater service rates effective November 1, 2007, reflect a 7.1% increase over the rates charged in the prior year.

Water and Wastewater Capital Recovery Fees

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

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

Analysis of Water Bills - TABLE SIXTEEN A

	Fiscal Year Ended September 30				
Average Monthly Bill Per Customer - Water	2003	2004	2005	2006	2007
Inside City (Urban)					
Residential	$ 24.67	$ 22.23	$ 25.66	$ 31.16	$ 22.64
Multi-Family	314 22	321.61	366.72	410.58	403.61
Commercial	204.61	201.60	218.37	256.95	231.33
Industrial	93,761.88	95,841.88	97,646.05	101,314.54	114,819.11
City Departments	373.10	464.28	703.57	749.31	524.49
Outside City (Rural)					
Residential	29.72	25.74	30.66	38.01	27.51
Multi-Family	231.67	246.53	311.23	392.34	356.31
Commercial	184.58	206.87	369.57	440.01	266.96
Average Monthly Bill					
Above Customers	50.88	48.91	55.78	69.09	54.48
Sales to Other Water Utilities*	30,360.71	28,783.44	33,575.67	42,981.04	34,079.94
Average Monthly Bill					
All Customers	$ 54.18	$ 51.99	$ 59.30	$ 69.49	$ 57.91
Average Monthly Use in 1000 Gallons - Water					
Inside City (Urban)					
Residential	8.35	7.56	7.90	9.06	6.80
Multi-Family	130.78	128.36	133.34	140.50	130.24
Commercial	69.28	65.40	64.05	71.33	59.26
Industrial	37,231.67	35,890.31	33,892.48	32,226.37	35,148.39
City Departments	123.76	148.19	206.27	222.26	171.02
Outside City (Rural)					
Residential	9.50	8.35	8.81	10.34	7.77
Multi-Family	103.22	93.97	104.33	127.28	124.25
Commercial	68.94	67.59	109.38	115.99	73.32
Average Monthly Use					
Above Customers	18.12	17.01	17.59	19.31	15.91
Sales to Other Water Utilities*	14,858.34	13,597.73	14,049.02	17,127.23	13,239.38
Average Monthly Use					
All Customers	19.74	18.46	19.06	21.06	17.24
Average Revenue Per 1000 Gallons - Water					
Inside City (Urban)					
Residential	2.95	2.94	3.25	3.44	3.33
Multi-Family	2.40	2.51	2.75	2.92	3.10
Commercial	2.95	3.08	3.41	3.60	3.90
Industrial	2.52	2.67	2.88	3.14	3.27
City Departments	3.01	3.13	3.41	3.37	3.07
Outside City (Rural)					
Residential	3.13	3.08	3.48	3.68	3.54
Multi-Family	2.24	2.62	2.98	3.08	2.87
Commercial	2.68	3.06	3.38	3.79	3.64
Average Revenue					
Above Customers	2.81	2.88	3.17	3.37	3.42
Sales to Other Water Utilities*	2.04	2.12	2.39	2.51	2.57
Average Revenue					
All Customers	2.75	2.82	3.11	3.30	3.36

*Includes all wholesale customers.

Analysis of Wastewater Bills - TABLE SIXTEEN B

	Fiscal Year Ended September 30				
Average Monthly Bill Per Customer - Wastewater	2003	2004	2005	2006	2007
Inside City (Urban)					
Residential	$ 19.92	$ 21.47	$ 24.21	$ 26.43	$ 28.25
Multi-Family	405.13	432.29	502.41	540.34	601.92
Commercial	193.41	210.53	235.85	255.75	271.92
Industrial	112,135.81	112,779.87	116,270.85	119,912.89	130,895.01
City Departments	211.33	224.06	257.71	177.19	195.06
Outside City (Rural)					
Residential	25.67	26.76	29.82	32.73	35.78
Multi-Family	385.34	383.09	463.32	599.96	707.28
Commercial	436.55	405.92	475.17	575.54	552.38
Average Monthly Bill					
Above Customers	47.16	50.15	56.06	59.74	64.04
Sales to Other Utilities*	25,877.35	28,846.49	29,263.88	34,418.20	36,934.27
Average Monthly Bill					
All Customers	$ 48.53	$ 51.65	$ 57.55	$ 61.44	$ 66.03
Average Monthly Use in 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	4.67	4.69	4.61	4.68	4.51
Multi-Family	107.51	107.96	108.60	108.69	109.60
Commercial	46.32	47.01	46.02	46.76	45.19
Industrial	31,745.82	28,993.95	26,468.38	24,063.62	24,676.79
City Departments	62.78	57.44	56.58	35.48	30.04
Outside City (Rural)					
Residential	5.07	5.12	5.12	5.26	5.28
Multi-Family	102.51	96.08	99.67	120.67	129.58
Commercial	103.91	92.21	89.69	102.00	94.60
Average Monthly Use					
Above Customers	11.70	11.58	11.28	11.13	10.84
Sales to Other Wastewater Utilities*	8,847.72	9,362.28	9,112.44	9,455.98	9,649.13
Average Monthly Use					
All Customers	12.17	12.07	11.75	11.60	11.36
Average Revenue Per 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	4.26	4.58	5.25	5.65	6.26
Multi-Family	3.77	4.00	4.63	4.97	5.49
Commercial	4.18	4.48	5.12	5.47	6.02
Industrial	3.53	3.89	4.39	4.98	5.30
City Departments	3.37	3.90	4.55	4.99	6.49
Outside City (Rural)					
Residential	5.06	5.23	5.82	6.22	6.78
Multi-Family	3.76	3.99	4.65	4.97	5.46
Commercial	4.20	4.40	5.30	5.64	5.84
Average Revenue					
Above Customers	4.03	4.33	4.97	5.37	5.91
Sales to Other Utilities*	2.92	3.08	3.21	3.64	3.83
Average Revenue					
All Customers	3.99	4.28	4.90	5.30	5.81

*Includes all wholesale customers.

THE ELECTRIC UTILITY SYSTEM
"AUSTIN ENERGY"

Management

Name	Title	Length of Service with City*
Roger Duncan	General Manager	18 Years
Michael McCluskey	Deputy General Manager	21 Years
Elaine Hart, CPA	Senior Vice President, Finance and Corporate Services	19 Years**
Chris Kirksey	Senior Vice President, Power Production	22 Years
Cheryl Mele	Senior Vice President, Electric Service Delivery	16 Years
Kerry Overton	Senior Vice President, Customer Care	8 Years

* As of January 31, 2008.
**Length of service not continuous.

Service Area

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

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

Customer Base - Average Monthly Number of Customers

As of September 30, 2007	Average Monthly Number of Customers	Percent
Residential	345,197	88.83%
Commercial	41,825	10.76%
Industrial	75	0.02%
Public Street & Highway	4	0.00%
Sales to Governmental Authorities	1,519	0.39%
Total Service Area Customers	388,620	100.00%

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DESCRIPTION OF PHYSICAL PROPERTY

Generation

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

Generation – TABLE ONE

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

Unit	Year Installed	Nameplate Rating (MW)	Fuel
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	325.0	Gas/No. 2 oil backup
Unit No. 2	1977	405.0	Gas or Nos. 1 through 5 oil
Gas Turbines	1988	200.0	Gas/No. 1 oil backup
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Combined Cycle	2004	300.0	Gas
Domain Combined Heat & Power	2004	4.5	Gas
FM 812 Landfill	2004	.2	Landfill Methane
RMEC CHP (Dell Children's Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	200.0	Nuclear
Total Capacity owned by Austin Energy		2,389.3	
Purchased Power (1):			
LCRA Texas Wind Contract	1995	10.0	Wind
FPL Energy Upton Wind I, LP.	1999-2001	76.7	Wind
RES North America Sweetwater Wind	2005	128.0	Wind
Whirlwind Energy LLC	2007	60.0	Wind
Gas Recovery System, Inc	1994-2003	4.0	Landfill Methane
Ecogas Inc. and Energy Developments, Inc	2002-2003	7.8	Landfill Methane
Total Capability including Purchase Power		2,675.8	

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

See "Generation and Use Data - TABLE FOUR", "System Peak Demand" for more information on peak demand and generation capacity. Generation capacity is adequate to meet native load. Based on historical availability patterns, the Electric Reliability Council of Texas ("ERCOT") expects that only 2.9% of wind facilities' nameplate ratings will be included in capacity requirements to meet system peak demand.

Fuel Supply

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

Percent of Power by Fuel Type

% Generation	2003	2004	2005	2006	2007
Coal	40.5%	37.8%	34.6%	29.7%	32.2%
Natural Gas & Oil	21.4%	20.2%	25.2%	27.9%	27.3%
Nuclear	19.4%	31.2%	27.9%	27.3%	25.8%
Renewable Energy	2.6%	2.6%	4.3%	5.7%	5.1%
Purchased Power	16.1%	8.2%	8.0%	9.4%	9.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Fuel Type

Coal . . . Coal supplies are procured through a portfolio of contracts with transportation specifically managed to minimize cost. Typically several months of coal inventory are maintained to protect against disruptions. During 2005, coal inventory levels fell below typical levels as a result of poor rail service; a problem experienced by coal burning utilities across the U.S. Austin Energy took several steps to mitigate delivery shortfalls, including power purchases, increased production from natural gas units and truck based deliveries of imported coal. In 2007 new rail agreements were signed. These agreements will improve delivery service but at a higher costs.

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

Nuclear . . . The South Texas Project Nuclear Operating Company, a non-profit Texas corporation ("STPNOC"), on behalf of the owners of the South Texas Project (see "South Texas Project Ownership" below), is responsible for the supply of nuclear fuel and for the disposal of spent fuel for the South Texas Project Electric Generation Station ("STP"). Sharp increases in uranium prices and a number of industry-wide challenges to security of supply in the past few years have led to decisions to enter into long term supply contracts and to carry a full reload of natural uranium hexafluoride ("NUF6").

Fayette Power Project

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

The Clean Air Act and other regulations require all existing coal plants to reduce the levels of SO2 and NOX by 2010. As a result, the Fayette Power Project is in the process of installing scrubbers on Units 1 & 2. It is estimated that the project cost will be in the range of $150-175 million for Austin Energy's share. The Design Phase was completed in February of 2006. Procurement of equipment and Phase II Engineering and Construction are currently underway. Project completion is scheduled for April 30, 2009 for Unit 1 and April 30, 2010 for Unit 2.

Austin Energy Gas Generation Facilities

All four (4) of Austin Energy's gas generation facilities are located in Austin Energy's service territory. Austin Energy began commercial operation of a 300 MW combined cycle gas-fired electric generating facility at the Sand Hill Energy Center on September 1, 2004. The "one-on-one" combined cycle unit consists of one (1) "F" class combustion turbine ("CT"), one (1) natural circulation, duct fired, heat recovery steam generator ("HRSG"), one (1) steam turbine and balance of plant equipment and controls. The unit was designed so that a future "F" technology CT/HRSG train may be added to achieve a nominal rating of 500 MW for this power block. The facility was funded with cash from operations.

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

South Texas Project Electric Generation Station ("STP")

STP is a two-unit pressurized water reactor nuclear power plant, each unit nominally rated to produce 1,281.25 MW, located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles southeast of the City. In October 2007 a Combined License Application was submitted for two Advanced Water Reactors at the existing site in Matagorda County, Texas to the NRC. This application was subsequently approved. The new units will be designated as STP Units 3&4. Austin Energy's decision to become Owners in the new units is being evaluated.

South Texas Project Ownership

Participants	Ownership %	Nominal MW Output
City of Austin – Austin Energy	16.0	410.0
NRG South Texas LP	44.0	1,127.5
CPS Energy	40.0	1,025.0
Total	100.0	2,562.5

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

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. No firm decision has been made with respect to license renewal; however, under NRC regulations the STP owners can request a 20-year license renewal.

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

Five-Year South Texas Project Capacity Factor

For the calendar year ended December 31, 2007, the STP capacity factor for Unit 1 was 107.7%, and for Unit 2 the capacity factor was 94.4%, resulting in a total capacity factor of 101.5%. The Low Pressure Upgrade turbines were completed in 2007. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy's share is 21.9 MW. A scheduled major capital project will be the replacement of the reactor vessel heads in 2008 and 2010. This is a proactive move to eliminate reactor head corrosion issues found throughout the industry and reported at other facilities. This project will be performed during regular scheduled refueling outages and the project is estimated to be in the range of $100 million. Austin Energy's share of this total will be approximately $16 million, and is anticipated to be funded from current revenue.

CUSTOMER RATES

Retail Service Rates

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

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. Austin Energy has not filed any requests with the City Council to change base rates since 1994. In December 1996, the Austin City Council approved changes to offer customers more choices, although the existing base electric rates did not change. TABLE THREE shows the current Electric Utility System rates by customer class.

Fuel Adjustment Clause

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

Typical Residential Electric Bills of Seven Largest Texas Cities

City	Electric Bill*
San Antonio	$ 76.97
AUSTIN	91.51
El Paso	123.29
Dallas/Fort Worth	138.63
Houston	149.27
Corpus Christi	154.38

*Average Residential Bill for 1,000 KWh during the period October 2006 – September 2007 including fuel costs. The cities shown, other than Austin and San Antonio, are served by investor owned utilities. Source: Public Utility Commission of Texas and powertochoose.org.

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CUSTOMER STATISTICS

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

Five Year Electric Customer Statistics – TABLE TWO

	Fiscal Year Ended September 30				
	2003	2004	2005	2006	2007
Revenue (000's)					
Residential	$ 328,704	$ 299,107	$ 348,281	$ 387,540	$ 356,143
Commercial	318,258	301,151	335,859	367,017	365,991
Industrial	82,683	77,497	93,448	108,491	113,248
Public Street & Highway	9,417	7,805	7,578	8,128	8,106
Sales to Government Authorities	71,786	65,947	74,110	80,334	75,358
Total	$ 810,850	$ 751,505	$ 859,278	$ 951,510	$ 918,846
MWH					
Residential	3,730,629	3,605,111	3,879,940	4,079,909	3,908,318
Commercial	3,982,273	4,013,463	4,195,212	4,287,176	4,350,912
Industrial	1,496,590	1,536,813	1,662,458	1,779,333	1,930,289
Public Street & Highway	47,635	48,177	46,366	46,873	47,230
Sales to Government Authorities	1,064,271	1,058,566	1,081,420	1,103,589	1,088,320
Total	10,321,398	10,262,130	10,865,396	11,296,880	11,325,069
Average Monthly Number of Customers					
Residential	320,710	325,905	331,490	338,184	345,197
Commercial	37,317	38,414	39,691	40,934	41,825
Industrial	67	65	68	75	75
Public Street & Highway	4	4	4	4	4
Sales to Government Authorities	1,428	1,486	1,482	1,501	1,519
Total	359,526	365,874	372,735	380,698	388,620
Average Monthly KWH per Customer					
Residential	969	922	975	1,005	943
Commercial	8,893	8,707	8,808	8,728	8,669
Industrial	1,861,430	1,970,273	2,037,325	1,974,842	2,135,275
Public Street & Highway	992,394	1,003,687	965,967	976,519	983,969
Sales to Government Authorities	62,107	59,403	60,809	61,283	59,712
Average Monthly Bill per Customer					
Residential	$ 85.41	$ 76.48	$ 87.55	$ 95.30	$ 85.98
Commercial	710.71	653.30	705.15	747.17	729.21
Industrial	102,840.01	99,354.79	114,519.75	120,411.70	125,274.28
Public Street & Highway	196,184.42	162,609.10	157,883.58	169,328.09	168,883.61
Sales to Government Authorities	4,189.22	3,700.70	4,167.25	4,460.99	4,134.63
Average Revenues per KWH					
Residential	$0.08811	$0.08297	$ 0.08976	$0.09499	$0.09112
Commercial	0.07992	0.07504	0.08006	0.08561	0.08412
Industrial	0.05525	0.05043	0.05621	0.06097	0.05867
Public Street & Highway	0.19769	0.16201	0.16345	0.17340	0.17164
Sales to Government Authorities	0.06745	0.06230	0.06853	0.07279	0.06924

Source: Austin Energy.

Electric Rates – TABLE THREE

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

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

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

Transmission Rates

The PUCT has exclusive jurisdiction over rates terms and conditions for the provision of transmission services by the City. On June 9, 2006, the PUCT approved the City's most recent wholesale transmission rate of $1.002466/kW. Transmission revenues totaled approximately $60 million in 2007. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

Green Choice Energy Rider

In March 2001, Austin Energy adopted a Green Choice Energy charge for renewable energy. Customers who subscribe to the Green Choice program will pay a renewable energy charge in lieu of the fuel adjustment factor as determined by Austin Energy. Austin Energy's Green Choice program has been recognized as the leading utility-sponsored green power program in the nation for sales. Subscribers see the fuel charge on their electric bill replaced with a Green Choice charge that remains fixed for up to 15 years, based on Austin Energy's contracts for wind-generated power.

Green Choice Sales (kWh)	
2002	206,566,601
2003	235,478,890
2004	344,446,101
2005	434,040,739
2006	580,580,401
2007	577,636,840

Power and Energy Sales Contracts

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

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Generation And Use Data – TABLE FOUR

	Fiscal Year Ended September 30									
	2003		2004		2005		2006		2007	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		8,762,574,000		9,973,751,000		10,734,106,000		10,730,704,000		10,999,758,000
kWh Received from ERCOT		2,322,933,000		1,278,302,000		1,272,416,000		1,472,202,000		1,661,154,000
Less: kWh Delivered to ERCOT		(117,125,000)		(213,820,000)		(223,536,000)		(196,935,000)		(571,210,000)
Less: kWh Delivered to Other Utilities		(157,465,000)		(183,125,000)		(318,678,000)		(207,998,000)		(151,020,000)
Total kWh Delivered to Service Area		10,810,917,000		10,855,108,000		11,464,308,000		11,797,973,000		11,938,682,000
Service Area Energy Use:										
Residential	320,710	3,730,628,647	325,905	3,605,110,769	331,490	3,879,940,471	338,184	4,079,909,225	345,197	3,908,317,955
General Service (Less UT & ENW)	37,987	6,235,607,964	39,102	6,302,070,677	40,380	6,620,136,778	41,650	6,829,923,758	42,559	7,042,867,290
	358,697	9,966,236,611	365,007	9,907,181,446	371,870	10,500,077,249	379,834	10,909,832,983	387,756	10,951185,245
Public Street Lighting	4	35,072,993	4	35,538,803	4	33,713,031	4	34,145,561	4	34,486,701
City Utility Departments	177	194,839,055	176	192,467,642	173	200,818,623	172	213,515,923	180	200,560,827
Other City Departments	647	112,687,157	686	114,304,014	687	118,133,880	687	126,657,490	679	126,263,735
	828	342,599,205	866	342,310,459	864	352,665,534	863	374,318,974	863	361,311,263
Total Service Area Sales	359,525	10,308,835,816	365,873	10,249,491,905	372,734	10,852,742,783	380,697	11,284,151,957	388,619	11,312,324,408
Sales to UT & ENW (Nightwatchman)	1	12,561,939	1	12,638,165	1	12,653,375	1	12,727,340	1	12,743,795
Loss and Unaccounted For		489,519,245		592,977,930		598,911,842		501,093,703		613,613,797
Total kWh Delivered to Service Area	359,526	10,810,917,000	365,874	10,855,108,000	372,735	11,464,308,000	380,698	11,797,973,000	388,620	11,938,682,000
System Peak Demand (kW)		2,350,000		2,280,000		2,445,000		2,430,000		2,391,000

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Energy Risk Management

In an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy has established an Energy Risk Management Program. This program is authorized by the City Council to an $800 million limit and is led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk over a five year time horizon. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. Austin Energy typically settles these contracts in cash. See “INVESTMENTS – Legal Investments”.

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 28, 2007, the netting of Austin Energy’s options, futures, and basis swaps, valued at mark-to-market, resulted in an unrealized gain of $8,332,063. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the notes to the City’s financial statements. For further information, refer to the footnotes from the Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007 (APPENDIX B).

Power and Energy Purchase Contracts

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

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

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

In December 1999, Austin Energy signed a 10-year contract to purchase the output of a 20 MW wind energy project built by Texas Wind Power Company (“Texas Wind”) in Upton County. Texas Wind assigned the contract to King Wind, LP in December 1999. The original contract provided Austin Energy an option to agree to purchase an additional 78.4 MW of electricity from the project to be provided by an increase in the project capacity. In October 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and necessitating an increase in the project capacity by an additional 56.7 MW. In December 2000 King Wind LP assigned the contract to FPL Energy Upton Wind I, LP. The 76.7 MW wind farm began full-scale operation in September 2001. See “LITIGATION” for information concerning a lawsuit filed by FPL Energy Upton Wind I, LP.

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

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

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

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

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

In September 2007, Austin Energy signed a 20-year contract with Sun Edison LLC to purchase the output of a 710 KW solar energy project to be located on Austin Energy's Decker Creek Power Station property in eastern Travis County. The project is expected to begin full-scale commercial operation in December 2008.

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

Transmission and Distribution System

The transmission and distribution plant statistics of Austin Energy as of September 30, 2007, are as follows:

Electric Transmission and Distribution System Statistics

	Number of Substations	Miles of Lines	Kilovolts
Transmission	11	619	345/138/69
Distribution	56	10,956	35/12.5/7.2
Overhead Primary		2,363	
Overhead Secondary		3,164	
Underground Primary		2,621	
Underground Secondary		2,808	

The City and LCRA entered into the Fayette Power Project Transmission Agreement dated March 17, 1977, setting forth the duties, obligations and responsibilities with respect to the transmission of energy from the Fayette Power Project. The City has also entered into the STP 345 kV Transmission Line Agreement dated as of January 1, 1976 with the participants in STP, setting forth the duties, obligations and responsibilities with respect to transmission facilities associated with STP.

Austin Energy is interconnected with LCRA, with whom Austin Energy has a power interchange agreement. Austin Energy is also interconnected with CenterPoint Energy (formerly Houston Lighting & Power Co., and referred to herein as "CenterPoint"), CPS Energy and American Electric Power. Austin Energy is a member of ERCOT. As a participant in ERCOT, Austin Energy is able to provide and be provided with a reliable backup supply of generation under emergency conditions. The diversification of fuel sources of the member systems increases the potential for economic interchanges among the respective systems. Sale and purchase transactions generally maximize the use of less expensive fuel sources by all members of the interconnected system.

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

ISO 9001 Registration

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

January 3, 2008. The certification followed a rigorous four-day review in December of the electric Service Delivery Quality Management System by NSAI auditors. The ISO Auditors noted that procedures and written work instructions have been implemented for more than 530 work activities. More than 250,000 companies worldwide, including 25,000 in the U.S., are certified in the ISO 9000 series. Austin Energy transmission and distribution work units however, are the first of any utility in the country to be so certified.

Conventional System Improvements

In September 2007, the 2008-2012 Capital Improvements Spending Plan was approved by the City Council in the amount of $998,836,000. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and commercial paper.

RESPONSE TO COMPETITION

Austin Climate Protection Plan

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

Further, on December 13, 2007, the City Council passed a resolution directing the City Manager to conduct an open, extended Energy Resource Planning Public Participation Process to assist Austin Energy with the development of its future resource management plans, including generation planning in line with the Austin Climate Protection Plan goals; and that through the Energy Resource Planning Public Participation Process, Austin Energy will:

- Educate its customers on facts, issues and trends regarding the electric utility industry,
- Inform its customers in depth about Austin Energy's operations, particularly those involving power production, and
- Obtain suggestions from its customers and other outside sources for business approaches and proposed solutions designed to meet the future needs of the utility.

The City Manager is directed to report back to the City Council within 90 days with specific recommendations and timetables for implementing the Energy Resource Planning Public Participation Process.

Strategic Plan

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

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

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

Third, an Energy Resource strategy directs Austin Energy to first seek cost-effective renewable energy and conservation solutions to meet customers' new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy intends not to prematurely commit to unproven technologies; however, Austin Energy intends to pursue a leading-edge position that will allow Austin Energy to readily identify, evaluate and deploy emerging renewable technologies.

Five objectives were identified to support the strategies including:

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

- Create and Sustain Economic Development - Austin Energy will create and sustain economic development by providing contract opportunities for local businesses, attracting new businesses, and supporting the development of a clean energy industry. Austin Energy's goal is to exceed the City's M/WBE goals by 2008.

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

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

- Exceptional System Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages. A common measure of reliability for generating units is the Equivalent Availability Factor (EAF). The EAF is a measure of the number of hours a generating unit's full capacity is available for use per the total period hours.

  - SAIFI (system average interruption frequency index) = 0.8 interruptions per year
  - SAIDI (system average interruption duration index) = 60 minutes per year
  - Maintain an intermediate/peaking peak season EAF of 95% or better

- Renewable Portfolio Standard - Austin Energy intends to continue its nationally recognized renewable resources and Green Building programs. By 2020, Austin Energy will achieve a Renewable Portfolio Standard of 30%, as well as 15% increase in demand side management impacts. Austin Energy will also achieve 700 MW of peak demand savings by 2020. Austin Energy demonstrates its commitment to solar energy through its Solar Rebate Program and its plan to achieve 100 MW of solar generation by 2020.

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

STRATEGIC PLANNING PERFORMANCE MEASURES 2003-2006

STRATEGY	OBJECTIVE	TARGET			2002-2003		2003-2004		2004-2005		2005-2006	
Risk Management	Maintain Financial Integrity	"AA" (S&P) credit rating by 2010			"A"		"A+"		"A+"		"AA-"	
Excellent Customer Service	Create and Sustain Economic Development	Exceed M/WBE Goals by 2008	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)
		Construction	12.90	12.60	10.27	13.46	30.50	34.64	6.86	9.62	1.07	5.48
		Commodity	3.50	6.20	4.66	13.56	0.49	7.71	2.55	5.00	0.87	6.20
		Non-Professional	14.10	15.00	11.42	4.61	17.21	4.22	7.83	3.07	4.24	3.37
		Professional	16.50	14.20	0.50	0.04	0.00	0.16	0.00	0.04	0.08	0.00
	Customer Satisfaction	Employee Satisfaction target of 10% improvement on LTW Survey by 2010, i.e. 70% positive rating overall			64%		57%		55.25%		58%	
		Customer Satisfaction target of 83/100 by 2010			76/100		79/100		79/100		80/100	
	Exceptional System Reliability	SAIDI @ 60 minutes by 2005			64.93		62.72		79.06		86.10	
		SAIFI of 0.8 interruptions/yr by 2005			0.85		0.88		1.05		0.99	
		SATLPI of 4.1 average/ yr by 2005			N/A		4.50		4.10		4.20	
Energy Resource	Renewable Portfolio Standard & Energy Efficiency	30% renewable energy by 2020			2.94%		2.16%		3.80%		6.00%	
		15% energy efficiency by 2020			5.50%		6.00%		6.70%		7.30%	
		100MW solar generation by 2020			0.24 MW		0.33 MW		0.85 MW		1.0 MW	

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Financial Policies

With increasing competition in the electric utility industry due to regulatory and market changes, Austin Energy continues to maintain strong financial policies aimed at keeping financial integrity while allowing for flexibility should the market change. Some of the more significant financial policies adopted by City Council during the budget process are:

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

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

- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for our customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years. The Competitive Reserve may be used to improve the strategic position of Austin Energy including, but not limited to, funding capital needs in lieu of debt issuance, reduction of outstanding debt, rate reductions, acquisitions of new products and services, and new technologies. Funding may be provided from net revenue available after meeting the General Fund Transfer (described below), capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

- The General Fund Transfer shall not exceed 12% of Austin Energy's three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report. (Actual percentage has been 9.1% for the last 8 years, with the exception of 2002 at 8.9%.)

- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments. See "INVESTMENTS – Legal Investments".

- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.

A complete listing of Austin Energy's financial policies can be found at http://www.ci.austin.tx.us/budget/07-08/downloads/ab0708support.pdf

Real Estate Taxes

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

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CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

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 PURA by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City limits. Texas courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction

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

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

SB 7 amended PURA to provide for retail deregulation of the electric utility industry in Texas. SB 7 opened retail competition for Investor Owned Utilities ("IOUs") beginning January 1, 2002. SB 7 allowed local authorities to choose when to bring retail competition to their Municipally Owned Utilities ("MOU"), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to "opt in" for retail competition is adopted by the municipal utility's governing body, the decision is irrevocable.

<u>General Market Framework</u>: Beginning on January 1, 2002, IOUs were required to unbundle their regulated (wires) operations from their competitive operations. There is a strong ISO established with responsibility over the operations and planning for the ERCOT bulk electric system. The PUCT has established comprehensive, clear and enforceable market power protections: no utility can control more than 20% of ERCOT generation and wholesale market participants must follow a detailed code of conduct.

<u>MOUs That Do Not Choose Retail Competition</u>

- 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.

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

- 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.

<u>MOU Local Control Preserved</u>

- 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.
– MOU retains metering.

Participation By MOU In Markets Outside Its Area After Choosing Retail Competition

– Limited PUCT jurisdiction over terms and conditions for access, not rates.
– Subject to market power limits and PUCT customer safeguard code of conduct.

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.

State Wholesale Market Design Developments

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

On September 23, 2005, ERCOT filed with the PUCT the nodal market Protocols developed through the ERCOT stakeholder process. The nodal Protocols incorporate specific provisions that will allow Austin Energy to hedge congestion risk in the new market. For its generation resources in operation prior to September 1, 1999, Austin Energy will receive preassigned CRRs at a discount to the market price which are available prior to the auction of CRRs. The service territory of Austin Energy will be identified as a load zone for settlement purposes. On February 23, 2006, the PUCT voted to approve the nodal Protocols for the ERCOT region. The nodal market will begin operation on January 1, 2009. In anticipation of the opening of the nodal market, Austin Energy employees are active participants in ERCOT's Transition Plan Task Force (TPTF), the joint ERCOT-stakeholder effort to assure ERCOT-wide readiness with the market change. Austin Energy's Energy and Market Operations staff, system planning and operations staff, and finance and accounting staff are actively taking steps to modify key systems and processes to assure Austin Energy's capability to participate fully in the ERCOT nodal market on schedule.

Federal Rate Regulation

Austin Energy is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy under current Federal statutes and regulations. Austin Energy submits various reports to FERC and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records. On April 24, 1996, the FERC issued a Final Rule (the "Final 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 Final 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.

On December 20, 1999, the FERC issued "Order No. 2000" (the "Order") related to the formation of voluntary Regional Transmission Organizations ("RTOs"). The Order required all utilities subject to the FERC's authority under sections 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.

Austin Energy is not subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under Texas law that is similar to the RTOs envisioned in the Order and which predates the Order by several years. Since 1995, the PURA has required open access to the transmission network in ERCOT under comparable terms and conditions for all users of the transmission network. 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 the Order. On January 17, 2008, the FERC approved an additional eight Critical Infrastructure Protection (CIP) reliability standards to protect the nation's bulk power system against potential disruption from cyber security breaches. Under PURA, the PUCT has specific responsibilities to oversee ERCOT operations and market participant compliance with ERCOT Protocols.

Under the Energy Policy Act of 2005, municipal entities are now subject to certain FERC authority on reliability. Specific reliability requirements rules have been developed by the FERC. On July 20, 2006, the FERC certified the North American Electric Reliability Council ("NERC") as the nation's Electric Reliability Organization ("ERO"), which will be responsible for developing and enforcing mandatory electric reliability standards under the FERC's oversight. On April 19, 2007, FERC approved the Delegation Agreement between the NERC and ERCOT, which will govern the responsibilities of ERCOT as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. On June 4, 2007, FERC approved an initial set of 83 NERC reliability standards that apply to entities operating in the ERCOT region. An additional eight Critical Infrastructure Project standards as well as other reliability standards approved by NERC are awaiting formal approval from the FERC. Austin Energy has established compliance programs in its Energy Markets; transmission systems planning, operations and reliability; and Information Technology and Telecommunications units to examine the requirements for compliance with the new standards and to evaluate and implement any needed changes to systems and procedures.

Austin Energy Environmental Policy

Austin Energy, a community-owned utility, is dedicated to protecting and continually enhancing the quality of its surrounding environment while providing affordable, reliable energy to its customers. It has demonstrated this commitment as a recognized leader among electrical energy service providers in environmental stewardship and conservation and will uphold its leadership role within the energy industry and the Austin community.

Austin Energy will endlessly improve its environmental performance, scrutinized through the operation of its Environmental Care Program and evaluation of environmental objectives and targets. We will always seek opportunities for preventing pollution by implementing solutions that reflect the values of our customers while ensuring compliance with all applicable environmental laws, regulations and permit conditions

Environmental Regulation General

Austin Energy's operations are subject to environmental regulation by Federal, State and local authorities. Austin Energy has a formal environmental management system called the Environmental Care Program for assuring compliance with applicable environmental regulations and addressing environmental impacts associated from its operations. The Environmental Care and Protection (ECP) section within AE consists of a staff of environmental professionals from various educational backgrounds who are responsible for maintaining the Environmental Care Program. The Environmental Care and Protection section interprets existing Federal, State and local regulations and routinely track changes to regulations, which affect Austin Energy processes. Austin Energy has prepared documentation which details roles and responsibilities for environmental compliance throughout the organization. The Environmental Care and Protection section staff and facility personnel monitor conformance with the environmental requirements and report deficiencies to facility management. ECP coordinates with the Technical Support Section within Power Production to administer and conduct environmental training for the organization.

Environmental Regulation Related to Air Emissions

Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power production facilities. All of Austin Energy's large generating units have been issued Federal Operating Permits and Federal Acid Rain Permits for the individual units by the TCEQ (hereinafter defined) and the USEPA (hereinafter defined). References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been delegated to the TCEQ.

SB 7 Requirements for NOx Reductions

In 1999, as part of SB 7, defined above, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 Texas Administration Code ("TAC") 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). All of Austin Energy's then operational units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. The 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. A total of 1,741 tons of NOx were allocated to the "grandfathered" units.

In addition to the NOx reductions made to comply with SB 7, Austin Energy has made voluntary commitments to cap the emissions of NOx from Decker, Holly Street and Sand Hill Energy Center to a total of 1,500 tons per year. This commitment was made in order to assist with the Early Action Compact or EAC made between the governmental bodies of the Austin Area and USEPA. Austin Energy's total NOx emissions were 1,178 tons for the latest compliance reporting year ending May 2007.

The TCEQ has also implemented further NOx reduction rules under 30 TAC 117. The TCEQ now requires that coal-fired units that were placed into service prior to December 31, 1995 and located in the east side of Texas (east of I-35) have a yearly average NOx emission rate of 0.165 lb/mmBtu or less. This rule also requires that gas-fired boilers and gas turbines in this same geographic region that were placed into service prior to December 31, 1995 have a yearly average NOx emission rate of 0.14 lb/mmBtu or less. Modifications made to the Decker and Holly Street units resulted in an average emission rate of approximately 0.10 lb/mmBtu for 2007. Modifications have been made to the Fayette Power Project Units 1 & 2 (which Austin Energy co-owns with the LCRA) and current emission rates are averaging approximately 0.10 lb/mmBtu. All of the Holly Street and Decker units will be in compliance with their emission limits. The Decker gas turbine units fall under an exemption from this rule due to their limited run times. The Holly St. Power Plant was closed as of October 1, 2007 and will be decommissioned.

FPP Flex Permit

AE and LCRA agreed to Flex Permit with EPA and TCEQ, which required the installation scrubbers for Fayette Power Project Units 1 & 2 by 2010. These scrubbers will reduce the emissions of SO2 from these units by at least 95%.

Clean Air Interstate Rule

On March 10, 2005, the EPA issued the Clean Air Interstate Rule (CAIR), requiring reductions in emissions of sulfur dioxide (SO2) and nitrogen oxides (NOx) from electricity generating units (EGUs) in 28 eastern states and the District of Columbia. The purpose of the CAIR rules was to address the interstate transport of pollutants. The CAIR rules will also reduce the interstate transportation of fine particles. The CAIR rules were adopted by the TCEQ in The CAIR basically establishes an EPA-administered cap-and-trade program for EGUs. The rules apply to stationary boilers and combustion turbines with nameplates of more than 25MWe. Initially, under Phase I, only NOx emissions will be capped. Phase I for NOx runs from 2009-2014. Phase II will begin 2015 and the cap will be set much lower than Phase I. Sulfur dioxide caps under Phase I will be from 2010-2014. Phase II for SO2 will commence in 2015. The Decker Units 1& 2 and the Decker Gas Turbines will be subject to the CAIR rules. The CAIR permits will be rolled The Decker Gas Turbines qualify for the Low Mass Emission (LME) limits and as such will not have to install expensive Continuous Emissions Monitoring (CEMS) to stay in compliance with CAIR reporting requirements. The Decker units will start reporting emissions under the CAIR program starting in 2008.

Climate Change

The Mayor and City Council of Austin have created the Austin Climate Protection Plan which directs Austin Energy to cap its greenhouse gas emissions and develop a reduction strategy. The cap and reduction strategy is being developed along with current generation planning activities.

The U.S. Congress has proposed several climate change strategies and within the 2010 - 2015 timeframe, Austin Energy may be subject to a mandatory cap on greenhouse gas emissions.

AE is a member of the California Climate Action and submits annual inventories of its green house gas emissions each year. The inventories are certified by a third party auditor. AE has joined The Climate Registry as a Founding Reporter and will begin reporting annual green house emissions to TCR in 2009 for 2008 emissions.

Environmental Regulation Water

Wastewater discharges are regulated pursuant to the Clean Water Act National Pollution Discharge Elimination System ("NPDES"). Stormwater run-off is similarly regulated. The USEPA has granted the TCEQ authority to implement these programs in Texas as the Texas Pollution Discharge Elimination System ("TPDES"). Austin Energy's larger power generation facilities, Decker, Holly Street and Sand Hill Energy Center, have TPDES and Stormwater Permits, which require monitoring and limitations of discharges.

USEPA has suspended the final regulations for cooling water intake structures on existing facilities. These regulations would have affected Decker Power Plant and Sand Hill Energy Center. The TCEQ is currently accessing future plans for management of 316(b) issues.

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

Environmental Other

The Decker Creek Power Station was recognized as a Clean Texas Gold Level Leader for its environmental management system and commitments for reducing environmental impacts. Both the Kramer Lane Service Center and Austin Energy Laboratory are Clean Texas Bronze Level Leaders.

Since 2001, Austin Energy has funded a program for removing distribution electrical equipment at risk for having polychlorinated biphenyls ("PCBs") from its service area beyond what is ordinarily removed due to equipment failures or line improvements. Austin Energy crews inspect and test overhead transformers and remove equipment at risk for having PCBs. Austin Energy has increased the inspections of its underground distribution system and is replacing rusted pad-mounted transformers that pose a risk for spills. Furthermore, substation equipment and soils are routinely tested prior to construction activities in the event that there is contamination from historical activities.

The Holly St. Power Plant has ceased operations as of October 1, 2007 and will be decommissioned. After the removal of the plant structures and remediation of any contaminated areas, certain areas of the plant will be turned over for public use.

Austin Energy has assessed the types and quantities of waste resulting from all of its operations. A waste reduction plan will be prepared in FY2008 which will include strategies for waste minimization including recycling and source reduction.

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

Nuclear Regulation

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

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities. The Price-Anderson Act originally expired on August 1, 2002, but was renewed on August 8, 2005 as part of the National Energy Legislation. The new Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at $10.76 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100.59 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $15 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 January 31, 2008 was $132.3 million. For Fiscal Year 2007, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense. In current dollars (at August 31, 2006), the minimum amount for decommissioning is $342.4 million per unit. See "INVESTMENTS – Legal Investments".

COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS OCTOBER 1, 2002 TO SEPTEMBER 30, 2007

(in thousands rounded)

	Fiscal Year Ended September 30					
INCOME	2007	2006	2005	2004	2003	2002
Revenue	$1,393,344	$1,412,853	$1,260,401	$1,076,511	$1,189,672	$1,022,988
Operating Expense	(846,005)	(824,870)	(730,697)	(626,412)	(663,651)	(513,780)
Balance Available for Debt Service	547,339	587,983	529,704	450,099	526,021	509,208
Depreciation and Amortization Expense	(190,203)	(193,517)	(167,150)	(149,578)	(141,633)	(145,601)
Earnings Before Interest Expense	357,136	394,466	362,554	300,521	384,388	363,607
Interest Incurred on Debt	(180,957)	(169,818)	(173,391)	(181,570)	(183,697)	(172,111)
Other	(16,530)	(9,840)	(10,640)	(51)	(17,508)	(5,885)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	$ 159,649	$ 214,808	$ 178,523	$ 118,900	$ 183,183	$ 185,611
PERCENTAGES						
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	60.72%	(58.38%)	(57.97%)	(58.19%)	(55.78%)	(50.22%)
Balance Available for Debt Service	(39.28%)	41.62%	42.03%	41.81%	44.22%	49.78%
Depreciation and Amortization Expense	(13.65%)	(13.70%)	(13.26%)	(13.89%)	(11.90%)	(14.23%)
Earnings Before Interest Expense	25.63%	27.92%	28.76%	27.92%	32.32%	35.55%
Interest Incurred on Debt	(12.99%)	(12.02%)	(13.76%)	(16.87%)	(15.44%)	(16.82%)
Other	(1.19%)	(0.70%)	(0.84%)	0.00%	(1.47%)	(0.58%)
INCOME BEFORE EXTRAORDINARY GAIN (LOSS)	11.46%	15.20%	14.16%	11.04%	15.41%	18.15%

(a) Income before transfers to the General Fund and Other Funds, for 12 months ended September 30, 2007, which are as follows (in thousands rounded):

Transfer to General Fund	$106,471
Transfers to Other Funds	3,520

(b) Excludes Combined Utility Funds' deferred costs recovered in future years of ($3,136) for twelve months ended September 30, 2007.
(c) There was no extraordinary gain or loss during each respective twelve month period.
(d) Excludes capital contributions of $37,044 for twelve months ended September 30, 2007.

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

	Fiscal Year Ended September 30					
	2007	2006	2005	2004	2003	2002
REVENUE						
ELECTRIC UTILITY						
Domestic and Rural Residential	$ 351,207	$ 379,728	$ 345,623	$ 296,099	$ 338,040	$ 268,495
Commercial General	537,180	531,440	479,816	422,794	468,918	375,821
City Utility Departments	15,280	17,168	15,214	13,407	15,123	12,557
Public Street Lighting	6,056	6,023	5,556	5,703	7,840	5,514
City General Government Departments	7,691	8,363	8,694	7,595	8,268	6,357
Sales to Other Utilities	19,314	23,041	21,655	11,812	14,378	5,568
Transmission	57,237	46,864	40,063	36,230	36,790	36,057
Rent from Electric Property	2,405	2,472	1,656	1,805	1,455	2,002
Customers' Forfeited Discounts and Penalties	4,771	4,951	4,161	3,823	3,893	4,738
Miscellaneous	55,347	50,556	50,408	29,750	26,944	27,986
Total Electric Utility	$1,056,488	$ 1,070,606	$ 972,846	$ 829,018	$ 921,649	$ 745,095
WATER UTILITY						
Urban	$ 120,766	$ 141,267	$ 120,864	$ 103,547	$ 111,689	$ 104,547
Rural	6,967	9,854	8,606	6,436	7,293	6,837
Sales to Other Water Utilities	7,755	10,387	8,202	6,889	7,697	7,164
Water Connections	474	493	458	420	403	300
Customers' Forfeited Discounts and Penalties	752	787	611	578	623	784
Miscellaneous	1,636	1,773	1,615	1,383	2,719	2,403
Total Water Utility	$ 138,350	$ 164,561	$ 140,356	$ 119,253	$ 130,424	$ 122,035
WASTEWATER UTILITY						
Urban	$ 137,243	$ 125,349	$ 114,764	$ 100,604	$ 97,495	$ 92,793
Rural	4,723	4,549	4,058	3,566	3,971	3,311
Service to Other Utilities	4,582	3,831	3,172	3,142	2,966	2,983
Wastewater Connections	435	452	420	385	369	275
Customers' Forfeited Discounts and Penalties	867	787	649	593	598	733
Industrial Waste Surcharge	3,662	3,728	3,657	3,607	3,846	3,662
Miscellaneous	2,606	2,980	2,594	2,814	2,696	3,742
Total Wastewater Utility	$ 154,118	$ 141,676	$ 129,314	$ 114,711	$ 111,941	$ 107,499
Interest	$ 44,388	$ 36,010	$ 17,885	$ 13,529	$ 25,658	$ 48,359
TOTAL REVENUE	$1,393,344	$1,412,853	$1,260,401	$1,076,511	$1,189,672	$1,022,988

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

	Fiscal Year Ended September 30					
EXPENSE	2007	2006	2005	2004	2003	2002
ELECTRIC UTILITY						
Production	$316,182	$340,316	$297,727	$207,783	$264,962	$128,386
Joint Facility Production	142,194	133,493	119,462	116,996	117,888	108,929
System Control	11,628	9,912	8,177	6,470	6,164	5,431
Transmission and Distribution	84,713	75,798	69,090	68,406	63,775	61,797
Jobbing and Contract Work	56	594	(761)	17	(240)	172
Customer Accounting and Collection	15,988	14,506	14,744	16,062	16,523	17,566
Customer Services	19,214	17,134	15,543	10,949	7,638	9,759
Administrative and General	121,206	103,518	90,237	90,174	77,525	69,399
Total Electric Utility	$711,181	$695,271	$614,219	$516,857	$554,235	$401,439
WATER UTILITY						
Purification	$ 20,951	$ 26,463	$ 18,257	$ 17,217	$ 16,834	$ 16,702
Distribution	23,971	23,607	19,859	19,590	20,796	20,897
Customers' Accounting and Collection	6,272	6,315	6,096	6,035	6,035	6,378
Jobbing and Contract Work	3	24	21	(9)	(118)	(78)
Design Engineering	1,764	1,671	1,137	823	708	800
Administrative and General	20,594	17,425	17,204	15,592	14,754	15,296
Total Water Utility	$ 73,555	$ 75,505	$ 62,574	$ 59,248	$ 59,009	$ 59,995
WASTEWATER UTILITY						
Wastewater Lines	$ 8,436	$ 7,484	$ 5,788	$ 5,788	$ 5,609	$ 6,299
Sewage Treatment Plant	26,041	23,902	22,787	21,239	20,913	21,405
Customers' Accounting and Collection	3,074	3,160	3,236	2,911	2,911	3,017
Jobbing and Contract Work	0	8	1	3	11	24
Design Engineering	10,312	9,674	8,434	7,925	7,396	7,437
Administrative and General	13,406	9,866	13,658	12,441	13,567	14,164
Total Wastewater Utility	$ 61,269	$ 54,094	$ 53,904	$ 50,307	$ 50,407	$ 52,346
TOTAL EXPENSE (1)	$846,005	$824,870	$730,697	$626,412	$663,651	$513,780
NET REVENUE AVAILABLE FOR DEBT SERVICE	$547,339	$587,983	$529,704	$450,099	$526,021	$509,208
Electric Customers	392,143	380,698	372,735	365,874	359,526	353,072
Water Customers	199,671	197,511	192,511	187,551	184,659	182,977
Wastewater Customers	186,675	184,022	178,574	174,593	169,330	168,159

(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, 2002 through September 30, 2007 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 FY02 through FY07, were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY02 through FY07 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 FY02 through FY07 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 - 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 (000's)

	Fiscal Year Ended September 30					
	2007	2006	2005	2004	2003	2002
Plant Cost						
Utility Systems						
Electric	$3,843,739	$3,730,305	$3,618,416	$3,547,908	$3,399,284	$3,231,331
Water	1,529,445	1,468,913	1,419,403	1,346,938	1,275,501	1,220,643
Wastewater	1,673,671	1,573,490	1,463,061	1,328,064	1,214,498	1,123,646
Total Cost	$7,046,855	$6,772,708	$6,550,880	$6,222,910	$5,889,283	$5,575,620
Allowance for Depreciation:						
Electric	$1,614,321	$1,553,865	$1,444,715	$1,374,273	$1,288,675	$1,203,986
Water	415,920	381,364	350,376	323,568	299,550	278,757
Wastewater	473,751	437,373	413,175	383,687	358,634	337,795
Total Depreciation	2,503,992	2,372,602	2,208,266	2,081,528	1,946,859	1,820,538
Cost after Depreciation	$4,542,863	$4,400,106	$4,292,614	$4,141,382	$3,942,424	$3,755,082
Equity in Utility Systems						
Utility Systems	$7,046,855	$6,772,708	$6,550,880	$6,222,910	$5,889,283	$5,575,620
Plus:Inventories, Materials and Supplies (1)	44,409	41,358	38,298	35,813	32,349	32,980
Net Construction Assets and Unamortized Bond Issue Cost	43,015	62,412	16,913	12,640	28,922	125,858
	$7,134,279	$6,876,478	$6,556,091	$6,271,363	5,950,554	5,734,458
Less:						
Allowance for Depreciation	$2,503,992	$2,372,602	$2,208,266	$2,081,528	$1,946,859	$1,820,538
Construction Contract Payable	0	0	0	0	0	0
Total	$2,503,992	$2,372,602	$2,208,266	$2,081,528	$1,946,859	$1,820,538
Utility Systems, Net	4,630,287	4,503,876	4,347,825	4,189,835	4,003,695	3,913,920
Revenue Bonds and Other Debt Outstanding (2)	$2,976,746	$2,912,616	$2,853,419	$2,763,009	$2,798,156	$2,796,408
Less: Bond Retirement and Reserve Funds	0	0	0	0	144,410	147,637
Net Debt	$2,976,746	$2,912,616	$2,853,419	$2,763,009	$2,653,746	$2,648,771
Equity in Utility Systems	$1,643,541	$1,591,260	$1,494,406	$1,426,826	$1,349,949	$1,265,149
Percentage of Equity in Utility Systems	35.50%	35.33%	34.37%	34.05%	33.72%	32.32%

(1) Does not include fuel oil or coal inventories of approximately $25.064 million at September 30, 2007. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of $2.649 billion (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of $2.423 million (net of discounts); Capital Lease Obligations of $2.569 million; Commercial Paper of $309.003 million (net of discounts); General Obligation Bonds of $3.964 million; and Contractual Obligations of $9.41 million.

LITIGATION

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

Electric Utility System Litigation

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

Water and Wastewater Utility System Litigation

The City is in litigation with the Archer Western Contractors, Ltd., the contractor for the expansion of the City of Austin's Ullrich Water Treatment Plant from 100 million gallons per day to 165 million gallons per day project. The water treatment plant is one of three currently providing treated water to the City of Austin.

On June 14, 2007, Archer Western filed suit against the City in the 201st Judicial District Court of Travis County, Texas, under Cause No. D-1-GN-07-001790, *Archer Western Contractors, Ltd. v. City of Austin, Texas*, for $19,666,890.00. Archer Western alleges that the City breached the construction contract for the project and, as a consequence, it incurred additional costs. The alleged additional costs include additional general conditions costs, additional supervision costs, additional costs due to project acceleration and lost productivity, additional costs due to additional work directed by the City, additional costs due to design deficiencies, and additional costs due to obstruction and extension of the base contract work. Archer Western also alleges that it performed change order work without compensation and that the City is withholding liquidated damages without cause.

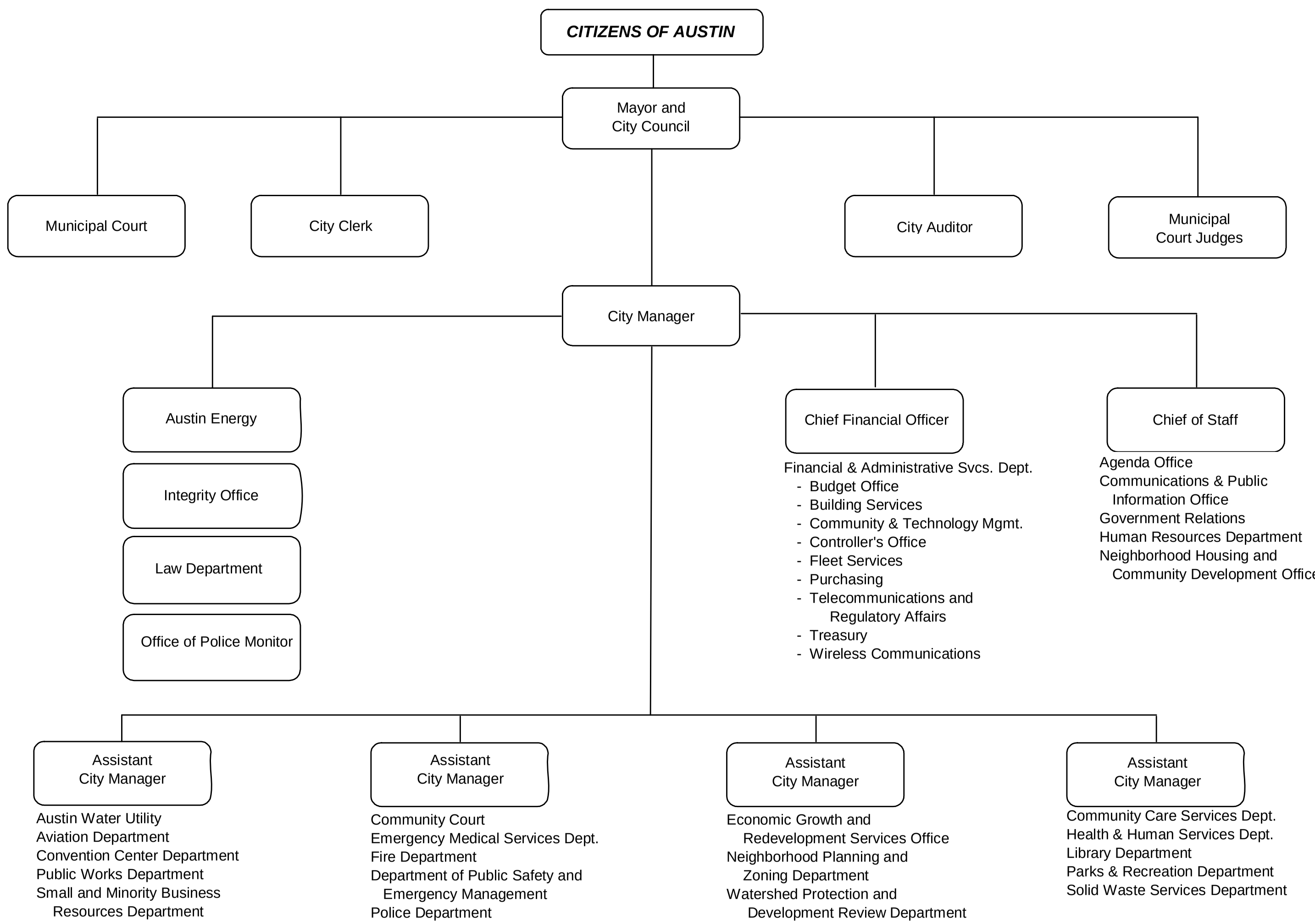
The City is currently analyzing its damages and expects to be ready to file a counter-claim against Archer Western in the near future in a substantial amount. The City's position is that it has been damaged by Archer Western due to its failure to timely complete the Project and due to defective work discovered during the course of construction, only some of which has been remedied.

The case is currently in the discovery process, which will take a number of months for document production, expert reports and depositions. The City is unable to predict the outcome of the trial.

The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2007.

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.

City Manager – Marc Ott

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

Chief Financial Officer – Leslie Browder, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

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

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

If the annexation service plan for an annexation area includes a schedule for the provision of full municipal services, the City has two and one-half years from the date of the annexation to substantially complete the capital improvements necessary to provide services to the area. However, if necessary, the City may propose a longer schedule. A wide range of services – police and fire protection, sanitation, and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks – must be provided immediately following annexation. Failure to provide municipal services in accordance with the service plan may provide grounds for a petition and court action for compliance with the service plan or for disannexation of the area, and may also result in a refund of taxes and fees collected for services not provided. Depending on the type of petition, a court may order the City to comply with the service plan or to disannex the area. 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 new districts that may be created from time to time, may issue bonds for their own improvements. Such bonds are generally payable from the receipts of ad valorem taxes imposed by the district and, in some cases, are further payable from any net revenues derived from the operation of its water and sanitary sewer systems. Texas law generally requires that if a city is annexing a district, the district must be annexed in its entirety. Upon annexation by a city, a district is dissolved and the city assumes the district's outstanding bonds and other obligations and levies and collects ad valorem taxes on taxable property within the corporate limits of the city ad valorem taxes sufficient to pay the principal of and interest on such assumed bonds.

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

The City Charter and the State's annexation laws provide the City with the ability to undertake two types of annexation. "Full purpose" annexation, discussed above, annexes territory into the City for all purposes, including the assessment and collection of ad valorem taxes on taxable property. The second type of annexation is known as "limited purpose" annexation by which territory may be annexed for the limited purposes of "Planning and Zoning" and "Health and Safety." Territory so annexed is subject to ordinances achieving these purposes: chiefly, the City's zoning ordinance, building code, and related ordinances regulating land development. Taxes may not be imposed on property annexed for limited purposes; municipal services are not provided; and residents of the area are restricted to voting only in City elections for City Council and Charter amendments. The City believes that limited purpose annexation is a valuable growth management tool. Since 1999 the City has annexed over 10,200 acres of territory for limited purposes. Strategic Annexation Programs are developed annually. These programs prioritize areas to be considered for annexation, usually at the end of the calendar year, thereby minimizing the fiscal impact to the City due to annexation.

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The following table sets forth (in acres) the annual results of the City's annexations since 1997.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
1997 (2)	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
2005	1,914	1,234
2006	351	621
2007	2,466	1,266

(1) Includes acres converted from limited purpose to full purpose status.
(2) The 1997 annexation program included ten area municipal utility districts.

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

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

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

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

Approximately $50 million in TAV was annexed for full purposes in 2004. Over 6,000 acres northwest of the City, known as the Robinson Ranch area, and the 748 acre Ribelin Ranch area, were annexed for limited purposes in June 2004. 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, and other undeveloped tracts. The Wildhorse Area near Decker Lake was annexed for limited purposes in February 2002.

Future Annexation

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

- Grand Avenue Parkway – full purpose annexation of commercial frontage along IH 35 is scheduled for February 2008;
- Anderson Mill MUD– annexation of northwest Austin area is scheduled December 2008 per terms of the amended SPA;
- Commercial area adjacent to Anderson Mill MUD located at the intersection of RM 620 and Anderson Mill Road
- Lost Creek MUD– west Austin area was included in 2005 MAP. Annexation, originally scheduled for December 2008, is expected to be postponed. After mediation and arbitration over the terms of a SPA, the MUD voted to appeal the arbitrator's August 2007 ruling which upheld the City's proposal for a SPA with a two-phased annexation;
- North Acres area – northeast Austin area was included in 2005 MAP with full purpose annexation scheduled for December 2008;
- Peninsula area – properties near Lake Austin were included in 2005 MAP with full purpose annexation scheduled for December 2008;
- Wildhorse – remaining, unplatted portions will be annexed for full purposes in December 2009 as provided in the limited purpose regulatory plan
- Springwoods MUD– annexation was postponed until December 2010 per terms of the amended SPA (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects); and
- Springwoods Non-MUD area – northwest Austin area added to the MAP in 2007 with full purpose annexation scheduled for December 2010.

Pension Plans

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

The Police Officers contribute 13.0% and the City contributes 18% 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 29.7 years and the Firefighter's Fund over 115.9 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2006, was $1,974,010,618. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2006, was $576,125,324. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2006, was $580,053,954. Actuarial studies were performed for the Municipal Employees Fund and the Police Officer's Fund as of December 31, 2006 and for the Firefighter's Pension Fund as of December 1, 2005.

As reported in the actuarial valuation of the Municipal Employees Fund prepared for the period ending December 31, 2006, due to significant asset losses that occurred in 2000-2002, current contributions to the Municipal Employees Fund are not sufficient to amortize the unfunded liability of the fund. Accordingly, as of December 31, 2005, the Municipal Employees Fund had an infinite funding period and, in the absence of significant actuarial gains, then current contribution rates were not sufficient to support the current benefit structure of the Municipal Employees Fund. However, in 2005 the City implemented a Supplemental Funding Plan which is expected to gradually increase the City's contribution rate to the Municipal Employees Fund to 12.0%. The additional contribution provided pursuant to the SFP is intended to remain in place until the funding period of the Municipal Employees Fund is reduced to below 30 years. Once this occurs the City, at its discretion, may reduce the additional contribution rate provided pursuant to the SFP to a rate that produces a 30-year funding period. Based on current projections and in the absence of significant actuarial losses, the City expects the SFP to enable the Municipal Employees Fund to reduce its funding period to 30 years by the time of the valuation for the period ending December 31, 2014.

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

Other Post-Employment Benefits

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

The City recognizes the cost of providing these benefits as payroll expenses/expenditures in an operating fund with corresponding revenue in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,682 retirees was $15.5 million in 2006 and $13.3 million in 2005 for 2,554 retirees.

GASB released the Statement of General Accounting Standards No. 45 ("GASB 45"), Accounting by Employers for Other Post-employment Benefits ("OPEB"), in June 2004. The City will be required to implement GASB 45, for the fiscal year beginning October 1, 2007. GASB 45 sets forth standards for the measurement, recognition, and display of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Those subject to this pronouncement are required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The employer's contributions to OPEB costs that are less than an actuarially determined Annual Required Contribution (ARC) will result in a net OPEB cost, which under GASB 45 will be required to be recorded as a liability in the employer's financial statements. The ARC is the amount that must be provided each year to pay for the cost of future retirees and to amortize the initial OPEB liability over a period of 30 years. There are no requirements to fund the initial OPEB liability or to fund the ARC – they simply must be reported. The City is assessing the legal and accounting implications of GASB 45, if any, which will be applicable to its financial statements beginning with the financial statements for the Fiscal Year 2008.

To date, an actuarial valuation has been completed by an outside consultant regarding the City's OPEB obligations. The valuation estimates an OPEB liability in the range of $556 million to $1 billion, depending upon the City's ability to fund the ARC. There is much information the City will need to gather to determine its approach to implementing GASB 45. The City has been working with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to assess the effect these would have on reducing the City's OPEB liability and related ARC. The City also plans to continue evaluating the delivery of its current health plans, as well as implementation of a Medicare Advantage program, to identify potential cost savings for the future. The City will also assess the strategies that other jurisdictions are planning in their implementation of GASB 45.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to fifth party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately $5.6 million for claims and damages at the end of fiscal year 2007. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

INVESTMENTS

The City invests its available funds in investments authorized by Texas Law 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 are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, the "PFIA") that are issued by or through an institution that either has its main office or a branch in 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.

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

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

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 Chief Financial Officer, Treasurer and Investment Officers.

Current Investments

As of February 1, 2008, the City's investable funds were invested in the following categories:

Type of Investment	Percentage
U.S. Treasuries	10%
U.S. Agencies	49%
Money Market Funds	2%
Local Government Investment Pools	39%

The dollar weighted average maturity for the combined City investment portfolios is 441 days. The City prices the portfolios weekly utilizing a market pricing service.

CONTINUING DISCLOSURE OF INFORMATION

In the Fifteenth Supplement, the City has made the following agreement for the benefit of the respective holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to 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 available 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 Notice - The City will also provide timely notices of certain events relating to the Bonds 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) nonpayment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasance; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes with respect to the Bonds. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB"). The foregoing notwithstanding, notices may be made solely by transmitting such filing to the MAC as provided at http://www.disclosureusa.org, unless the SEC has withdrawn the interpretative advice stated in its letter to the MAC dated September 7, 2004.

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

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

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

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

Compliance with Prior Undertakings - During the last five (5) years, the City has compiled in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City did not receive the Comprehensive Audited Financial Report for the fiscal year ended September 30, 2006 (the "CAFR") from its auditors until October 23, 2007. As a result of not receiving the CAFR within 180 days of the end of the City's 2006 Fiscal Year, the City filed unaudited financial statements with the NRMSIRs and the SID, in accordance with its continuing disclosure agreements. On October 24, 2007, the City filed the CAFR with the NRMSIRs and the SID.

TAX MATTERS

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. A form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for tax years beginning after 1989, 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 of the Code 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 Fifteenth Supplement subsequent to the issuance of the Bonds. The Fifteenth Supplement contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed 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 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 for Federal income taxes 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 tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the City 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 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 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. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received underlying ratings of "Aa3" by Moody's, "A+" by S&P and "AA-" by Fitch. Moody's, S&P and Fitch are expected to assign the Bonds short-term ratings of "VMIG-1", "A-1+" and "F1" based on the Initial Letter of Credit and Reimbursement Agreement. See "INITIAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT". 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 not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER RELEVANT INFORMATION – Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

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 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 "Bondholders' Remedies") "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION," (except for "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," "OTHER RELEVANT INFORMATION – Legal Opinions," "APPENDIX C" and "APPENDIX D" to verify that the information relating to the Bonds, the Master Ordinance, the Fifteenth 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 Closing 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 Underwriter by Vinson & Elkins L.L.P. and Escamilla & Poneck, Inc., co-counsel to the Underwriter, and for the Bank by Andrews Kurth LLP, counsel to the Bank.

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

Financial Advisor

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

Underwriting

Goldman, Sachs & Co. has agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a price equal to the par amount of the Bonds, less an underwriting discount of $511,815. The Underwriter will be obligated to purchase all the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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

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 Fifteenth 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 Underwriter.

/s/ Will Wynn
Mayor
City of Austin, Texas

ATTEST:

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

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

Austin, the capital of Texas, is the fourth largest city in the State (behind Houston, Dallas, and San Antonio), with an estimated population of more than 732,000 in 2007. Over the past ten years, Austin's population has increased by approximately 124,000 residents, or 14.7 percent. Geographically, Austin consists of approximately 297 square miles. The current estimated median household income and per capita income for the Austin-Round Rock Metropolitan Statistical Area (MSA) is $42,263 and $38,243, respectively.

Austin is frequently recognized as a great place to live for all ages, from young to retired: Forbes.com lists Austin as one of the Best Places for Singles because of nightlife, culture and low cost of living, and *AARP The Magazine* names Austin as one of the top four cities to watch as a retirement community.

Austin is also a great place for work, entertainment and healthy living. Moody's Economy.com rates Austin as one of the best places for business in the U.S., and *MovieMaker* magazine names Austin as the Top City in America to live and make movies. Austin offers a wide variety of entertainment, with music as a special element. Known as the "Live Music Capital of the World," Austin has more than 120 live music venues and is host to the annual South by Southwest and Austin City Limits music festivals. Austin's many public parks, exercise facilities and low stress factors lead *Latina Magazine* to rank Austin tenth of the top 25 healthiest cities. MSN.com lists Austin among America's Greenest Cities, based on the City's green energy program and climate protection plan.

The City also offers a broad range of educational opportunities. Austin is a highly educated city, with approximately 43 percent of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 27 percent for the U.S. as a whole. With its seven institutions of higher learning and more than 117,000 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.

Recent Economic Performance
Austin's economic growth continued during 2007, with increased tourism and low unemployment rates. Hotel occupancy rates averaged over 69%, resulting in increased bed tax revenues of approximately 15% from the previous year. Forbes magazine credits a strong economy to the combination of high-tech employers and engineering talent provided by the University of Texas. Since 1998, employment in Austin increased by more than 151,000 jobs. The Bureau of Labor Statistics reports the 2007 Austin MSA employment base at 826,000, a gain of more than 10,000 over 2006. Unemployment continued to remain low, up slightly from 3.3 percent in 2006 to 3.6 percent at the end of 2007.

The State of Texas reported that the state economy grew more slowly in 2007 than during 2006, but still added more jobs than any other state. For the first time since 2001, the Texas unemployment rate dropped below the national average during 2007. According to the Bureau of Labor statistics, Texas ended the year with an unemployment rate of 4.2 percent. The State Comptroller attributes the comparatively better performance of the Texas economy to the U.S. economy to a greater concentration of the strong oil and gas industry and a housing market that has dropped less abruptly than the national average.

The national economy continued to cool during 2007, hampered by subprime mortgage losses, drops in housing sales and construction, and higher fuel costs. The Bureau of Labor Statistics reports the unemployment rate fluctuated between 4.4 and 4.8 percent most of the year, and ended the year at 5 percent. Inflation increases during 2007 were similar at the State and national levels. The Texas Comptroller's *Fiscal Notes* reported the Texas Consumer Price Index (CPI-U) increased four percent from December 2006 to 2007, with a corresponding increase at the national level of 4.1 percent in December. The Bureau of Labor Statistics cited rising fuel, food and medical care costs as the primary sources of the increases at the national level.

Home sales are an important indicator of the local and national economy. In the Austin market, annual home sales declined, but remained stronger than the national average. Data compiled by the Real Estate Research Center at Texas A&M shows the percent change in Austin sales declined by 7.6 percent, with an ending inventory of 4.2 months. Texas sales show similar decreases, with annual home sales declined 6.1 percent, and an ending inventory of 5.7 months. The total nationwide housing inventory at the end of the year was more than a nine month supply, compared to about half that amount in Austin.

Economic Outlook

For several years, the Austin-area economy has been one of the most rapidly growing in the nation. One of the region's leading economists, Angelos Angelou, forecasts modest job growth for Austin in 2008, with growth in services, trade and government. The area's population is expected to grow by 85,000 over the next two years. The national real estate crunch is likely to have the most significant impact on the local economy. The local building industry has reacted to national concerns, and cut back on housing starts. This cut back, combined with expected growth, should result in a strong demand for rental property.

Southwest Economy, published by the Federal Reserve Bank of Dallas, expects the Texas economy to encounter lower economic growth in 2008, but still perform better than the nation. Texas should experience modest job growth. Businesses will continue to be attracted to Texas due to a relatively low cost of living. To its advantage, Texas is one of the few states that gains from high energy prices.

Long-term Financial Planning

A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a planning tool in developing the following year's operating budget. In recent years, the City emphasized structural budgeting, which simply means not spending any more in a given year than collected in revenue. Standard and Poor's recognized Austin's sound financial management when the rating agency upgraded the City's general obligation bond rating to AAA status in January 2008.

The FY 2007-2008 Proposed Budget identified the most significant cost driver facing the General Fund as public safety staffing policies – maintaining 2.0 police officers per 1,000 population and enhanced task force staffing in the Austin Fire Department, as well as public safety labor contracts. Other cost factors are increased operations and maintenance costs for new or expanded facilities, additional street maintenance and rising personnel costs. The FY 2007-2008 budget authorizes almost $23 million of the budget stabilization reserves to address costs due to growth trends, new investment in core services, replacement of critical equipment and other one-time needs. The Approved Budget projects budget reserves of $70 million at the end of 2008.

Austin includes several enterprise activities. A key enterprise is Austin Energy, which is the ninth largest U.S. public power utility in customers served, according to the latest available data from the American Public Power Association. The utility has over $1.1 billion in annual revenues, nearly 389,000 retail metered customers and almost 11,000 miles of overhead and underground distribution lines. The utility has a well rounded generation portfolio with adequate capacity to meet native load. The budget includes funding for 100 megawatts of additional peaking generation capacity at Sand Hill which is expected to be online in 2009.

The City enterprise activities also include the Austin Water Utility, which provides water and wastewater services. The FY 2007-2008 operating expense budget of $394.7 million provides for increased funding for water conservation, environmental protection, and repair contracts to improve response times for leaks and breaks. The five-year forecast projects an average growth in base revenue of two percent annually. The Utility projects debt service to increase over the next five years to fund capital improvements estimated at $1.3 billion.

Other enterprise funds and their FY 2007-2008 expense budgets include Aviation ($75.6 million), Convention Center ($54.9 million) and Solid Waste Services ($57.8 million).

Major Initiatives
The City of Austin's vision of being the most livable city in the country means that Austin is a place where all residents participate in its opportunities, its vibrancy and its richness of culture and diversity.

Austin's City Council began defining its policy priorities in the early 1990s. In April 2007, the Council adopted four priorities:
— Rich social and cultural community
— Healthy, safe city
— Vibrant urban fabric
— Sustainable economic development and financial health

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

Waller Creek Tunnel Project. This project is a stormwater bypass tunnel that will include the stretch of Waller Creek from Waterloo Park to Lady Bird Lake. The project will take more than one million square feet of prime downtown land out of the floodplain and allow denser development. In March 2007, the Travis County Commissioners Court voted to join the City of Austin in the creation of a Tax Increment Financing District to fund the construction of the tunnel. The project has received the endorsement of the community, as well as key stakeholder groups. Estimated project cost at June 2007 was $127,547,000 plus operations and maintenance costs. The four-year construction process is expected to begin in August 2010.

Zero Waste Master Plan. In January 2006, the City Council adopted guiding principles for the delivery of solid waste services. The Solid Waste Services Department, working with the Solid Waste Advisory Commission and other area solid waste representatives, is charged with developing a 50-year waste management plan to address landfill availability and waste reduction issues. In November 2007, the City Council approved a consultant contract to develop a zero waste plan for the City of Austin and surrounding regions, including Travis, Williamson, Bastrop, Caldwell, Hays, Blanco and Burnet counties. The consultant will take into consideration current and planned public and private solid waste infrastructure, as well as the City of Austin's Climate Protection Program. Recommendations developed through this process will be integral to achieve the U.N. Urban Environmental Accord's goal to reduce by 20% the per capita solid waste disposal to landfills by 2012 and zero waste by 2040.

Redevelopment of Green Water Treatment Plant. The Thomas C. Green Water Treatment Plant, the City's oldest water treatment plant, is reaching the end of its useful life. Located on the west edge of Downtown, a former warehouse and industrial district, it is now surrounded by a rapidly developing mixed-use urban neighborhood. The site's location between the City Hall/Second Street Retail District and the Seaholm Redevelopment makes it a strategic opportunity in the City's Downtown Redevelopment initiatives.

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

— City of Austin facilities, fleets and operations will be carbon-neutral by 2020.
— Implement the most aggressive utility greenhouse gas reduction plan in the nation through dramatic increases in conservation, efficiency and renewable programs. Require carbon neutrality on any new generation. Establish a CO^2 cap and a reduction plan for all utility emissions.
— Austin building codes for both residential and commercial properties will be the most energy efficient in the nation.
— Develop a comprehensive plan to reduce greenhouse gas emissions from sources community-wide.
— Provide mechanisms for all businesses and individuals to reduce their carbon footprint to zero.

Status as of June 2007, includes the following:
- Austin Energy to provide renewable energy for all city facilities by 2009.
- Austin Energy's baseline greenhouse gas inventory is complete and certified by California Climate Action Registry; Austin Water Utility is working on a similar baseline inventory.
- The City's Fleet Services Department is developing a baseline inventory of all city vehicles and continues to purchase alternative fueled or hybrid vehicles.

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

- Affordable Housing Incentives Task Force. Council appointed this task force to explore ways to provide incentives for the construction of affordable housing in Austin. In May 2007, the task force reported to Council, followed by staff recommendations. These include key core values of deeper affordability targets, long-term affordability, and geographic dispersion, as well as zoning incentives. Categories include the Central Business District, Downtown Mixed Use, Multi-Family, and Single Family.
- General Obligation Bonds. In November 2006, citizens of Austin approved the use of $55 million of general obligation bonds to increase homeownership and rental opportunities for low-to-moderate income households. Council approved a process for allocating housing bond funds and three categories by which bond funds can be accessed, within prescribed limits. In April 2007, Council approved the Stoneridge redevelopment project, the first project for the housing bonds.
- Other Council Affordable Housing Initiatives include Vertical Mixed Use Developments, Affordable Housing Partnership Agreements (Green Water Treatment Redevelopment), Transit Oriented Developments, and Downtown Affordable Housing.

OTHER

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

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

Budgetary Control
The annual operating budget is proposed by the City Manager and enacted by the City Council after public discussion. Annual updates to the Capital Improvements Program budgets follow a similar process. Primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. As demonstrated by the statements and schedules included in the City's 2007 CAFR, the City continues to meet its responsibility for sound financial management.

Cash Management
The City's investment policy is to minimize credit and market risk while maintaining a competitive portfolio yield. Cash balances of all City funds are invested in consideration of five factors: safety, term, liquidity, market exposure, and rate of return. Cash balances of most funds, except for debt service and other legally restricted funds, are pooled for investment purposes. The City's investments are made in accordance with the Texas Public Funds Investment Act and the City of Austin Investment Policy. During 2007, the City's cash resources were invested in local government investment pools and U.S. Treasury and Agency issues.

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

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

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

	2000		2005		2006		2007		February 2008	
Industrial Classification		% of Total		% of Total		% of Total		% of Total		% of Total
Manufacturing	84,000	12.3%	57,500	8.4%	57,400	7.9%	60,600	7.9%	58,900	7.7%
Government	137,100	20.1%	146,800	21.5%	156,600	21.5%	158,400	20.8%	162,200	21.1%
Trade, transportation & utilities	116,000	17.0%	118,600	17.3%	151,400	20.8%	159,800	21.0%	157,900	20.6%
Services and miscellaneous	267,100	39.1%	281,300	41.1%	275,800	37.9%	290,100	38.0%	293,900	38.3%
Finance, insurance and real estate	35,400	5.2%	40,200	5.9%	42,500	5.8%	45,200	5.9%	45,600	5.9%
Natural resources, mining & construction	42,700	6.3%	39,800	5.8%	44,600	6.1%	49,200	6.4%	49,100	6.4%
Total	682,300	100.0%	684,200	100.0%	728,300	100.0%	763,300	100.0%	767,600	100.0%

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

Source: Texas Labor Market Review, March 2008, Texas Workforce Commission.

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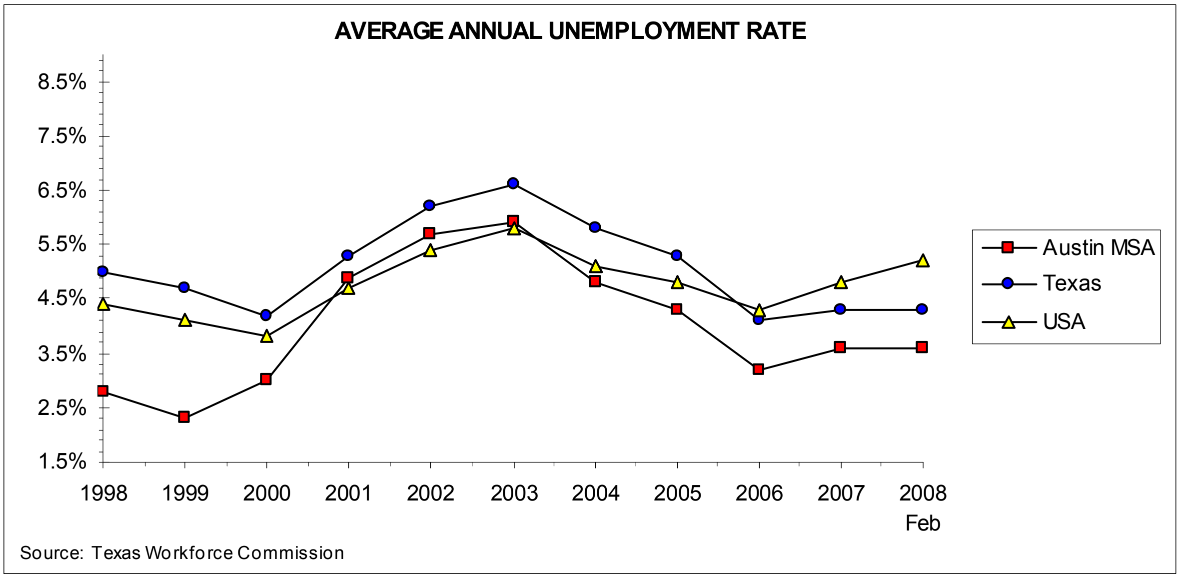
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1998	2.8%	5.0%	4.4%
1999	2.3%	4.7%	4.1%
2000	3.0%	4.2%	3.8%
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008 February	3.6%	4.3%	5.2%

Note: Information is updated periodically, data contained herein is latest provided.
Source: Texas Labor Market Review, March 2008, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-04	$ 8.883	1-1-05	$ 9.076	1-1-06	$10.334	1-1-07	$11.422	1-1-08	$11.639
2-1-04	12.382	2-1-05	13.171	2-1-06	14.818	2-1-07	16.371	2-1-08	16.569
3-1-04	8.693	3-1-05	9.049	3-1-06	10.051	3-1-07	11.080	3-1-08	12.109
4-1-04	8.534	4-1-05	8.660	4-1-06	9.930	4-1-07	11.414	4-1-08	
5-1-04	10.867	5-1-05	11.795	5-1-06	12.950	5-1-07	14.611	5-1-08	
6-1-04	9.384	6-1-05	9.718	6-1-06	10.725	6-1-07	11.748	6-1-08	
7-1-04	8.980	7-1-05	8.936	7-1-06	11.981	7-1-07	12.011	7-1-08	
8-1-04	11.474	8-1-05	12.004	8-1-06	11.880	8-1-07	14.101	8-1-08	
9-1-04	9.157	9-1-05	9.938	9-1-06	11.152	9-1-07	11.883	9-1-08	
10-1-04	9.214	10-1-05	10.182	10-1-06	11.535	10-1-07	12.257	10-1-08	
11-1-04	11.340	11-1-05	11.735	11-1-06	13.401	11-1-07	14.774	11-1-08	
12-1-04	9.354	12-1-05	10.532	12-1-06	11.525	12-1-07	12.365	12-1-08	

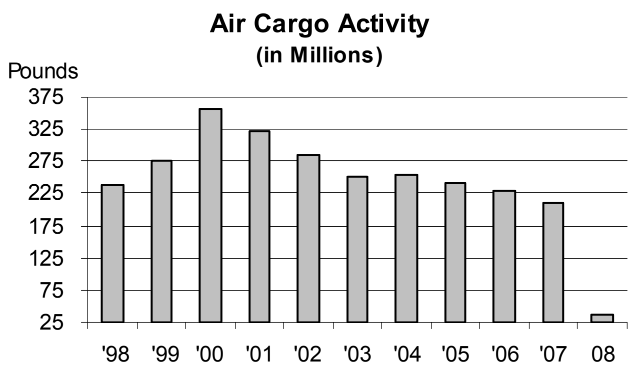
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2007)

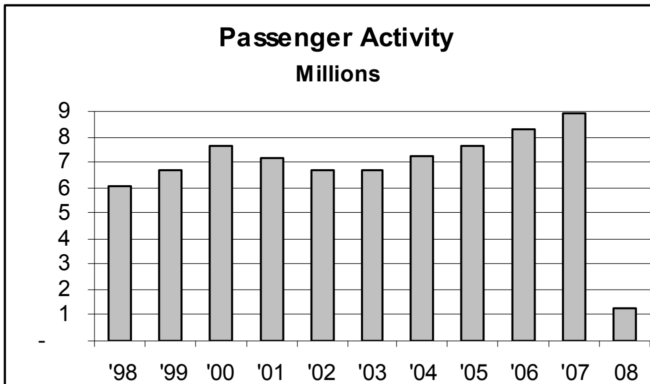
Employer	Product or Service	Employees
State Government	State Government	37,349
The University of Texas at Austin	Education	23,294
Dell Computer Corporation	Computers	17,000
City of Austin	City Government	11,795
Austin Independent School District	Education	11,423
Federal Government	Federal Government	10,700
HEB	Retail	7,095
Seton Healthcare Network	Healthcare	6,743
Wal-Mart	Retail	6,500
IBM Corporation	Computers	6,300

Source: 2007 Comprehensive Annual Financial Report.

Transportation



Source: COA Aviation Department. 2008 Activity through February - Calendar Year basis.



Source: COA Aviation Department. 2008 Activity through February - Calendar Year basis.

Austin-Bergstrom International Airport

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

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 12 major airlines with scheduled air service: Aeromexico, American, Continental, Delta, ExpressJet, Frontier, JetBlue, Midwest, Northwest, Southwest, United, and US Airways. Non-stop service is available to 44 U.S. destinations and 1 international destination.

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

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

Wealth Indicators

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

Demographic and Economic Statistics
Last Ten Fiscal Years

Year	City of Austin Population (1)	Area of Incorporation (Sq. Miles) (1)	Population MSA (2)(3)	Income (MSA) (Thousands of Dollars) (2)	Median Household Income MSA (4)	Capita Personnel Income MSA (2)	Unemployment Rate (MSA) (3)
1998	608,214	254	1,155,579	33,116,579	33,690	28,658	2.9
1999	619,038	252	1,205,898	37,408,615	36,532	31,021	2.3
2000	628,667	265	1,249,763	41,157,290	36,321	32,548	3.0
2001	661,639	266	1,319,797	42,489,015	39,811	32,213	4.9
2002	671,044	273	1,341,464	41,908,425	47,089	31,128	5.8
2003	674,719	276	1,376,008	43,104,097	41,909	31,325	6.0
2004	683,551	291	1,411,483	46,191,915	39,227	32,726	4.8
2005	695,881	294	1,454,706	50,101,884	40,335	34,441	4.4
2006	714,237	296	1,513,565	54,954,527	40,888	36,308	3.9
2007	732,381	297	1,567,317 (5)	59,938,903 (5)	42,263	38,243 (5)	3.7
1998-2006 Change	16.95%	14.71%	26.27%	44.75%	20.28%	25.06%	

(1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
(2) Source: Bureau of Economic Analysis.
(3) Source: Bureau of Labor Statistics, Texas A&M University as of September 30.
(4) Source: Claritas, a Nielsen Company.
(5) Data not available for 2007. Figures are estimated.

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Growth Indicators

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

Connections and Permits

	Utility Connections			Building Permits		
Year	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1991	281,926	142,721	131,713	$ 327,777,503	$33,619,419	$ 361,396,922
1992	286,413	141,210	139,529	435,053,697	5,162,800	440,216,497
1993	291,896	146,396	143,088	607,717,144	70,976,449	678,693,593
1994	298,662	148,148	142,373	840,043,119	19,643,501	859,686,620
1995	306,670	149,867	147,023	870,446,315	11,087,831	881,534,146
1996	319,518	151,757	148,124	1,246,232,619	89,945,847	1,336,178,466
1997	326,816	156,397	156,752	1,023,114,762	2,574,539	1,025,689,301
1998	342,263	168,907	165,274	1,434,660,615	46,722,845	1,481,383,460
1999	348,721	173,038	173,150	1,501,435,229	54,399,189	1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361
2001	349,671	178,608	172,177	1,625,508,854	71,189,116	1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786

Source: 2006 Comprehensive Annual Financial Report.

Housing Units

The average two-bedroom apartment in the Austin MSA was $938 per month, with an occupancy rate of 96.6% for the fourth quarter 2007.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,009	6,901,788,236	246,413
2008 February	3,105	737,167,412	236,125

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
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.1%
2003	76.5%
2004	76.7%
2005	83.1%
2006	87.5%
2007	85.6%
2008 First Quarter	84.0%

Source: Oxford Commercial.

Education

The Austin Independent School District had an enrollment of 82,145 for the 2007 school year. This reflects an increase of 3.0% in enrollment from the end of the 2006 school year. The District includes 110 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,145	76,821
2007/08	81,714	76,169

Source: Austin Independent School District. (Data for the fourth six weeks, as of 2-22-08.)

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 a preliminary enrollment of 47,568 for the spring semester of 2008 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were $4.143 billion in 2006. There are more than 255 hotels available within the Austin Metropolitan Area, as of the fourth quarter of 2007, with a hotel occupancy rate of nearly 64 percent.

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

20,000 square feet of banquet/exhibit hall facilities. The Austin Music Hall has a concert seating capacity of 3,000 and 32,000 square feet of exhibit space. The Long Center for the Performing Arts, a $77 million venue, will open in March 2008. The Center will contain two theaters; the 2,300-seat Michael and Susan Dell Hall and the flexible 240-seat Debra and Kevin Rollins Studio Theater. Once completed, the new venue will be owned by the City, while a private nonprofit will operate the building.

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

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KPMG

KPMG LLP
Suite 1900
111 Congress Avenue
Austin, TX 78701-4091

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introduction, combining and fund financial statements and schedules, supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and fund financial statements and schedules, and supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introduction and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
April 25, 2008

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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, 2007. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal.

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB). The City has implemented GASB Statements No. 1 through No. 42, No. 44 and No. 46.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2007, resulting in $4.3 billion of net assets. Net assets associated with governmental activities are approximately $1.6 billion, or 38% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.7 billion, or 62% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is $3.2 billion, or 73% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are $591 million, or 14% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $28 million, or 2% of total governmental net assets; unrestricted net assets for business-type activities are approximately $563 million, or 21% of total business-type net assets.

Total net assets for the City of Austin increased $211.5 million, or 5.1% during fiscal year 2007. Of this amount, governmental activities increased $67.1 million, or 4.3% from the previous year and business-type activities increased $144.4 million, or 5.6% from the previous year.

Total revenues for the City decreased $395 thousand; revenues for governmental activities increased $21.4 million; revenues for business-type activities decreased $21.8 million. Total expenses for the City increased $60.6 million; expenses for governmental activities increased $21.9 million; expenses for business-type activities increased $38.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

b -- Fund financial statements

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

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

c -- Notes to the financial statements

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

d – Other information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net assets

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

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current assets	$ 520,779	547,513	1,413,295	1,276,240	1,934,074	1,823,753
Capital assets	2,167,656	2,099,504	5,592,256	5,426,068	7,759,912	7,525,572
Other noncurrent assets	3,609	3,639	585,745	585,186	589,354	588,825
Total assets	2,692,044	2,650,656	7,591,296	7,287,494	10,283,340	9,938,150
Current liabilities	229,183	220,389	473,123	419,196	702,306	639,585
Noncurrent liabilities	834,640	869,169	4,414,160	4,308,650	5,248,800	5,177,819
Total liabilities	1,063,823	1,089,558	4,887,283	4,727,846	5,951,106	5,817,404
Net assets:						
Invested in capital assets, net of related debt	1,530,124	1,399,316	1,648,758	1,538,572	3,178,882	2,937,888
Restricted	69,982	84,218	492,356	469,238	562,338	553,456
Unrestricted	28,115	77,564	562,899	551,838	591,014	629,402
Total net assets	$ 1,628,221	1,561,098	2,704,013	2,559,648	4,332,234	4,120,746

Total assets of the City increased by $345.2 million in the current fiscal year. Total liabilities increased by $133.7 million. Within the increase, governmental-type total assets increased by $41.4 million and business-type increased $303.8 million. Governmental-type liabilities decreased by $25.7 million and business-type increased $159.4 million.

Significant factors in the increase of governmental total assets include an increase in capital assets of $68.2 million, an increase in pooled investments and cash of $37.1 million and a decrease in accounts receivable of $51.2 million. Factors in the increase of governmental-type liabilities include an increase in current liabilities of $8.8 million, consisting of increases to accounts payable of $10.7 million, accrued compensated absences of $3.8 million, and a decrease to deferred credits and other liabilities of $4.1 million. Noncurrent liabilities decreased $34.5 million, consisting primarily of a decrease to general obligation bonds payable of $58.1 million and increases to pension obligation payable of $10.1 million and accrued compensated absences of $10.9 million.

Significant factors in the increase of business-type total assets include an increase in current assets of $137.1 million and noncurrent assets of $166.7 million. Within current assets, significant factors include an increase in pooled investments and cash of $142.5 million and a decrease in restricted investments of $10.3 million. Noncurrent assets increased due to an increase in capital assets of $166.2 million. Total liabilities increased by $159.4 million; significant increases include accounts and retainage payable from restricted assets of $10 million, bonded debt obligations of $72.9 million, decommissioning expense payable of $14.1 million, deferred credits and other liabilities of $38.2 and pension obligation of $9.3 million.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $4.3 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are $3.2 billion, or 73% 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, $562.3 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, $591 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased $38.4 million in the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

b -- Changes in net assets

Total net assets of the City increased by $211.5 million in the current fiscal year. Governmental net assets increased $67.1 million. The increase is attributable to transfers from other funds of $67.4 million. Business-type net assets increased by $144.4 million due to revenues exceeding expenses by $211.7 million, net of transfers to other funds of $67.4 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program revenues:						
Charges for services	$ 132,670	139,776	1,594,441	1,610,435	1,727,111	1,750,211
Operating grants and contributions	57,331	77,923	--	--	57,331	77,923
Capital grants and contributions	2,942	1,111	50,898	69,804	53,840	70,915
General revenues:						
Property tax	258,943	236,146	--	--	258,943	236,146
Sales tax	153,098	139,289	--	--	153,098	139,289
Franchise fees and gross receipts tax	87,180	79,755	--	--	87,180	79,755
Grants and contributions not restricted to specific programs	73,711	90,083	--	--	73,711	90,083
Interest and other	54,963	35,315	60,970	47,905	115,933	83,220
Total revenues	820,838	799,398	1,706,309	1,728,144	2,527,147	2,527,542
Program expenses:						
General government	76,136	84,693	--	--	76,136	84,693
Public safety	397,583	373,361	--	--	397,583	373,361
Transportation, planning and sustainability	48,758	25,426	--	--	48,758	25,426
Public health	94,158	94,697	--	--	94,158	94,697
Public recreation and culture	72,082	65,453	--	--	72,082	65,453
Urban growth management	93,185	81,439	--	--	93,185	81,439
Unallocated depreciation expense - infrastructure	--	35,357	--	--	--	35,357
Interest on debt	39,166	38,766	--	--	39,166	38,766
Electric	--	--	929,057	918,369	929,057	918,369
Water	--	--	162,158	161,516	162,158	161,516
Wastewater	--	--	144,573	132,005	144,573	132,005
Airport	--	--	80,368	78,487	80,368	78,487
Convention	--	--	43,956	41,992	43,956	41,992
Environmental and health services	--	--	55,386	50,290	55,386	50,290
Public recreation	--	--	9,800	9,225	9,800	9,225
Urban growth management	--	--	69,293	63,981	69,293	63,981
Total expenses	821,068	799,192	1,494,591	1,455,865	2,315,659	2,255,057
Excess (deficiency) before special items and transfers	(230)	206	211,718	272,279	211,488	272,485
Transfers	67,353	65,974	(67,353)	(65,974)	--	--
Increase in net assets	67,123	66,180	144,365	206,305	211,488	272,485
Beginning net assets	1,561,098	1,494,918	2,559,648	2,353,343	4,120,746	3,848,261
Ending net assets	$ 1,628,221	1,561,098	2,704,013	2,559,648	4,332,234	4,120,746

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

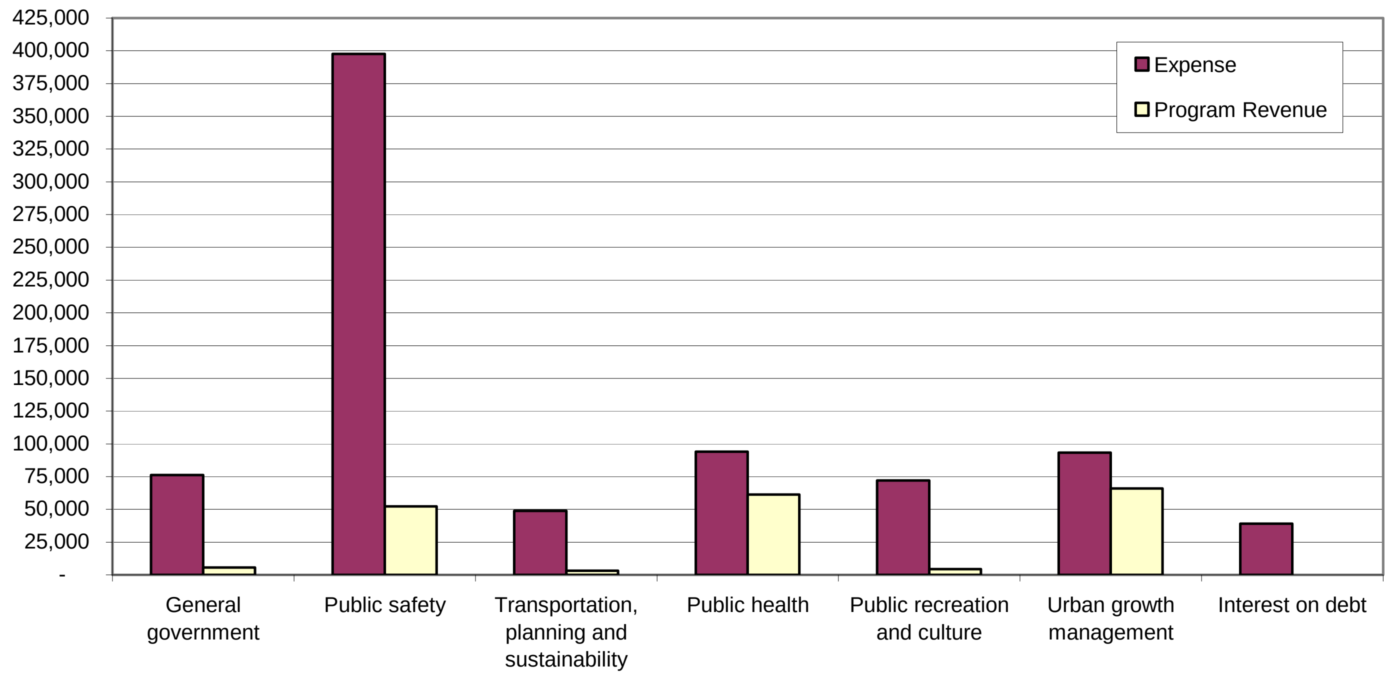
c -- Program revenues and expenses -- governmental activities

Governmental activities increased the City's net assets by $67.1 million in fiscal year 2007, a 4.3% increase of governmental net assets from the previous year. Key factors for the change from fiscal year 2006 to 2007 are as follows:

- The City's property tax revenue increased by $22.8 million from the previous year, despite a decrease in the City's tax rate from 44.3 cents to 41.3 per $100 valuation as a result of an increase in assessed property values.
- Sales tax revenue increased $13.8 million from the previous year, an increase of 10%.
- Franchise fees and gross receipts taxes increased $7.4 million, largely due to a $4.8 million increase in hotel occupancy tax collections and a $1.6 million increase in franchise fees.
- Grants and contributions not restricted to specific programs decreased $16.4 million, primarily due to a decrease in internal service capital contributions. Grants and contributions restricted to specific programs decreased $18.8 million, primarily as a result of lower intergovernmental grant revenues.

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

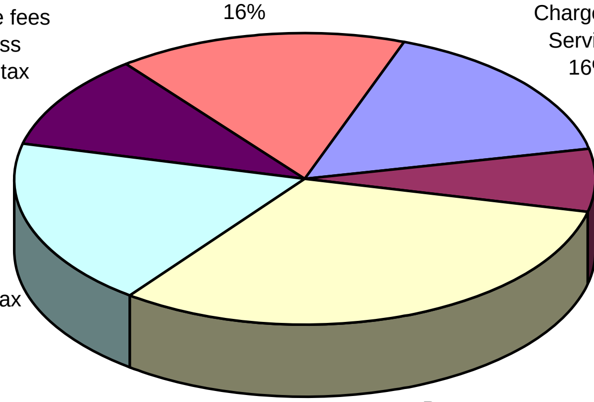
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



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

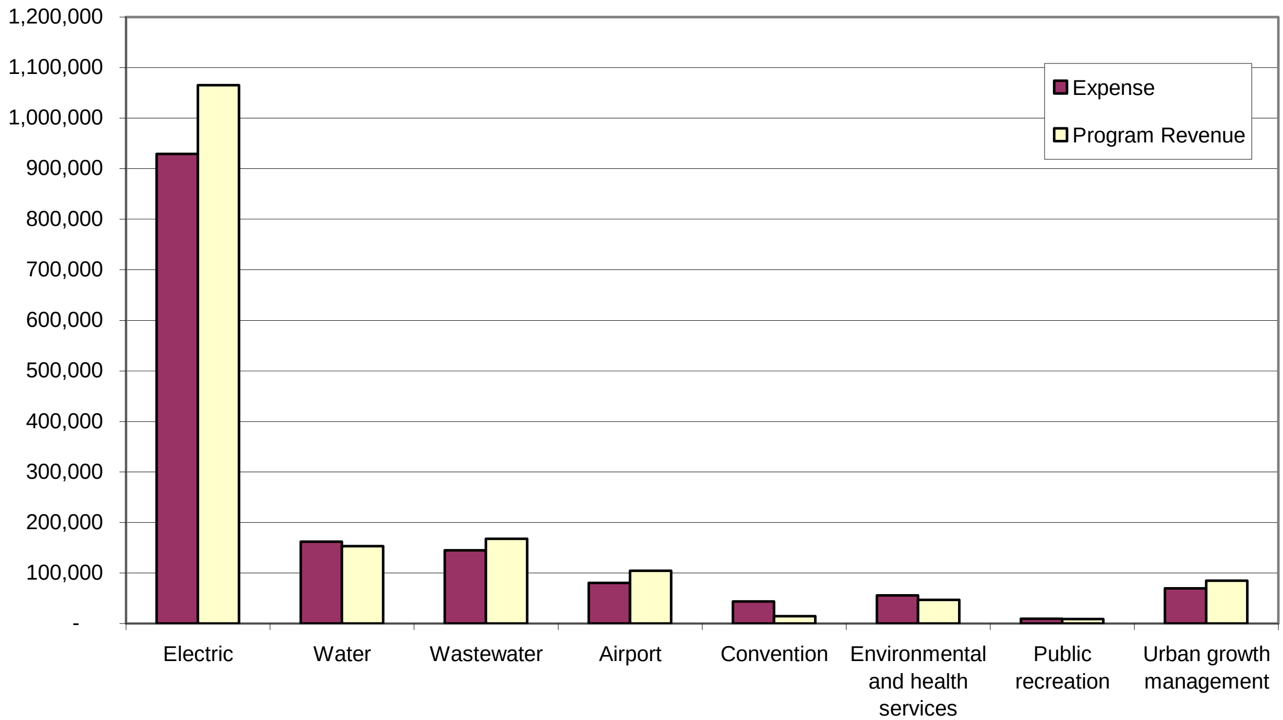
Business-type activities increased the City's net assets by approximately $144.4 million, accounting for a 3.5% increase in the City's total net assets. Key factors include:

- Electric net assets increased approximately $91.8 million. This increase is due primarily to an increase in electric consumption due to customer growth. Revenues decreased 2% due to decreased fuel costs while expenses increased 1% due to increased operating costs.
- Water and Wastewater net assets decreased approximately $7.2 million. This decrease is due primarily to decreased water consumption due to weather conditions. Water revenue for 2007 decreased by approximately 16.2% from the prior year. Wastewater revenue increased by 6.3% from the prior year due to a rate increase.
- Airport net assets increased approximately $31.6 million. Revenues increased due to an increase in passenger traffic, which was 9% higher than the previous calendar year. Expenses increased due to an increase in operations and maintenance costs.
- Convention net assets increased approximately $11.9 million. Revenue was 3% less than the prior year due to decreased demand for convention space and events. Expenses increased due to an increase in operations and maintenance costs.
- Environmental and health services activities are comprised of nonmajor enterprise funds that include the Solid Waste Services Fund, Primary Care Fund, and Hospital Fund. Net assets decreased by approximately $7.4 million. This decrease is primarily attributed to inadequate revenues needed to cover expenses in solid waste services operations.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Recreation Program Fund. Net assets decreased by $466,000, primarily due to insufficient Golf Fund operating revenues to cover operating costs.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately $23.4 million. This increase is primarily attributed to an increase in revenue of $2.9 million due to system growth and capital contributions. Operating expenses increased by $5.3 million due to salary increases, additional positions and programs added during the fiscal year.

As shown in the following chart, the electric utility, with expenses of $929 million, is the City's largest business-type activity, followed by water ($162 million), wastewater ($145 million), airport ($80 million), urban growth management ($69 million), environmental and health services ($55 million), convention ($44 million), and public recreation ($10 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except water, convention, public recreation, and environmental and health services.

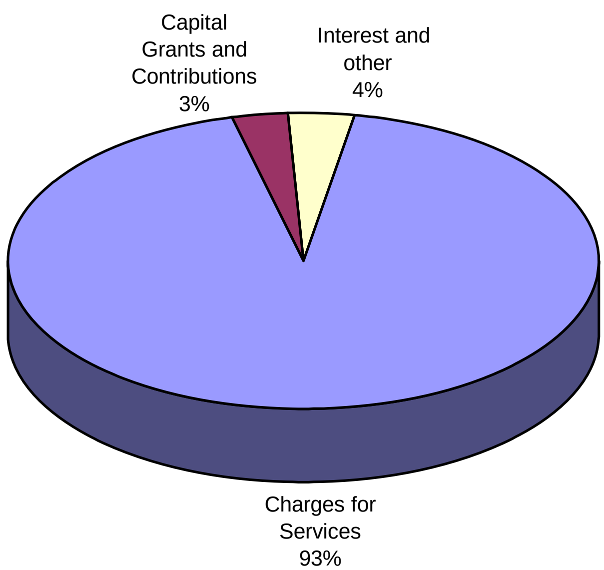
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



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

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

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

At the end of the fiscal year, the City of Austin's governmental funds reported combined ending fund balances of $310.8 million, a decrease of $38.8 million from the previous year. Approximately $193 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, receivables, property held for resale, legally restricted permanent fund resources, and certain debt service amounts. Reserved fund balance increased $28 million in comparison to the prior year, primarily due to an increase in the reservation for encumbrances of $24.2 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 $97.4 million, while total fund balance was $106.8 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 18% of total General Fund expenditures of $535.9 million, and total fund balance represents 20% of expenditures. The City's financial policies provide that surplus fund balance be designated for budget stabilization. This amount is a component of unreserved fund balance. The fund balance designated for budget stabilization was $51.4 million. The balance designated for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total designated amount, with the other two-thirds designated for budget stabilization in future years.

The General Fund fund balance decreased $5 million during the fiscal year, while unreserved fund balance decreased $7.7 million. Significant differences from the previous year include:

- Property tax revenues increased $17.8 million due to an increase in assessed property values. The City's property tax rate decreased from 44.3 cents to 41.3 cents per $100 valuation.
- Sales tax revenues increased $13.8 million.
- Licenses, permits, and inspections revenues increased $3.5 million largely due to increased building permits and inspections.
- General fund expenditures increased $55 million, due primarily to an increase in public safety expenditures of $35.5 million, an increase in general government expenditures of $8.3 million and an increase in public recreation and culture expenditures of $5.2 million.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, increased by $144.4 million.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

The original expenditure budget of the General Fund was amended during fiscal year 2007 for increased public safety costs and general city responsibilities. The final expenditure budget was $893,000 higher than the original budget. The General Fund transfer budget was also amended by $2.1 million for increased internal service transfers.

During the year, revenues were $12.7 million more than budgeted. The difference resulted from higher than anticipated property tax and sales tax collections, in addition to an increase in building permit and development fees.

Actual General Fund budget-basis expenditures were $2.2 million less than budgeted. Police expenditures exceeded budget by $391,000; while all other General Fund departments were under budget. The total budget-basis fund balance at year-end amounted to $94.7 million, which was $18.9 million higher than budgeted.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2007, total $7.8 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, construction 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 $234 million (3.1%), with an increase of 3.3% for governmental activities and an increase of 3.1% 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	
	2007	2006	2007	2006	2007	2006
Land and improvements	$ 261	240	365	295	626	535
Other assets not depreciated	19	19	1	1	20	20
Building and improvements	425	412	1,367	1,385	1,792	1,797
Equipment	81	80	3,071	2,813	3,152	2,893
Vehicles	32	28	52	45	84	73
Infrastructure	1,167	1,140	--	--	1,167	1,140
Construction in progress	183	181	680	830	863	1,011
Nuclear fuel, net of amortization	--	--	28	29	28	29
Plant held for future use	--	--	28	28	28	28
Total net assets	$ 2,168	2,100	5,592	5,426	7,760	7,526

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

- Governmental capital assets increased $68 million primarily due to infrastructure additions, land acquisitions, and facility and system improvements.
- Business-type activities purchased or completed construction on capital assets of $166 million. The increase was largely due to Wastewater Fund expenditures for the South Austin Regional Wastewater Treatment Plant, the Northeast Austin Wastewater Treatment Plant, and Walnut Creek Wastewater Treatment Plant improvements, as well as for wastewater projects associated with the Austin Clean Water Program and Electric Fund expenditures for general infrastructure improvements.

OTHER INFORMATION, continued

c -- Debt administration

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

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds and other tax supported debt, net	$ 787	847	101	111	888	958
Commercial paper notes, net	--	--	309	240	309	240
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,194	3,201	3,194	3,201
Capital lease obligations	--	1	4	6	4	7
Total	$ 787	848	3,636	3,586	4,423	4,434

During fiscal year 2007, the City's total outstanding debt decreased by $11 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities decreased $60 million due to the payment of existing debt. No new debt was issued.
- Outstanding debt for business-type functions increased $50 million. The City issued Electric Fund and Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper and existing debt.

During the current year the City's general obligation and combined utility revenue bond ratings remained unchanged while the Water and Wastewater separate lien revenue bonds received a favorable bond rating upgrade. Ratings at September 30, 2007 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2007	2006	2007	2006	2007	2006
General obligation bonds and other tax supported debt	Aa1	Aa1	AA+	AA+	AA+	AA+
Commercial paper notes	P-1	P-1	A-1+	A-1+	F1+	F1+
Commercial paper notes - taxable	P-1	P-1	A-1+	A-1+	F1+	F1+
Utility revenue bonds - prior lien	A1	A1	AA-	AA-	AA-	AA-
Utility revenue bonds - subordinate lien	A1	A1	A+	A+	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa3	A1	A+	A	AA-	AA-
Airport system revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Airport variable rate bonds	P-1	P-1	NUR(1)	NUR(1)	NUR(1)	NUR(1)
Convention Center revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)

(1) No underlying rating

OTHER INFORMATION, continued

d -- Economic factors and next year's budget and rates
The local economy continued to grow in 2007, with sales tax revenues and property tax collections both increasing by 10% as compared to 2006. Job growth for the area continues to increase, with moderate growth forecasted in 2008. The local economy is expected to encounter lower economic growth in 2008, but is expected to perform better than the national economy. Nationally, the U.S. economy continues to be impacted by the housing crisis and rising oil prices. These issues are expected to significantly impact the local economy as well.

For the upcoming 2008 budget, the City will continue to focus on a multi-year budget horizon by judiciously adding to the budget for critical ongoing needs and one-time needs while maintaining a structurally balanced budget. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the City Council's priority of affordability, and continue to position the City to invest in its future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management will continue to monitor the economy and will be prepared to take any corrective actions to help mitigate unfavorable economic events.

The assessed taxable property value within the City increased by 13.6% for 2007. The property tax rate for fiscal year 2008 is 40.34 cents per $100 valuation. The tax rate consists of 27.30 cents for the General Fund and 13.04 cents for debt service. Each 1 cent of the property tax rate is equivalent to $6,873,679 of tax levy, as compared to $6,051,232 in the previous year. Rate increases for the Water and Wastewater Fund are: 6.9% for Water and 12.7% for Wastewater for a combined increase of 9.8%.

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	2007 Total (†)
ASSETS			
Current assets:			
Cash	$ 90	63	153
Pooled investments and cash	376,730	365,810	742,540
Pooled investments and cash - restricted	--	400,380	400,380
Total pooled investments and cash	376,730	766,190	1,142,920
Investments, at fair value	15,201	2,889	18,090
Investments, at fair value - restricted	--	325,035	325,035
Cash held by trustee	4,017	--	4,017
Cash held by trustee - restricted	--	34,756	34,756
Working capital advances	--	5,100	5,100
Property taxes receivable	11,017	--	11,017
Less allowance for uncollectible taxes	(3,206)	--	(3,206)
Net property taxes receivable	7,811	--	7,811
Accounts and other receivables	166,443	206,465	372,908
Less allowance for doubtful accounts	(85,763)	(7,575)	(93,338)
Net accounts receivable	80,680	198,890	279,570
Receivables from other governments	14,147	--	14,147
Notes receivable, net of allowance	9,607	--	9,607
Internal balances	(1,564)	1,564	--
Internal balances - restricted	(1,065)	1,065	--
Inventories, at cost	1,988	70,556	72,544
Real property held for resale	11,831	--	11,831
Prepaid items	50	1,807	1,857
Other assets	1,256	2,214	3,470
Other receivables - restricted	--	3,166	3,166
Total current assets	520,779	1,413,295	1,934,074
Noncurrent assets:			
Investments held by trustee - restricted	--	99,200	99,200
Interest receivable - restricted	--	1,481	1,481
Capital assets			
Land and other nondepreciable assets	280,242	366,201	646,443
Property, plant, and equipment in service	2,540,623	7,269,960	9,810,583
Less accumulated depreciation	(836,439)	(2,779,471)	(3,615,910)
Net property, plant, and equipment in service	1,704,184	4,490,489	6,194,673
Construction in progress	183,230	680,161	863,391
Nuclear fuel, net of amortization	--	27,622	27,622
Plant held for future use	--	27,783	27,783
Total capital assets	2,167,656	5,592,256	7,759,912
Intangible assets, net of amortization	--	80,102	80,102
Other long-term assets	--	144	144
Deferred costs and expenses, net of amortization	3,609	404,818	408,427
Total noncurrent assets	2,171,265	6,178,001	8,349,266
Total assets	$ 2,692,044	7,591,296	10,283,340

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

(Continued)

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

(In thousands)

	Governmental Activities	Business-type Activities	2007 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 35,771	77,255	113,026
Accounts and retainage payable from restricted assets	--	43,733	43,733
Accrued payroll	22,535	11,752	34,287
Accrued compensated absences	39,404	18,876	58,280
Due to other governments	1	--	1
Claims payable	12,030	--	12,030
Accrued interest payable from restricted assets	--	49,856	49,856
Interest payable on other debt	3,313	4,762	8,075
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	57,174	7,120	64,294
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	3,153	3,153
Revenue bonds payable	--	36,960	36,960
Revenue bonds payable payable from restricted assets	--	128,589	128,589
Capital lease obligations payable	159	1,805	1,964
Customer and escrow deposits payable from restricted assets	--	28,336	28,336
Nuclear fuel expense payable from restricted assets	--	23,714	23,714
Accrued landfill closure and postclosure costs	--	1,265	1,265
Deferred credits and other liabilities	58,796	35,947	94,743
Total current liabilities	229,183	473,123	702,306
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	52,698	5,124	57,822
Claims payable	10,191	--	10,191
Capital appreciation bond interest payable	--	232,175	232,175
Commercial paper notes payable, net of discount	--	309,003	309,003
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	729,733	90,655	820,388
Revenue bonds payable, net of discount and inclusive of premium	--	3,028,054	3,028,054
Pension obligation payable	24,022	21,049	45,071
Capital lease obligations payable	316	2,767	3,083
Accrued landfill closure and postclosure costs	--	8,810	8,810
Decommissioning expense payable from restricted assets	--	148,763	148,763
Deferred credits and other liabilities	17,680	537,080	554,760
Other liabilities payable from restricted assets	--	2,680	2,680
Total noncurrent liabilities	834,640	4,414,160	5,248,800
Total liabilities	1,063,823	4,887,283	5,951,106
NET ASSETS			
Invested in capital assets, net of related debt	1,530,124	1,648,758	3,178,882
Restricted for:			
Debt service	14,548	107,187	121,735
Strategic reserve	--	169,479	169,479
Capital projects	37,608	116,719	154,327
Renewal and replacement	--	73,480	73,480
Passenger facility charges	--	16,266	16,266
Operating reserve	--	9,225	9,225
Perpetual Care:			
Expendable	660	--	660
Nonexpendable	1,040	--	1,040
Other purposes	16,126	--	16,126
Unrestricted	28,115	562,899	591,014
Total net assets	$ 1,628,221	2,704,013	4,332,234

(†) 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, 2007
(In thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**2007 Total**
Governmental activities							
General government	$ 76,136	2,633	103	2,942	(70,458)	--	(70,458)
Public safety	397,583	40,529	11,788	--	(345,266)	--	(345,266)
Transportation, planning, and sustainability	48,758	3,260	--	--	(45,498)	--	(45,498)
Public health	94,158	40,238	20,983	--	(32,937)	--	(32,937)
Public recreation and culture	72,082	2,998	1,507	--	(67,577)	--	(67,577)
Urban growth management	93,185	43,012	22,950	--	(27,223)	--	(27,223)
Interest on debt	39,166	--	--	--	(39,166)	--	(39,166)
Total governmental activities	821,068	132,670	57,331	2,942	(628,125)	--	(628,125)
Business-type activities							
Electric	929,057	1,056,488	--	8,513	--	135,944	135,944
Water	162,158	138,350	--	14,798	--	(9,010)	(9,010)
Wastewater	144,573	154,118	--	13,733	--	23,278	23,278
Airport	80,368	96,562	--	7,900	--	24,094	24,094
Convention	43,956	14,577	--	--	--	(29,379)	(29,379)
Environmental and health services	55,386	46,310	--	330	--	(8,746)	(8,746)
Public recreation	9,800	8,784	--	289	--	(727)	(727)
Urban growth management	69,293	79,252	--	5,335	--	15,294	15,294
Total business-type activities	1,494,591	1,594,441	--	50,898	--	150,748	150,748
Total	$ 2,315,659	1,727,111	57,331	53,840	(628,125)	150,748	(477,377)
General revenues:							
Property tax					258,943	--	258,943
Sales tax					153,098	--	153,098
Franchise fees and gross receipts tax					87,180	--	87,180
Grants and contributions not restricted to specific programs					73,711	--	73,711
Interest and other					54,963	60,970	115,933
Transfers-internal activities					67,353	(67,353)	--
Total general revenues and transfers					695,248	(6,383)	688,865
Change in net assets					67,123	144,365	211,488
Beginning net assets					1,561,098	2,559,648	4,120,746
Ending net assets					$ 1,628,221	2,704,013	4,332,234

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

(In thousands)

	2007		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 68	5	73
Pooled investments and cash	90,921	191,739	282,660
Investments, at fair value	--	15,201	15,201
Cash held by trustee	--	3,185	3,185
Property taxes receivable	6,694	4,323	11,017
Less allowance for uncollectible taxes	(2,013)	(1,193)	(3,206)
Net property taxes receivable	4,681	3,130	7,811
Accounts and other receivables	136,336	25,766	162,102
Less allowance for doubtful accounts	(82,625)	(2,916)	(85,541)
Net accounts receivable	53,711	22,850	76,561
Receivables from other governments	--	14,147	14,147
Notes receivable, net of allowance	--	9,607	9,607
Due from other funds	237	37,944	38,181
Advances to other funds	--	7,721	7,721
Inventories, at cost	833	--	833
Real property held for resale	--	11,831	11,831
Prepaid items	31	--	31
Other assets	60	1,196	1,256
Total assets	150,542	318,556	469,098
LIABILITIES AND FUND BALANCES			
Accounts payable	6,038	19,035	25,073
Accrued payroll	17,457	1,048	18,505
Accrued compensated absences	410	--	410
Due to other funds	630	38,169	38,799
Due to other governments	1	--	1
Deferred revenue	15,784	9,606	25,390
Advances from other funds	--	348	348
Deposits and other liabilities	3,412	46,382	49,794
Total liabilities	43,732	114,588	158,320
Fund balances			
Reserved:			
Encumbrances	8,594	60,278	68,872
Inventories and prepaid items	864	--	864
Notes receivable	--	9,607	9,607
Advances receivable	--	7,721	7,721
Real property held for resale	--	11,831	11,831
Debt service	--	17,861	17,861
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	40,000	--	40,000
Contingencies	5,089	--	5,089
Future use	845	--	845
Budget stabilization	51,418	--	51,418
Unreserved, undesignated:			
Special revenue	--	48,916	48,916
Capital projects	--	46,054	46,054
Permanent funds	--	660	660
Total fund balances	106,810	203,968	310,778
Total liabilities and fund balances	$ 150,542	318,556	469,098

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

Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2007
(In thousands)

Total fund balances - Governmental funds	$ 310,778
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,115,170
Other long-term assets are not available as current-period resources and are not reported in the funds.	4,255
Long-term liabilities are not payable in the current period and are not reported in the funds.	(881,116)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	79,134
Total net assets - Governmental activities	$ 1,628,221

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

For the year ended September 30, 2007
(In thousands)

	2007		
	General Fund	**Nonmajor Governmental Funds**	**Total Governmental Funds**
REVENUES			
Property taxes	$ 168,292	83,178	251,470
Sales taxes	153,098	--	153,098
Franchise fees and other taxes	37,461	49,719	87,180
Fines, forfeitures and penalties	16,094	4,865	20,959
Licenses, permits and inspections	25,635	--	25,635
Charges for services/goods	26,357	61,579	87,936
Intergovernmental	--	73,886	73,886
Property owners' participation and contributions	--	2,639	2,639
Interest and other	13,602	41,920	55,522
Total revenues	440,539	317,786	758,325
EXPENDITURES			
Current:			
General government	57,593	1,450	59,043
Public safety	369,535	14,150	383,685
Transportation, planning and sustainability	949	4,610	5,559
Public health	32,857	57,862	90,719
Public recreation and culture	54,827	7,751	62,578
Urban growth management	20,106	57,822	77,928
Debt service:			
Principal	--	59,929	59,929
Interest	--	39,156	39,156
Fees and commissions	--	10	10
Capital outlay-capital project funds	--	94,228	94,228
Total expenditures	535,867	336,968	872,835
Excess (deficiency) of revenues over expenditures	(95,328)	(19,182)	(114,510)
OTHER FINANCING SOURCES (USES)			
Transfers in	107,241	64,754	171,995
Transfers out	(16,907)	(79,341)	(96,248)
Total other financing sources (uses)	90,334	(14,587)	75,747
Net change in fund balances	(4,994)	(33,769)	(38,763)
Fund balances at beginning of year	111,804	237,737	349,541
Fund balances at end of year	$ 106,810	203,968	310,778

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, 2007
(In thousands)

Net change in fund balances - Governmental funds	$ (38,763)
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.	12,879
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.	55,159
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.	59,929
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.	(22,936)
The net revenue of certain activities of internal service funds is reported with governmental activities.	855
Change in net assets - Governmental activities	$ 67,123

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

Proprietary Funds
Statement of Net Assets
September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	$ 18	9	6
Pooled investments and cash	233,974	24,945	931
Pooled investments and cash - restricted	175,587	24,107	132,177
Total pooled investments and cash	409,561	49,052	133,108
Investments, at fair value	--	--	--
Investments, at fair value - restricted	249,940	59,857	12,998
Cash held by trustee	--	--	--
Cash held by trustee - restricted	28,762	5,994	--
Working capital advances	5,100	--	--
Accounts receivable	140,474	44,650	5,204
Less allowance for doubtful accounts	(2,004)	(715)	(165)
Net accounts receivable	138,470	43,935	5,039
Due from other funds	225	--	--
Due from other funds - restricted	--	27	617
Inventories, at cost	68,019	1,997	--
Prepaid expenses	1,670	125	12
Other assets	2,214	--	--
Other receivables - restricted	58	155	258
Total current assets	904,037	161,151	152,038
Noncurrent assets:			
Advances to other funds	2,460	--	--
Advances to other funds - restricted	--	81	140
Investments held by trustee - restricted	99,200	--	--
Interest receivable - restricted	1,481	--	--
Capital assets			
Land and other nondepreciable assets	59,662	145,357	88,428
Property, plant, and equipment in service	3,536,625	2,622,641	666,855
Less accumulated depreciation	(1,614,321)	(889,671)	(151,145)
Net property, plant, and equipment in service	1,922,304	1,732,970	515,710
Construction in progress	192,047	435,118	16,303
Nuclear fuel, net of amortization	27,622	--	--
Plant held for future use	27,783	--	--
Total capital assets	2,229,418	2,313,445	620,441
Intangible assets, net of amortization	--	80,102	--
Other long-term assets	144	--	--
Deferred costs and expenses, net of amortization	214,622	183,807	3,615
Total noncurrent assets	2,547,325	2,577,435	624,196
Total assets	$ 3,451,362	2,738,586	776,234

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities-Internal Service Funds
ASSETS			
Current assets:			
Cash	30	63	17
Pooled investments and cash	105,960	365,810	94,070
Pooled investments and cash - restricted	68,509	400,380	--
Total pooled investments and cash	174,469	766,190	94,070
Investments, at fair value	2,889	2,889	--
Investments, at fair value - restricted	2,240	325,035	--
Cash held by trustee	--	--	832
Cash held by trustee - restricted	--	34,756	--
Working capital advances	--	5,100	--
Accounts receivable	16,137	206,465	3,651
Less allowance for doubtful accounts	(4,691)	(7,575)	(222)
Net accounts receivable	11,446	198,890	3,429
Due from other funds	905	1,130	948
Due from other funds - restricted	--	644	--
Inventories, at cost	540	70,556	1,155
Prepaid expenses	--	1,807	19
Other assets	--	2,214	--
Other receivables - restricted	2,695	3,166	--
Total current assets	195,214	1,412,440	100,470
Noncurrent assets:			
Advances to other funds	1	2,461	--
Advances to other funds - restricted	200	421	--
Investments held by trustee - restricted	--	99,200	--
Interest receivable - restricted	--	1,481	--
Capital assets			
Land and other nondepreciable assets	72,754	366,201	712
Property, plant, and equipment in service	443,839	7,269,960	84,871
Less accumulated depreciation	(124,334)	(2,779,471)	(37,178)
Net property, plant, and equipment in service	319,505	4,490,489	47,693
Construction in progress	36,693	680,161	4,081
Nuclear fuel, net of amortization	--	27,622	--
Plant held for future use	--	27,783	--
Total capital assets	428,952	5,592,256	52,486
Intangible assets, net of amortization	--	80,102	--
Other long-term assets	--	144	--
Deferred costs and expenses, net of amortization	2,774	404,818	44
Total noncurrent assets	431,927	6,180,883	52,530
Total assets	627,141	7,593,323	153,000

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

(Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 66,474	2,849	2,043
Accounts and retainage payable from restricted assets	13,086	25,018	1,703
Accrued payroll	5,088	2,546	787
Accrued compensated absences	8,471	4,568	1,146
Claims payable	--	--	--
Due to other funds	--	--	10
Accrued interest payable from restricted assets	22,875	25,420	1,561
Interest payable on other debt	923	1,049	1
General obligation bonds payable and other tax supported debt	--	--	23
General obligation bonds payable and other tax supported debt payable from restricted assets	152	3,001	--
Revenue bonds payable	--	33,520	--
Revenue bonds payable from restricted assets	89,185	27,624	11,780
Capital lease obligations payable	30	1,327	446
Customer and escrow deposits payable from restricted assets	18,549	6,165	461
Nuclear fuel expense payable from restricted assets	23,714	--	--
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	27,940	7,077	527
Total current liabilities	276,487	140,164	20,488
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,345	805	167
Claims payable	--	--	--
Advances from other funds	--	4,506	--
Capital appreciation bond interest payable	112,506	119,669	--
Commercial paper notes payable, net of discount	149,941	159,062	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	1,596	16,475	311
Revenue bonds payable, net of discount and inclusive of premium	1,078,114	1,415,507	318,055
Pension obligation payable	9,382	4,741	1,478
Capital lease obligations payable	1,212	--	1,555
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	148,763	--	--
Deferred credits and other liabilities	76,003	456,238	617
Other liabilities payable from restricted assets	--	2,439	241
Total noncurrent liabilities	1,579,862	2,179,442	350,424
Total liabilities	1,856,349	2,319,606	370,912
NET ASSETS			
Invested in capital assets, net of related debt	898,760	321,975	263,883
Restricted for:			
Debt service	57,585	34,437	12,925
Strategic reserve	169,479	--	--
Capital projects	13,100	--	89,489
Renewal and replacement	61,559	--	10,000
Passenger facility charges	--	--	16,266
Operating reserve	--	--	7,882
Unrestricted	394,530	62,568	4,877
Total net assets	$ 1,595,013	418,980	405,322
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	3,306	2,746	953
Total net assets - Business-type activities	$ 1,598,319	421,726	406,275

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

(Continued)

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities-Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	5,889	77,255	10,698
Accounts and retainage payable from restricted assets	3,926	43,733	--
Accrued payroll	3,331	11,752	4,030
Accrued compensated absences	4,691	18,876	6,257
Claims payable	--	--	12,030
Due to other funds	1,130	1,140	964
Accrued interest payable from restricted assets	--	49,856	--
Interest payable on other debt	2,789	4,762	76
General obligation bonds payable and other tax supported debt	7,097	7,120	3,459
General obligation bonds payable and other tax supported debt payable from restricted assets	--	3,153	--
Revenue bonds payable	3,440	36,960	--
Revenue bonds payable from restricted assets	--	128,589	--
Capital lease obligations payable	2	1,805	1
Customer and escrow deposits payable from restricted assets	3,161	28,336	--
Nuclear fuel expense payable from restricted assets	--	23,714	--
Accrued landfill closure and postclosure costs	1,265	1,265	--
Deferred credits and other liabilities	403	35,947	1,096
Total current liabilities	37,124	474,263	38,611
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,807	5,124	896
Claims payable	--	--	10,191
Advances from other funds	5,496	10,002	253
Capital appreciation bond interest payable	--	232,175	--
Commercial paper notes payable, net of discount	--	309,003	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	72,273	90,655	14,800
Revenue bonds payable, net of discount and inclusive of premium	216,378	3,028,054	--
Pension obligation payable	5,448	21,049	--
Capital lease obligations payable	--	2,767	--
Accrued landfill closure and postclosure costs	8,810	8,810	--
Decommissioning expense payable from restricted assets	--	148,763	--
Deferred credits and other liabilities	4,222	537,080	--
Other liabilities payable from restricted assets	--	2,680	--
Total noncurrent liabilities	314,434	4,424,162	26,140
Total liabilities	351,558	4,898,425	64,751
NET ASSETS			
Invested in capital assets, net of related debt	164,140	1,648,758	33,055
Restricted for:			
Debt service	2,240	107,187	--
Strategic reserve	--	169,479	--
Capital projects	14,130	116,719	14,943
Renewal and replacement	1,921	73,480	--
Passenger facility charges	--	16,266	--
Operating reserve	1,343	9,225	--
Unrestricted	91,809	553,784	40,251
Total net assets	275,583	2,694,898	88,249
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,110	9,115	
Total net assets - Business-type activities	277,693	2,704,013	

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, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 1,056,488	292,468	--
User fees and rentals	--	--	79,871
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,056,488	292,468	79,871
OPERATING EXPENSES			
Operating expenses before depreciation	711,181	134,824	47,298
Depreciation and amortization	115,166	73,592	17,722
Total operating expenses	826,347	208,416	65,020
Operating income (loss)	230,141	84,052	14,851
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	40,381	4,007	7,548
Interest on revenue bonds and other debt	(90,006)	(90,951)	(16,501)
Interest capitalized during construction	--	--	1,478
Passenger facility charges	--	--	16,691
Amortization of bond issue cost	(723)	(721)	(229)
Cost (recovered) to be recovered in future years	6,487	(9,623)	--
Other nonoperating expense	(19,300)	2,770	(24)
Total nonoperating revenues (expenses)	(63,161)	(94,518)	8,963
Income (loss) before contributions and transfers	166,980	(10,466)	23,814
Capital contributions	8,513	28,531	7,900
Transfers in	--	--	--
Transfers out	(84,500)	(25,491)	--
Change in net assets	90,993	(7,426)	31,714
Total net assets - beginning	1,504,020	426,406	373,608
Total net assets - ending	$ 1,595,013	418,980	405,322
Reconciliation to government-wide Statement of Activities			
Change in net assets	90,993	(7,426)	31,714
Adjustment to consolidate internal service activities	832	210	(72)
Change in net assets - Business-type activities	$ 91,825	(7,216)	31,642

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,348,956	--
User fees and rentals	148,923	228,794	--
Billings to departments	--	--	253,305
Employee contributions	--	--	31,441
Operating revenues from other governments	--	--	3,285
Other operating revenues	--	--	2,669
Total operating revenues	148,923	1,577,750	290,700
OPERATING EXPENSES			
Operating expenses before depreciation	147,022	1,040,325	272,260
Depreciation and amortization	18,818	225,298	9,223
Total operating expenses	165,840	1,265,623	281,483
Operating income (loss)	(16,917)	312,127	9,217
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	9,034	60,970	1,303
Interest on revenue bonds and other debt	(13,972)	(211,430)	(698)
Interest capitalized during construction	1,671	3,149	--
Passenger facility charges	--	16,691	--
Amortization of bond issue cost	(149)	(1,822)	(2)
Cost (recovered) to be recovered in future years	--	(3,136)	--
Other nonoperating expense	(842)	(17,396)	(4,007)
Total nonoperating revenues (expenses)	(4,258)	(152,974)	(3,404)
Income (loss) before contributions and transfers	(21,175)	159,153	5,813
Capital contributions	5,954	50,898	5,103
Transfers in	45,458	45,458	--
Transfers out	(2,820)	(112,811)	(8,394)
Change in net assets	27,417	142,698	2,522
Total net assets - beginning	248,166	2,552,200	85,727
Total net assets - ending	275,583	2,694,898	88,249
Reconciliation to government-wide Statement of Activities			
Change in net assets	27,417	142,698	
Adjustment to consolidate internal service activities	697	1,667	
Change in net assets - Business-type activities	28,114	144,365	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,114,389	298,204	78,135
Cash payments to suppliers for goods and services	(570,583)	(69,867)	(32,164)
Cash payments to employees for services	(120,578)	(61,685)	(14,111)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(29,628)	--	--
Net cash provided (used) by operating activities	393,600	166,652	31,860
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(84,500)	(25,491)	--
Interest paid on revenue notes and other debt	(73)	(24)	--
Increase in deferred assets	1,867	--	--
Loans to other funds	(225)	--	--
Loans from other funds	--	725	10
Loan repayments to other funds	--	--	--
Loan repayments from other funds	435	27	668
Net cash provided (used) by noncapital financing activities	(82,496)	(24,763)	678
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	95,500	107,630	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	4,420	--
Principal paid on long-term debt	(103,580)	(50,493)	(10,084)
Purchased interest received	593	507	--
Interest paid on revenue bonds and other debt	(69,969)	(71,214)	(15,651)
Passenger facility charges	--	--	16,691
Acquisition and construction of capital assets	(183,160)	(138,133)	(19,994)
Contributions from municipality	--	--	--
Contributions from state and federal governments	--	--	12,016
Contributions in aid of construction	9,671	12,853	--
Bond issuance costs	--	165	--
Bond premiums	115	55	--
Cash paid for nuclear fuel inventory	(8,957)	--	--
Net cash provided (used) by capital and related financing activities	$ (259,787)	(134,210)	(17,022)

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	148,878	1,639,606	288,002
Cash payments to suppliers for goods and services	(63,385)	(735,999)	(104,975)
Cash payments to employees for services	(75,233)	(271,607)	(95,562)
Cash payments to claimants/beneficiaries	--	--	(68,543)
Taxes collected and remitted to other governments	--	(29,628)	--
Net cash provided (used) by operating activities	10,260	602,372	18,922
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	45,458	45,458	--
Transfers out	(2,820)	(112,811)	(8,394)
Interest paid on revenue notes and other debt	(3)	(100)	--
Increase in deferred assets	--	1,867	--
Loans to other funds	(573)	(798)	(230)
Loans from other funds	524	1,259	730
Loan repayments to other funds	(339)	(339)	(30)
Loan repayments from other funds	87	1,217	--
Net cash provided (used) by noncapital financing activities	42,334	(64,247)	(7,924)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	203,130	--
Proceeds from the sale of general obligation bonds and other tax supported debt	9,700	14,120	--
Principal paid on long-term debt	(7,247)	(171,404)	(3,328)
Purchased interest received	37	1,137	--
Interest paid on revenue bonds and other debt	(13,342)	(170,176)	(709)
Passenger facility charges	--	16,691	--
Acquisition and construction of capital assets	(31,665)	(372,952)	(9,923)
Contributions from municipality	--	--	2,419
Contributions from state and federal governments	--	12,016	--
Contributions in aid of construction	3,454	25,978	--
Bond issuance costs	(35)	130	--
Bond premiums	96	266	--
Cash paid for nuclear fuel inventory	--	(8,957)	--
Net cash provided (used) by capital and related financing activities	(39,002)	(450,021)	(11,541)

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (295,744)	(83,884)	(27,839)
Proceeds from sale and maturities of investment securities	313,565	73,069	38,891
Interest on investments	36,710	3,857	6,931
Net cash provided (used) by investing activities	54,531	(6,958)	17,983
Net increase in cash and cash equivalents	105,848	721	33,499
Cash and cash equivalents, October 1	332,493	54,334	99,615
Cash and cash equivalents, September 30	438,341	55,055	133,114
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	230,141	84,052	14,851
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	115,166	71,092	17,722
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	(1,084)	--	--
(Increase) decrease in accounts receivable	(3,181)	4,466	(1,353)
Increase (decrease) in allowance for doubtful accounts	(267)	22	15
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	(7,006)	(349)	--
Decrease in prepaid expenses and other assets	6,084	4	--
Decrease in deferred costs and other expenses	9,073	--	--
(Increase) decrease in other long-term assets	523	--	--
Increase (decrease) in accounts payable	(696)	21	518
Increase in accrued payroll and compensated absences	1,268	550	357
Decrease in claims payable	--	--	--
Increase in pension obligations payable	4,128	2,058	621
Increase (decrease) in deferred credits and other liabilities	35,316	868	(989)
Increase in customer deposits	4,135	1,368	118
Total adjustments	163,459	82,600	17,009
Net cash provided (used) by operating activities	$ 393,600	166,652	31,860

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(12,859)	(420,326)	--
Proceeds from sale and maturities of investment securities	11,232	436,757	--
Interest on investments	9,036	56,534	1,303
Net cash provided (used) by investing activities	7,409	72,965	1,303
Net increase in cash and cash equivalents	21,001	161,069	760
Cash and cash equivalents, October 1	153,498	639,940	94,159
Cash and cash equivalents, September 30	174,499	801,009	94,919
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(16,917)	312,127	9,217
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	18,818	222,798	9,223
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	(1,084)	--
(Increase) decrease in accounts receivable	(1,041)	(1,109)	(1,970)
Increase (decrease) in allowance for doubtful accounts	664	434	--
Decrease in due from other funds	(25)	(25)	(511)
(Increase) decrease in inventory	286	(7,069)	(84)
Decrease in prepaid expenses and other assets	15	6,103	3
Decrease in deferred costs and other expenses	--	9,073	28
(Increase) decrease in other long-term assets	--	523	(31)
Increase (decrease) in accounts payable	2,241	2,084	1,080
Increase in accrued payroll and compensated absences	1,444	3,619	1,164
Decrease in claims payable	--	--	1,012
Increase in pension obligations payable	2,485	9,292	--
Increase (decrease) in deferred credits and other liabilities	1,806	37,001	(209)
Increase in customer deposits	484	6,105	--
Total adjustments	27,177	290,245	9,705
Net cash provided (used) by operating activities	10,260	602,372	18,922

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2007
(In thousands)

	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	$ (11,215)	128	--
Increase in capital appreciation bond interest payable	9,219	11,535	--
Capital assets contributed from (to) other funds	(149)	--	(70)
Increase in contributed facilities	--	15,883	--
Net increase in the fair value of investments	(4,050)	(450)	(666)
Amortization of bond issue costs	(689)	(721)	(229)
Amortization of bond discounts and premiums	(3,942)	(3,420)	(276)
Amortization of deferred loss on refundings	9,657	8,604	1,085
Gain (loss) on disposal of assets	(19,300)	2,769	(24)
Deferred loss on bond refunding	(20,433)	--	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	14,848	--	--
Deferred costs (recovered) to be recovered	6,487	(9,623)	--
Contributions from other funds	--	--	--
Increase in deferred credits and other liabilities	11,086	--	--
Capital lease obligations	1	--	2,320
Bonds issued for the advance refundings of debt	284,439	135,000	--
Bond issuance costs on advance refundings	(1,579)	(1,288)	--
Bond discounts on advance refundings	(1,291)	--	--
Bond premiums on advance refundings	18,192	488	--
Reduction of long-term debt due to advance refundings	(293,875)	(134,200)	--

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

	Nonmajor Enterprise Funds	2007 Total	Governmental Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	(28)	(11,115)	--
Increase in capital appreciation bond interest payable	--	20,754	--
Capital assets contributed from (to) other funds	(41)	(260)	2,703
Increase in contributed facilities	--	15,883	--
Net increase in the fair value of investments	(999)	(6,165)	--
Amortization of bond issue costs	(148)	(1,787)	--
Amortization of bond discounts and premiums	(599)	(8,237)	(5)
Amortization of deferred loss on refundings	1,135	20,481	2
Gain (loss) on disposal of assets	(865)	(17,420)	(1,052)
Deferred loss on bond refunding	--	(20,433)	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	--	14,848	--
Deferred costs (recovered) to be recovered	--	(3,136)	--
Contributions from other funds	--	--	199
Increase in deferred credits and other liabilities	--	11,086	(258)
Capital lease obligations	3	2,324	--
Bonds issued for the advance refundings of debt	--	419,439	--
Bond issuance costs on advance refundings	--	(2,867)	--
Bond discounts on advance refundings	--	(1,291)	--
Bond premiums on advance refundings	--	18,680	--
Reduction of long-term debt due to advance refundings	--	(428,075)	--

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

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 1,155	3,625
Other assets	121	--
Total assets	1,276	3,625
LIABILITIES		
Accounts payable	--	80
Due to other governments	--	2,704
Deposits and other liabilities	538	841
Total liabilities	538	3,625
NET ASSETS		
Held in trust	738	
Total net assets	$ 738	

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

For the year ended September 30, 2007
(In thousands)

	Private-purpose Trust
ADDITIONS	
Contributions	$ 271
Interest and other	54
Total additions	325
DEDUCTIONS	
Benefit payments	370
Total deductions	370
Net additions (deductions) before transfers	(45)
Total net assets - beginning	783
Total net assets - ending	$ 738

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with GAAP for local governments as prescribed by the GASB. The City has implemented GASB Statements No. 1 through No. 42, No. 44, and No. 46. The more significant accounting and reporting policies and practices used by the City are described below.

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

a -- Reporting Entity

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

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

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

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

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

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

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

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

b -- Government-wide and Fund Financial Statements

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

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

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental, proprietary, and fiduciary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by GASB Statement 34; the City has 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 primary government; therefore, they are not included in the government-wide statements. Reconciliation of the fund financial statements to the government-wide financial statements is provided in the financial statements to explain the differences created by the integrated approach of GASB 34.

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

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

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

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

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

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

The City reports the following major governmental fund:

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

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

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

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

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

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

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

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

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

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

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

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

d -- Budget

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

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

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

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

e -- Financial Statement Elements

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

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2007. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

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

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2007 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 76,380	26,354	34,292	--	--	137,026
Nonmajor governmental funds	2,590	21	12,389	6,843	3,923	25,766
Internal service funds	3,651	--	--	--	--	3,651
Allowance for doubtful accounts	(72,779)	(12,984)	--	--	--	(85,763)
Total	$ 9,842	13,391	46,681	6,843	3,923	80,680

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

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

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

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

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

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

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

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

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

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

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

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Strategic reserve	$ 169,697	--	--	--	169,697
Capital projects	48,044	21,762	94,384	53,073	217,263
Customer and escrow deposits	20,416	8,602	461	3,162	32,641
Debt service	80,461	59,857	12,925	2,440	155,683
Federal grants	--	--	258	--	258
Plant decommissioning	149,483	--	--	--	149,483
Nuclear fuel inventory replacement	25,368	--	--	--	25,368
Operating reserve account	--	--	7,882	7,876	15,758
Passenger facility charge account	--	--	20,280	--	20,280
Renewal and replacement account	61,559	--	10,000	7,093	78,652
	$ 555,028	90,221	146,190	73,644	865,083

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

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

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

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

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

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

(1) Includes internal service funds

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

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

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

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

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

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

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

	Work-week	Non-Civil Service Employees (1)	Civil Service Police (2)	Civil Service Fire (3)
Vacation	0-40	240	240	240
	42	270	N/A	N/A
	48	309	N/A	N/A
	53	N/A	N/A	360
	56	360	N/A	N/A
Sick leave	0-40	720	1020	720
	42	756	N/A	N/A
	48	926	N/A	N/A
	53	N/A	N/A	1080
	56	1080	N/A	N/A

(1) Non-civil service employees are eligible for accumulated sick leave payout if hired on or before October 1, 1986.
(2) Civil service police employees with 5 years of actual service are eligible for accumulated sick leave payout.
(3) Civil service fire employees are eligible for accumulated sick leave payout regardless of hire date.

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

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

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

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

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

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

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

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

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

Electric Fund	$	3,538
Water and Wastewater Fund		1,072
Airport		82
Nonmajor Enterprise Funds		703

Electric, water, and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred or in future months. The City reported fuel costs on the same basis as it recognized revenue in 2007 and prior years. Unbilled revenue was recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2007. The amount of unbilled revenue recorded, as of September 30, 2007, for the Electric Fund was $39.7 million. The Water and Wastewater Fund recorded unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2007. The amount of unbilled revenue recorded as of September 30, 2007 was $9.1 million for water and $9 million for wastewater.

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued
f -- Comparative Data

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

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

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

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

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

g -- Use of Estimates

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

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balance reported in the City's fund-level governmental funds balance sheet ($310.8 million) differs from the net assets reported in governmental activities within the government-wide financial statements ($1.63 billion). The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds - balance sheet		$ 310,778
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	2,914,431	
Less: accumulated depreciation	(799,261)	
Total		2,115,170
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	690	
Deferred costs and expenses	3,565	
Total		4,255
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	(768,648)	
Pension obligation payable	(24,022)	
Capital lease obligations payable	(474)	
Compensated absences	(84,539)	
Interest payable	(3,237)	
Deferred credits and other liabilities	(196)	
Total		(881,116)
Internal service funds		79,134
Total net assets - Governmental activities		$ 1,628,221

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 ($38.8 million) differs from the change in net assets for governmental activities ($67.1 million) as reported in the statement of activities. The differences result from the long-term economic resources measurement focus in the government-wide statement of net assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ (38,763)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of assets is allocated over the estimated useful life of the asset and reported as depreciation expense.		
Capital outlay	93,984	
Depreciation expense	(81,036)	
Loss on disposal of capital assets	(69)	
Total		12,879
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	7,473	
Charges for services	(5,635)	
Operating grants and contributions	(715)	
Interest and other	(3)	
Capital assets contribution	54,039	
Total		55,159
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.		
Principal repayment on long-term debt	59,929	
Total		59,929
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	(13,836)	
Pension obligation	(10,108)	
Interest and other	1,008	
Total		(22,936)
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		855
Change in net assets - Governmental activities		$ 67,123

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2007, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

Nonmajor Governmental	Deficit (in thousands)
Special Revenue Funds:	
Medicaid Administrative Claims	$ 696
Cable TV	104
Rutherford Lane Facility Fund	501
City Hall Fund	328
RMMA Reimbursement	18
Capital Projects Funds:	
Parks and recreation facilities	283
Radio Trunking	3,434
Transportation	1,239
Drainage & Open Spaces	3,253
Parks	2,799
Cultural Facilities	3
Public Safety	163
Health projects	73
Build Austin	574
Build Central Texas	1,860
CMTA Mobility	1,926
Capital reserve	3,944
Public Works	268
Watershed Protection	657
City Hall, plaza, parking garage	7,082
Conservation Land	15
Internal Service Funds:	
Capital Projects Management	469

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2007 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
General Fund	$ 90,921	--
Nonmajor governmental funds	191,739	--
Electric	233,974	175,587
Water and Wastewater	24,945	24,107
Airport	931	132,177
Nonmajor enterprise funds	105,960	68,509
Internal service funds	94,070	--
Fiduciary funds	4,780	--
Subtotal pooled investments and cash	747,320	400,380
Total pooled investments and cash	$ 1,147,700	

5 – INVESTMENTS AND DEPOSITS
a -- Investments

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

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

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

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

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

The City participates in two Local Government Investment Pools: TexPool and TexasDAILY. The State Comptroller oversees TexPool, with 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.

5 – INVESTMENTS AND DEPOSITS, continued
a -- Investments

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7- like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2007, TexPool and TexasDAILY had a weighted average maturity of 54 days and 42 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2007.

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

The following table includes the portfolio balances of all non-pooled and pooled investment types of the City at September 30, 2007 (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 15,201	164,439	--	179,640
US Treasury Notes	--	111,835	--	111,835
US Agency Bonds	--	150,850	--	150,850
Total non-pooled investments	15,201	427,124	--	442,325
Pooled investments:				
Local Government Investment Pools	119,505	242,908	1,465	363,878
US Treasury Notes	4,944	10,056	63	15,063
US Agency Bonds	250,073	508,515	3,252	761,840
Total pooled investments (1)	374,522	761,479	4,780	1,140,781
Total investments	$ 389,723	1,188,603	4,780	1,583,106

(1) A difference of $6.9 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

At September 30, 2007, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in thousands): Federal Home Loan Bank ($387,002 or 24%), Federal Home Loan Mortgage Corporation ($164,236 or 10%), and Federal National Mortgage Association ($249,814 or 16%).

b -- Investment categories

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

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

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

5 – INVESTMENTS AND DEPOSITS, continued
b – Investment categories

Operating Funds (excluding special project fund)
As of September 30, 2007, the City operating funds (excluding the special project fund) had the following investments:

Investment Type	Fair Value (in thousands) Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Weighted Average Maturity (days)
Local Government Invest Pools	$ 119,505	242,908	1,465	363,878	1
US Treasury Notes	4,944	10,056	63	15,063	350
US Agency Bonds	250,073	508,515	3,252	761,840	461
Total pooled investments	$ 374,522	761,479	4,780	1,140,781	312

Credit Risk
Approximately 8% of the portfolio consists of direct obligations of the US government. As of September 30, 2007, Standard and Poor's issued the following ratings for other investments:

Investment Type	Portfolio %	Rating
LGIPs	34	AAAm
US Agency Bonds and Step Bonds	58	AAA

At September 30, 2007, the operating funds held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank ($326 million or 29 percent), Federal National Mortgage Association ($215 million or 19 percent), Federal Home Loan Mortgage Corporation ($150 million or 13 percent) and Federal Farm Credit Bank ($70 million or 6%).

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

At September 30, 2007, 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 312 days, which was less than the threshold of 365 days.

Debt Service Funds
As of September 30, 2007, the City's debt service funds had the following investments:

	Fair Value (in thousands) Governmental Activities	Business-type Activities	Final Maturity
General Obligation Debt Service			
TexPool (LGIPs)	$ 15,201	–	N/A
Enterprise-Utility (1)			
TexPool (LGIPs)	--	140,019	N/A
US Treasury SLG 3.937% of 11/17/07	--	297	11/17/2007
Enterprise-Airport			
TexPool (LGIPs)	--	12,925	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	5,129	N/A
Total	$ 15,201	158,370	

(1) Includes combined pledge debt service

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

Credit Risk
As of September 30, 2007, Standard and Poor's rated both TexPool and TexasDAILY AAAm.

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

At September 30, 2007, portfolios in this category held investments in AAAm rated LGIPs or direct obligations of the US Treasury.

Special Project Fund
As of September 30, 2007, the City's special project fund had the following investments:

	Fair Value (in thousands) Business-type Activities	Final Maturity
Airport Construction		
TexPool (LGIPs)	$ 73	N/A
Total special projects fund	$ 73	

Credit Risk
As of September 30, 2007, Standard and Poor's rated TexPool AAAm.

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

At September 30, 2007, the portfolios held investments in an AAAm rated LGIP and US Agencies with maturities that will meet anticipated cash flow requirements.

Special Purpose Funds
Austin Energy Strategic Reserve Fund
As of September 30, 2007, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (days)
Local Government Investment Pools	$ 6,293	1
US Treasury Notes	70,720	1,254
US Agency Bonds	92,468	1,332
Total	$ 169,481	1,250

Credit Risk
At September 30, 2007, the Electric Utility Department Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard and Poor's rated the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2007, the Austin Energy Strategic Reserve Fund held investments with more than 5 percent of the total in securities of the following issuers: Federal Farm Credit Bank ($23 million or 14 percent), and Federal Home Loan Bank ($44 million or 26 percent), and Federal National Mortgage Association ($25 million or 15%).

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

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

At September 30, 2007, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries, and US Agencies with maturities that will meet anticipated cash flow requirements and an overall dollar weighted average maturity of 1,250 days (3.42 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2007, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasury Notes	$ 40,818	4.45
US Agency Bonds	58,382	5.06
Total	$ 99,200	4.82

Credit Risk
As of September 30, 2007, Standard and Poor's rate the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2007, the NDTF held investments with more than 5 percent of the total in securities of the following issuers: Federal Home Loan Bank ($16 million or 16 percent), Federal Home Loan Mortgage Corporation ($14 million or 14 percent), Federal National Mortgage Association ($10 million or 10 percent), and Federal Farm Credit Bank ($18 million or 18 percent).

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, 2007, the dollar weighted average maturity was 4.82 years.

Investments and deposits at September 30, 2007, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and cash	$ 19,308	461,943	--	481,251
Pooled investments and cash	374,952	762,355	4,780	1,142,087
Total investments and cash	394,260	1,224,298	4,780	1,623,338
Unrestricted cash	4,107	63	--	4,170
Restricted cash	--	34,756	--	34,756
Pooled cash	374,952	762,355	4,780	1,142,087
Investments	15,201	427,124	--	442,325
Total investments and cash	$ 394,260	1,224,298	4,780	1,623,338

A difference of $5.6 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

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

Deposits
The September 30, 2007, carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Total
Cash			
Unrestricted	$ 90	63	153
Cash held by trustee			
Unrestricted	4,017	--	4,017
Restricted	--	34,756	34,756
Pooled cash	430	876	1,306
Total deposits	$ 4,537	35,695	40,232

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2007.

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, 2006, upon which the 2007 levy was based, was $60,512,328,889.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2007, 99.61% of the current tax levy (October 1, 2006) was collected. The statutory lien date is January 1.

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

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

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

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

6 – PROPERTY TAXES, continued

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, 2007, was $.2760 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7240 per $100 assessed valuation, and could levy approximately $438,109,261 in additional taxes from the assessed valuation of $60,512,328,889 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

The City has recorded capitalized interest for fiscal year 2007 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Enterprise Funds	
Major fund:	
Airport	$ 1,478
Nonmajor enterprise funds:	
Convention Center	366
Drainage	1,168
Golf	16
Solid Waste Services	115
Transportation	6

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

Capital asset balances as of September 30, 2007 (in thousands):

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 261,328	364,811	626,139
Arts and treasures	5,153	1,390	6,543
Library collections	13,761	--	13,761
Total	280,242	366,201	646,443
Depreciable property, plant, and equipment in service			
Building and improvements	570,368	2,035,399	2,605,767
Equipment	152,248	5,120,246	5,272,494
Vehicles	81,723	114,315	196,038
Infrastructure	1,736,284	--	1,736,284
Total	2,540,623	7,269,960	9,810,583
Less accumulated depreciation for			
Building and improvements	(145,571)	(668,039)	(813,610)
Equipment	(70,835)	(2,048,831)	(2,119,666)
Vehicles	(50,221)	(62,601)	(112,822)
Infrastructure	(569,812)	--	(569,812)
Total	(836,439)	(2,779,471)	(3,615,910)
Net property, plant, and equipment in service	1,704,184	4,490,489	6,194,673
Other capital assets not depreciated			
Construction in progress	183,230	680,161	863,391
Nuclear fuel, net of amortization	--	27,622	27,622
Plant held for future use	--	27,783	27,783
Total capital assets	$ 2,167,656	5,592,256	7,759,912

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 240,388	20,940	--	261,328
Arts and treasures	5,029	124	--	5,153
Library collections	13,761	--	--	13,761
Total	259,178	21,064	--	280,242
Depreciable property, plant, and equipment in service				
Building and improvements	540,350	30,018	--	570,368
Equipment	134,344	18,317	(413)	152,248
Vehicles	71,672	10,467	(416)	81,723
Infrastructure	1,659,449	76,835	--	1,736,284
Total	2,405,815	135,637	(829)	2,540,623
Less accumulated depreciation for				
Building and improvements	(129,212)	(16,359)	--	(145,571)
Equipment	(54,154)	(17,028)	347	(70,835)
Vehicles	(43,369)	(7,156)	304	(50,221)
Infrastructure	(520,096)	(49,716)	--	(569,812)
Total	(746,831)	(90,259) (2)	651	(836,439)
Net property, plant, and equipment in service	1,658,984	45,378	(178)	1,704,184
Other capital assets not depreciated				
Construction in progress	181,342	97,446	(95,558)	183,230
Total capital assets	$ 2,099,504	163,888	(95,736)	2,167,656

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

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

Governmental activities:	
General government	$ 3,536
Public safety	11,940
Transportation, planning, and sustainability	42,647
Public health	1,414
Public recreation and culture	7,670
Urban growth management	13,829
Internal service funds	9,223
Total increases in accumulated depreciation	$ 90,259

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 40,469	19,193	--	59,662
Total	40,469	19,193	--	59,662
Depreciable property, plant, and equipment in service				
Building and improvements	661,898	2,340	(12,158)	652,080
Equipment	2,777,448	142,558	(60,781)	2,859,225
Vehicles	23,309	2,278	(267)	25,320
Total	3,462,655	147,176	(73,206)	3,536,625
Less accumulated depreciation for				
Building and improvements	(302,506)	(18,311)	9,913	(310,904)
Equipment	(1,236,557)	(95,357)	44,577	(1,287,337)
Vehicles	(14,802)	(1,498)	220	(16,080)
Total	(1,553,865)	(115,166) (1)	54,710	(1,614,321)
Net property, plant, and equipment in service	1,908,790	32,010	(18,496)	1,922,304
Other capital assets not depreciated				
Construction in progress	170,114	22,887	(954)	192,047
Nuclear fuel, net of amortization	29,284	--	(1,662)	27,622
Plant held for future use	27,783	--	--	27,783
Total capital assets	$ 2,176,440	74,090	(21,112)	2,229,418

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 115,166
Total increases in accumulated depreciation	$ 115,166

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 141,356	4,001	--	145,357
Total	141,356	4,001	--	145,357
Depreciable property, plant, and equipment in service				
Building and improvements	417,389	12,535	--	429,924
Equipment	1,892,156	274,914	(184)	2,166,886
Vehicles	21,557	4,314	(40)	25,831
Total	2,331,102	291,763	(224)	2,622,641
Less accumulated depreciation for				
Building and improvements	(133,228)	(12,861)	--	(146,089)
Equipment	(671,535)	(56,712)	102	(728,145)
Vehicles	(13,974)	(1,519)	56	(15,437)
Total	(818,737)	(71,092) (2)	158	(889,671)
Net property, plant, and equipment in service	1,512,365	220,671	(66)	1,732,970
Other capital assets not depreciated				
Construction in progress	569,945	147,201	(282,028)	435,118
Total capital assets	$ 2,223,666	371,873	(282,094)	2,313,445

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 34,627
Wastewater	36,465
Total increases in accumulated depreciation	$ 71,092

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 58,632	29,018	--	87,650
Arts and treasures	778	--	--	778
Total	59,410	29,018	--	88,428
Depreciable property, plant, and equipment in service				
Building and improvements	615,985	25,451	--	641,436
Equipment	16,915	3,199	(213)	19,901
Vehicles	4,968	696	(146)	5,518
Total	637,868	29,346	(359)	666,855
Less accumulated depreciation for				
Building and improvements	(125,187)	(15,836)	--	(141,023)
Equipment	(5,932)	(1,518)	71	(7,379)
Vehicles	(2,412)	(368)	37	(2,743)
Total	(133,531)	(17,722) (1)	108	(151,145)
Net property, plant, and equipment in service	504,337	11,624	(251)	515,710
Other capital assets not depreciated				
Construction in progress	50,887	20,110	(54,694)	16,303
Total capital assets	$ 614,634	60,752	(54,945)	620,441

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 17,722
Total increases in accumulated depreciation	$ 17,722

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 54,799	17,343	--	72,142
Arts and treasures	612	--	--	612
Total	55,411	17,343	--	72,754
Depreciable property, plant, and equipment in service				
Building and improvements	310,677	1,282	--	311,959
Equipment	62,131	12,398	(295)	74,234
Vehicles	49,860	8,882	(1,096)	57,646
Total	422,668	22,562	(1,391)	443,839
Less accumulated depreciation for				
Building and improvements	(59,993)	(10,030)	--	(70,023)
Equipment	(22,121)	(3,858)	9	(25,970)
Vehicles	(23,443)	(4,930)	32	(28,341)
Total	(105,557)	(18,818) (2)	41	(124,334)
Net property, plant, and equipment in service	317,111	3,744	(1,350)	319,505
Other capital assets not depreciated				
Construction in progress	38,806	28,019	(30,132)	36,693
Total capital assets	$ 411,328	49,106	(31,482)	428,952

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	$ 8,574
Other nonmajor enterprise funds	10,244
Total increases in accumulated depreciation	$ 18,818

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 295,256	69,555	--	364,811
Arts and treasures	1,390	--	--	1,390
Total	296,646	69,555	--	366,201
Depreciable property, plant, and equipment in service				
Building and improvements	2,005,949	41,608	(12,158)	2,035,399
Equipment	4,748,650	433,037	(61,441)	5,120,246
Vehicles	99,694	16,103	(1,482)	114,315
Total	6,854,293	490,748	(75,081)	7,269,960
Less accumulated depreciation for				
Building and improvements	(620,914)	(57,038)	9,913	(668,039)
Equipment	(1,936,145)	(157,445)	44,759	(2,048,831)
Vehicles	(54,631)	(8,315)	345	(62,601)
Total	(2,611,690)	(222,798) (2)	55,017	(2,779,471)
Net property, plant, and equipment in service	4,242,603	267,950	(20,064)	4,490,489
Other capital assets not depreciated				
Construction in progress	829,752	218,217	(367,808)	680,161
Nuclear fuel, net of amortization	29,284	--	(1,662)	27,622
Plant held for future use	27,783	--	--	27,783
Total capital assets	$ 5,426,068	555,722	(389,534)	5,592,256

(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	$ 115,166
Water	34,627
Wastewater	36,465
Airport	17,722
Convention Center	8,574
Other nonmajor enterprise funds	10,244
Total increases in accumulated depreciation	$ 222,798

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are Citywide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2006. Membership in the plans at December 31, 2006, is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	4,181	432	443	5,056
Current employees	8,055	1,455	974	10,484
Total	12,236	1,887	1,417	15,540

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%	11.0%	15.7%
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2007, are as follows (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
City	$	31,634	18,047	12,389	62,070
Employees		31,529	11,021	10,819	53,369
Total contributions	$	63,163	29,068	23,208	115,439

c -- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of $79,602,000 for fiscal year ended September 30, 2007, was $17,532,000 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):					
2005	$	32,438	15,451	10,746	58,635
2006		40,988	18,047	12,976	72,011
2007		49,818	18,047	11,737	79,602
Percentage of APC contributed:					
2005		82%	100%	100%	N/A
2006		73%	100%	92%	N/A
2007		63%	100%	106%	N/A
Net Pension Obligation:					
2005	$	11,761	--	--	11,761
2006		24,061	--	1,609	25,670
2007		43,334	--	1,737	45,071

8 – RETIREMENT PLANS, continued

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

The Net Pension Obligation associated with the City Employees Retirement and Pension Fund and the Fire Fighters' Relief and Retirement Fund for the fiscal year ended December 31, 2006 (in thousands):

	City Employees	Fire Fighters	Total
Annual required contribution	$ 49,391	13,346	62,737
Interest in net pension obligation	1,865	--	1,865
Adjustment to annual required contribution	(1,438)	(1,609)	(3,047)
Annual pension cost	49,818	11,737	61,555
Employer contributions	(30,545)	(11,609)	(42,154)
Change in net pension obligation	19,273	128	19,401
Beginning net pension obligation	24,061	1,609	25,670
Net pension obligation	$ 43,334	1,737	45,071

The latest actuarial valuations were completed as of December 31, 2005. 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%	3.15%
Projected Annual Salary Increases	5% to 6%	6.8% average	8.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	30 years	30 years

9 – SELECTED REVENUES
a -- Major enterprise funds

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

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

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

Airport
The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2007, the Airport Fund revenues included minimum concession guarantees of $7,774,303.

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, 2007 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2008	$ 6,719
2009	4,533
2010-2014	811
2015-2019	392
2020-2024	392
2025-2029	392
2030-2034	65
Totals	$ 13,304

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

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

The following is a summary of long-term obligations. Balances at September 30, 2007 (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 659,761	16,593	676,354
Certificates of obligation	94,919	47,413	142,332
Contractual obligations	32,227	29,154	61,381
Other tax supported debt	--	7,768	7,768
General obligation bonds and other tax supported debt total	786,907	100,928	887,835
Commercial paper	--	309,003	309,003
Revenue notes	--	28,000	28,000
Revenue bonds	--	3,191,180	3,191,180
Contract revenue bonds	--	2,423	2,423
Capital lease obligations	475	4,572	5,047
Debt service requirements total	787,382	3,636,106	4,423,488
Other long-term obligations			
Accrued compensated absences	92,102	24,000	116,102
Claims payable	22,221	--	22,221
Pension obligation payable	24,022	21,049	45,071
Accrued landfill closure and postclosure costs	--	10,075	10,075
Decommissioning expense payable	--	148,763	148,763
Deferred credits and other liabilities	76,476	604,043	680,519
	214,821	807,930	1,022,751
Total long-term obligations	$ 1,002,203	4,444,036	5,446,239

This schedule excludes select current liabilities of $61,620 for governmental activities and $211,072 for business-type activities and long-term interest payable of $232,175 for business-type activities.

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

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

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

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

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2007 are (in thousands):

Description	September 30, 2006	Increases	Decreases	September 30, 2007	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 709,172	--	(49,411)	659,761	45,727
Certificates of obligation, net	101,334	--	(6,415)	94,919	6,733
Contractual obligations, net	37,229	--	(5,002)	32,227	4,714
General obligation bonds and other tax supported debt total	847,735	--	(60,828)	786,907	57,174
Capital lease obligations	514	--	(39)	475	159
Debt service requirements total	848,249	--	(60,867)	787,382	57,333
Other long-term obligations					
Accrued compensated absences	77,393	14,833	(124)	92,102	39,404
Claims payable	21,209	9,805	(8,793)	22,221	12,030
Pension obligation payable	13,912	10,110	--	24,022	--
Deferred credits and other liabilities	79,155	3,659	(6,338)	76,476	58,796
Governmental activities total	1,039,918	38,407	(76,122)	1,002,203	167,563
Business-type activities:					
Electric activities					
General obligation bonds, net	1,293	--	(62)	1,231	12
Contractual obligations	719	--	(202)	517	140
General obligation bonds and other tax supported debt total	2,012	--	(264)	1,748	152
Commercial paper notes, net	54,326	95,615	--	149,941	--
Revenue bonds, net	1,260,174	280,907	(373,782)	1,167,299	89,185
Capital lease obligations	3,253	1	(2,012)	1,242	30
Debt service requirements total	1,319,765	376,523	(376,058)	1,320,230	89,367
Other long-term obligations					
Accrued compensated absences	9,644	1,205	(33)	10,816	8,471
Decommissioning expense payable	134,664	14,099	--	148,763	--
Pension obligation payable	5,254	4,128	--	9,382	--
Deferred credits and other liabilities	93,578	94,282	(65,368)	122,492	46,489
Electric activities total	1,562,905	490,237	(441,459)	1,611,683	144,327
Water and Wastewater activities					
General obligation bonds, net	3,810	--	(1,076)	2,734	739
Contractual obligations, net	10,470	55	(1,551)	8,974	1,668
Other tax supported debt, net	8,405	--	(637)	7,768	594
General obligation bonds and other tax supported debt total	22,685	55	(3,264)	19,476	3,001
Commercial paper notes, net	185,632	107,630	(134,200)	159,062	--
Revenue bonds, net	1,378,835	135,488	(40,095)	1,474,228	60,394
Contract revenue bonds, net	3,134	--	(711)	2,423	750
Capital lease obligations	2,566	--	(1,239)	1,327	1,327
Debt service requirements total	1,592,852	243,173	(179,509)	1,656,516	65,472
Other long-term obligations					
Accrued compensated absences	4,871	2,447	(1,945)	5,373	4,568
Pension obligation payable	2,683	2,058	--	4,741	--
Deferred credits and other liabilities	460,117	12,122	(320)	471,919	13,242
Water and Wastewater activities total	2,060,523	259,800	(181,774)	2,138,549	83,282

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

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

Business-type activities (continued):

Description	September 30, 2006	Increases	Decreases	September 30, 2007	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	386	--	(52)	334	23
Contractual obligations	12	--	(12)	--	--
General obligation bonds and other tax supported debt total	398	--	(64)	334	23
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	338,578	--	(8,743)	329,835	11,780
Capital lease obligations	149	2,320	(468)	2,001	446
Debt service requirements total	367,125	2,320	(9,275)	360,170	12,249
Other long-term obligations					
Accrued compensated absences	1,020	293	--	1,313	1,146
Pension obligation payable	857	621	--	1,478	-
Deferred credits and other liabilities	3,333	2,599	(4,086)	1,846	988
Airport activities total	372,335	5,833	(13,361)	364,807	14,383
Nonmajor activities					
General obligation bonds, net	13,307	--	(1,013)	12,294	1,220
Certificates of obligation, net	49,760	--	(2,347)	47,413	2,373
Contractual obligations	22,313	96	(2,746)	19,663	3,504
General obligation bonds and other tax supported debt total	85,380	96	(6,106)	79,370	7,097
Revenue bonds, net	220,409	--	(591)	219,818	3,440
Capital lease obligations	16	--	(14)	2	2
Debt service requirements total	305,805	96	(6,711)	299,190	10,539
Other long-term obligations					
Accrued compensated absences	5,428	1,079	(9)	6,498	4,691
Accrued landfill closure and postclosure costs	8,379	1,696	--	10,075	1,265
Pension obligation payable	2,964	2,484	--	5,448	--
Deferred credits and other liabilities	2,931	5,446	(591)	7,786	3,564
Nonmajor activities total	325,507	10,801	(7,311)	328,997	20,059
Total business-type activities					
General obligation bonds, net	18,796	--	(2,203)	16,593	1,994
Certificates of obligation, net	49,760	--	(2,347)	47,413	2,373
Contractual obligations, net	33,514	151	(4,511)	29,154	5,312
Other tax supported debt, net	8,405	--	(637)	7,768	594
General obligation bonds and other tax supported debt total	110,475	151	(9,698)	100,928	10,273
Commercial paper notes, net	239,958	203,245	(134,200)	309,003	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,197,996	416,395	(423,211)	3,191,180	164,799
Contract revenue bonds	3,134	--	(711)	2,423	750
Capital lease obligations	5,984	2,321	(3,733)	4,572	1,805
Debt service requirements total	3,585,547	622,112	(571,553)	3,636,106	177,627
Other long-term obligations					
Accrued compensated absences	20,963	5,024	(1,987)	24,000	18,876
Accrued landfill closure and postclosure costs	8,379	1,696	--	10,075	1,265
Decommissioning expense payable	134,664	14,099	--	148,763	--
Pension obligation payable	11,758	9,291	--	21,049	--
Deferred credits and other liabilities	559,959	114,449	(70,365)	604,043	64,283
Business-type activities total	4,321,270	766,671	(643,905)	4,444,036	262,051
Total long-term liabilities	$ 5,361,188	805,078	(720,027)	5,446,239	429,614

This schedule excludes current liabilities of $61,620 for governmental activities and $211,072 for business-type activities and long-term interest payable of $232,175 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, 2007, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	7,615	599	(1)	5.75%	9/1/2008-2009
Series 1996	October 1996	30,550	4,590	417	(1)	6.00%	9/1/2008-2009
Series 1997	October 1997	2,120	215	16	(1)	4.90 - 5.00%	9/1/2008-2009
Series 1998	January 1998	110,300	85,445	19,242	(1)	4.60 - 5.25%	9/1/2008-2016
Assumed MUD Debt	December 1997	33,680	8,645	2,864	(3)(4)	4.40 - 10.50%	11/15/2007-2017
Series 1998	October 1998	13,430	9,690	3,409	(1)	4.40 - 7.13%	9/1/2008-2018
Series 1998	October 1998	22,770	11,920	4,164	(1)	4.30 - 4.75%	9/1/2008-2018
Series 1999	October 1999	51,100	3,136	324	(1)	4.88 - 5.25%	9/1/2008-2009
Series 1999	October 1999	5,590	1,060	138	(1)	5.00 - 5.25%	9/1/2008-2011
Series 2000	October 2000	52,930	19,770	7,157	(1)	4.60 - 6.00%	9/1/2008-2017
Series 2000	October 2000	6,060	2,065	442	(1)	5.00 - 5.25%	9/1/2008-2014
Series 2001	June 2001	123,445	33,030	7,666	(1)	4.75 - 5.50%	9/1/2008-2022
Series 2001	October 2001	79,650	44,970	19,404	(1)	4.00 - 5.25%	9/1/2008-2021
Series 2001	October 2001	2,650	660	26	(2)	3.75 - 3.88%	11/1/2007-2008
Series 2001	October 2001	65,335	45,600	14,094	(1)	4.38 - 5.25%	9/1/2008-2021
Series 2002	July 2002	12,190	11,440	2,991	(1)	3.50 - 5.00%	3/1/2008-2017
Series 2002	July 2002	2,495	925	46	(1)	4.63 - 5.00%	3/1/2008-2009
Series 2002	September 2002	99,615	89,400	35,939	(1)	3.25 - 5.00%	9/1/2008-2022
Series 2002	September 2002	8,690	3,470	174	(2)	2.80 - 3.40%	11/1/2007-2009
Series 2002	September 2002	34,095	23,975	9,108	(1)	3.00 - 5.38%	9/1/2008-2022
Series 2003	June 2003	62,585	28,720	4,260	(1)	5.00%	9/1/2008-2013
Series 2003	September 2003	68,855	64,195	28,877	(1)	3.75 - 5.00%	9/1/2008-2023
Series 2003A	September 2003	2,530	1,835	321	(1)	4.00 - 5.00%	9/1/2008-2013
Series 2003	September 2003	4,450	3,855	1,642	(1)	4.00 - 4.80%	9/1/2008-2023
Series 2003	September 2003	8,610	4,640	294	(2)	2.38 - 3.38%	11/1/2007-2010
Series 2004	September 2004	67,835	65,270	28,890	(1)	3.00 - 5.00%	9/1/2008-2024
Series 2004A	September 2004	2,430	2,020	413	(1)	4.00 - 4.75%	9/1/2008-2014
Series 2004	September 2004	25,000	22,560	11,162	(1)	3.00 - 5.00%	9/1/2008-2024
Series 2004	September 2004	21,830	15,120	1,214	(2)	2.20 - 3.35%	11/1/2007-2011
Series 2005	March 2005	145,345	145,345	59,629	(1)	5.00%	9/1/2008-2020
Series 2005	September 2005	19,535	19,535	9,091	(1)	3.50 - 5.00%	9/1/2008-2025
Series 2005	September 2005	7,185	6,750	3,047	(1)	3.50 - 6.50%	9/1/2008-2025
Series 2005	September 2005	14,940	12,040	1,279	(2)	3.00 - 3.75%	11/1/2007-2012
Series 2006	September 2006	31,585	31,585	20,838	(1)	4.00 - 5.38%	9/1/2009-2026
Series 2006	September 2006	24,150	23,420	11,526	(1)	4.00 - 5.00%	9/1/2008-2026
Series 2006	September 2006	14,120	13,335	1,982	(2)	4.00 - 4.25%	11/1/2007-2013
Series 2006	September 2006	12,000	12,000	6,261	(1)(5)	4.00 - 6.00%	9/1/2009-2026
			$ 879,846				

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid semiannually on May 15 and November 15.
(4) Includes Water and Wastewater Fund principal of $7,808 and interest of $2,607.
(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

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

General obligation bonds authorized and unissued amounted to $642,335,000 at September 30, 2007. Bond ratings at September 30, 2007, were Aa1 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's), and AA+ (Fitch).

c -- Business-Type Activities Long-Term Liabilities

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

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

The total combined utility systems revenue bond obligations at September 30, 2007, exclusive of discounts, premiums, and loss on refundings consists of $417,288,752 prior lien bonds and $248,964,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $594,082,479 at September 30, 2007. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2007, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody's Investor Services, Inc.), AA- and A+ (Standard & Poor's), and AA- and AA- (Fitch).

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

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.

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

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1990B Refunding	February 1990	$ 236,009	3,668	20,502 (1)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	30,116	78,049 (1)	6.80 - 6.85%	11/15/2009-2012
1992A Refunding	May 1992	351,706	78,971	112,368 (1)	6.70 - 12.50%	11/15/2007-2011
1993 Refunding	February 1993	203,166	54,916	36,749 (1)	6.20 - 6.30%	11/15/2007-2014
1993A Refunding	June 1993	263,410	12,814	19,601 (1)	5.60 - 5.95%	05/15/2008-2010
1994 Refunding	October 1994	142,559	26,894	96,961 (1)	6.60%	05/15/2017-2019
1996A Refunding	September 1996	198,260	41,475	2,709 (1)	5.00 - 5.13%	11/15/2007-2009
1997 Refunding	August 1997	227,215	66,220	24,945 (1)	4.80 - 5.13%	11/15/2008-2020
1998 Refunding	August 1998	180,000	102,215	21,599 (1)	6.50 -6.75%	11/15/2007-2012
1998 Refunding	November 1998	139,965	139,070	96,926 (1)	4.00 - 5.25%	05/15/2008-2025
1998A Refunding	November 1998	105,350	102,944	82,198 (1)	4.25 - 5.00%	05/15/2008-2028
1998B	November 1998	10,000	6,950	1,475 (1)	3.10 - 3.75%	11/15/2007-2017
			$ 666,253			

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

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2007, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch). The notes are in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2007, the Electric Fund had outstanding commercial paper notes of $107,257,000 and the Water and Wastewater Fund had $159,062,000 of commercial paper notes outstanding. Interest rates on the notes range from 3.45 % to 3.97%, which are adjusted daily. Subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes (the "taxable notes") in an aggregate principal amount not to exceed $50,000,000 outstanding at any time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2007, were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

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

At September 30, 2007, the Electric Fund had outstanding taxable notes of $42,684,000 (net of discount of $126,503), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 5.05% to 5.6%. The City intends to refinance maturing commercial paper notes by issuing long-term debt.

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

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

Electric Utility Systems Revenue Debt -- Revenue Bond Refunding Issues – In November 2006, the City issued $137,800,000 of Electric Utility System Revenue Refunding Bonds, Series 2006A. Proceeds from the bond refunding were used to refund Combined Utility System Revenue Refunding Bonds, Series 1996A in the amount of $74,585,000; Electric Utility System Revenue Refunding Bonds, Series 2001 in the amount of $48,500,000; and Electric Utility System Revenue Refunding Bonds, Series 2003 in the amount of $18,800,000. The debt service requirements on the refunding bonds were $197,506,917, with an interest rate of 5%. The City realized an economic gain of $6,277,592 on this transaction. The change in net cash flows that resulted was a decrease of $8,024,020. An accounting loss of $3,864,566, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

In August 2007, the City issued $146,635,000 of Electric Utility System Revenue Refunding Bonds, Series 2007. Proceeds from the bond refunding were used to refund Combined Utility System Revenue Refunding Bonds, Series 1997 in the amount of $151,990,000. The debt service requirements on the refunding bonds were $199,169,492, with an interest rate of 5%. The City realized an economic gain of $8,784,770 on this transaction. The change in net cash flows that resulted was a decrease of $10,068,568. An accounting loss of $16,568,803, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on this refunding.

Bond ratings at September 30, 2007, were A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001 Refunding	February 2001	$ 126,700	76,200	70,117 (1)	5.00 - 7.25%	11/15/2007-2030
2002 Refunding	March 2002	74,750	66,570	17,387 (1)	3.75 - 5.50%	11/15/2007-2014
2002A Refunding	August 2002	172,880	115,800	37,729 (1)	4.00 - 5.50%	11/15/2007-2016
2003 Refunding	March 2003	182,100	158,800	102,561 (1)	3.00 - 5.25%	11/15/2007-2028
2006 Refunding	June 2006	150,000	150,000	132,832 (1)	4.00 - 5.00%	11/15/2008-2035
2006A Refunding	November 2006	137,800	137,800	55,688 (1)	5.00%	11/15/2009-2022
2007 Refunding	August 2007	146,635	146,635	52,534 (1)	5.00%	11/15/2007-2020
			$ 851,805			

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

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

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues – In December 2006, the City issued $135,000,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2006A. Proceeds from the bond refunding were used to refund $134,200,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds were $250,027,850, with interest rates ranging from 3.5% to 5%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

Bond ratings at September 30, 2007, were Aa3 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

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

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
North Austin MUD #1, 2003 RFD	August 2003	$ 4,510	2,445	120 (1)	3.00 - 3.25%	11/15/2007-2009
2000 Refunding	June 2000	100,000	6,200	826 (1)	6.50%	11/15/2007-2010
2001A Refunding	June 2001	152,180	87,960	79,728 (1)	4.38 - 6.00%	11/15/2007-2031
2001B Refunding	June 2001	73,200	42,135	38,562 (1)	5.13 - 6.00%	11/15/2007-2031
2001C Refunding	December 2001	95,380	40,805	6,201 (1)	4.00 - 5.38%	11/15/2007-2015
2002A Refunding	August 2002	139,695	99,440	31,642 (1)	4.00 - 5.50%	11/15/2007-2016
2003 Refunding	March 2003	121,500	89,300	61,099 (1)	2.50 - 5.00%	11/15/2007-2028
2004 Refunding	August 2004	132,475	116,575	44,686 (2)	3.93%	11/15/2007-2024
2004A Refunding	October 2004	165,145	165,145	112,323 (1)	5.00%	11/15/2007-2029
2005 Refunding	November 2005	198,485	198,485	126,654 (1)	4.00 - 5.00%	05/15/2012-2030
2005A Refunding	June 2005	142,335	140,890	112,281 (1)	4.00 - 5.00%	11/15/2007-2035
2006 Refunding	August 2006	63,100	62,150	31,422 (1)	5.00%	11/15/2007-2025
2006A Refunding	December 2006	135,000	135,000	112,013 (1)	3.50 - 5.00%	11/15/2008-2036
			$ 1,186,530			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate.

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, 2007, the total airport system obligation for prior lien bonds is $345,545,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are $161,343,498 at September 30, 2007. Revenue bonds authorized and unissued amount to $735,795,000.

Bond ratings at September 30, 2007, 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, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2003 Refunding	December 2003	$ 54,250	54,245	22,325 (1)	3.00 - 5.25%	11/15/2007-2018
2005 Refunding	August 2005	306,225	291,300	139,018 (2)	4.37%	11/15/2007-2025
			$ 345,545			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate. Subsequent to year-end, the rates have ranged from 3.9% on October 25, 2007 to 10.5% on March 31, 2008.

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, 2007, the airport system had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $10,355,359, including accrued interest, at September 30, 2007, and was restricted within the airport system. During fiscal year 2007, interest rates on the notes ranged from 3.47% to 4.09%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Subsequent to year-end, the rates have ranged from 1.26% on October 3, 2007 to 3.67% on March 31, 2008. Principal and interest on the notes are payable from the net revenues of the airport system.

The bond rating at September 30, 2007, for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

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

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, 2007, the total convention center obligation for prior and subordinate lien bonds is $234,400,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $125,215,817 at September 30, 2007. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2007.

Bond ratings at September 30, 2007, for the revenue bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2007 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1999A	June 1999	$ 25,000	23,130	17,306 (1)	4.90 - 5.50%	11/15/2007-2029
1999	November 1999	40,000	2,545	265 (1)	6.75%	11/15/2007-2009
2004 Refunding	February 2004	52,715	52,715	18,583 (1)	2.00 - 5.00%	11/15/2007-2019
2005 Refunding	May 2005	36,720	36,720	27,072 (1)	3.30 - 5.00%	11/15/2011-2029
2005 Refunding	August 2005	119,290	119,290	61,990 (2)	3.85%	11/15/2009-2029
			$ 234,400			

(1) Interest is paid semiannually on May 15 and November 15.
(2) Interest is paid monthly and is based on a variable rate.

d -- Debt Service Requirements

Governmental Activities (in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 45,727	30,770	6,733	4,344	4,714	1,121
2009	44,979	28,630	7,103	4,026	5,258	991
2010	47,432	26,449	6,616	3,688	4,957	828
2011	48,203	24,234	6,970	3,378	4,153	670
2012	47,240	21,982	7,200	3,052	2,629	534
2013-2017	214,419	77,812	29,634	10,773	3,335	2,014
2018-2022	161,266	30,548	22,042	4,894	3,615	1,301
2023-2027	41,614	4,124	8,606	914	3,563	411
	650,880	244,549	94,904	35,069	32,224	7,870
Less: Unamortized bond discounts	(748)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(9,106)	--	--	--	--	--
Add: Unamortized bond premiums	18,735	--	15	--	3	--
Net debt service requirements	659,761	244,549	94,919	35,069	32,227	7,870

Fiscal Year Ended September 30	Capital Lease Obligations		Total Governmental Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2008	159	12	57,333	36,247	93,580
2009	316	5	57,656	33,652	91,308
2010	--	--	59,005	30,965	89,970
2011	--	--	59,326	28,282	87,608
2012	--	--	57,069	25,568	82,637
2013-2017	--	--	247,388	90,599	337,987
2018-2022	--	--	186,923	36,743	223,666
2023-2027	--	--	53,783	5,449	59,232
	475	17	778,483	287,505	1,065,988
Less: Unamortized bond discounts	--	--	(748)	--	(748)
Unamortized gain(loss) on bond refundings	--	--	(9,106)	--	(9,106)
Add: Unamortized bond premiums	--	--	18,753	--	18,753
Net debt service requirements	$ 475	17	787,382	287,505	1,074,887

d -- Debt Service Requirements

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
2008	$ 12	58	140	14	150,068	927
2009	18	57	146	11	--	--
2010	53	56	152	6	--	--
2011	63	54	79	1	--	--
2012	69	50	--	--	--	--
2013-2017	668	167	--	--	--	--
2018-2022	275	24	--	--	--	--
	1,158	466	517	32	150,068	927
Less: Unamortized bond discount	(3)	--	--	--	(127)	--
Add: Unamortized bond premium	76	--	--	--	--	--
Net debt service requirements	1,231	466	517	32	149,941	927

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Electric Debt Service Requirements Principal	Total Electric Debt Service Requirements Interest	Total Electric Debt Service Requirements Total
2008	89,185	63,647	30	61	239,435	64,707	304,142
2009	78,773	82,114	31	60	78,968	82,242	161,210
2010	64,739	87,190	32	58	64,976	87,310	152,286
2011	73,765	79,632	34	57	73,941	79,744	153,685
2012	74,413	73,432	36	55	74,518	73,537	148,055
2013-2017	384,531	171,215	207	245	385,406	171,627	557,033
2018-2022	159,553	95,646	266	187	160,094	95,857	255,951
2023-2027	152,736	51,121	341	111	153,077	51,232	204,309
2028-2032	95,100	17,908	265	22	95,365	17,930	113,295
2033-2037	34,001	3,500	--	--	34,001	3,500	37,501
	1,206,796	725,405	1,242	856	1,359,781	727,686	2,087,467
Less: Unamortized bond discounts	(5,016)	--	--	--	(5,146)	--	(5,146)
Unamortized gain(loss) on bond refundings	(81,823)	--	--	--	(81,823)	--	(81,823)
Add: Unamortized bond premiums	47,342	--	--	--	47,418	--	47,418
Net debt service requirements	$ 1,167,299	725,405	1,242	856	1,320,230	727,686	2,047,916

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

e - Debt Service Requirements

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
2008	$ 739	232	1,668	305	594	401
2009	471	194	1,633	250	532	374
2010	589	170	1,550	196	564	348
2011	562	138	1,557	141	596	319
2012	527	108	1,309	84	627	288
2013-2017	1,223	221	1,216	48	4,274	846
2018-2022	335	38	--	--	621	31
	4,446	1,101	8,933	1,024	7,808	2,607
Less: Unamortized bond discounts	(21)	--	--	--	(40)	--
Unamortized gain(loss) on bond refundings	(1,911)	--	--	--	--	--
Add: Unamortized bond premiums	220	--	41	--	--	--
Net debt service requirements	2,734	1,101	8,974	1,024	7,768	2,607

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
2008	159,062	1,322	60,394	70,764	750	64
2009	--	--	58,309	77,978	780	41
2010	--	--	51,023	85,189	915	15
2011	--	--	47,174	80,904	--	--
2012	--	--	54,440	77,772	--	--
2013-2017	--	--	392,288	306,304	--	--
2018-2022	--	--	269,331	250,131	--	--
2023-2027	--	--	302,541	102,567	--	--
2028-2032	--	--	197,551	35,983	--	--
2033-2037	--	--	62,296	7,370	--	--
	159,062	1,322	1,495,347	1,094,962	2,445	120
Less: Unamortized bond discounts	--	--	(9,581)	--	(11)	--
Unamortized gain(loss) on bond refundings	--	--	(54,780)	--	(26)	--
Add: Unamortized bond premiums	--	--	43,242	--	15	--
Net debt service requirements	$ 159,062	1,322	1,474,228	1,094,962	2,423	120

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

e - Debt Service Requirements

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
2008	$ 1,327	53	224,534	73,141	297,675
2009	--	--	61,725	78,837	140,562
2010	--	--	54,641	85,918	140,559
2011	--	--	49,889	81,502	131,391
2012	--	--	56,903	78,252	135,155
2013-2017	--	--	399,001	307,419	706,420
2018-2022	--	--	270,287	250,200	520,487
2023-2027	--	--	302,541	102,567	405,108
2028-2032	--	--	197,551	35,983	233,534
2033-2037	--	--	62,296	7,370	69,666
	1,327	53	1,679,368	1,101,189	2,780,557
Less: Unamortized bond discounts	--	--	(9,653)	--	(9,653)
Unamortized gain(loss) on bond refundings	--	--	(56,717)	--	(56,717)
Add: Unamortized bond premiums	--	--	43,518	--	43,518
Net debt service requirements	$ 1,327	53	1,656,516	1,101,189	2,757,705

d -- Debt Service Requirements

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest	Revenue Bonds Principal	Revenue Bonds Interest
2008	$ 23	16	--	1,106	11,780	15,050
2009	16	15	--	1,106	12,325	14,533
2010	23	14	--	1,106	12,910	13,982
2011	26	13	--	1,106	13,515	13,406
2012	28	11	--	1,106	14,165	12,791
2013-2017	145	34	--	5,530	82,720	53,492
2018-2022	54	5	28,000	551	105,105	30,933
2023-2027	--	--	--	--	93,025	7,156
	315	108	28,000	11,611	345,545	161,343
Less: Unamortized bond discounts	(1)	--	--	--	(1,159)	--
Unamortized gain(loss) on bond refundings	1	--	--	--	(17,674)	--
Add: Unamortized bond premiums	19	--	--	--	3,123	--
Net debt service requirements	334	108	28,000	11,611	329,835	161,343

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Airport Debt Service Requirements Principal	Total Airport Debt Service Requirements Interest	Total Airport Debt Service Requirements Total
2008	446	65	12,249	16,237	28,486
2009	459	48	12,800	15,702	28,502
2010	476	32	13,409	15,134	28,543
2011	493	14	14,034	14,539	28,573
2012	127	1	14,320	13,909	28,229
2013-2017	--	--	82,865	59,056	141,921
2018-2022	--	--	133,159	31,489	164,648
2023-2027	--	--	93,025	7,156	100,181
	2,001	160	375,861	173,222	549,083
Less: Unamortized bond discounts	--	--	(1,160)	--	(1,160)
Unamortized gain(loss) on bond refundings	--	--	(17,673)	--	(17,673)
Add: Unamortized bond premiums	--	--	3,142	--	3,142
Net debt service requirements	$ 2,001	160	360,170	173,222	533,392

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

d -- Debt Service Requirements

Nonmajor Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 1,220	632	2,373	2,165	3,504	678
2009	1,064	570	2,497	2,073	3,658	562
2010	1,604	515	2,204	1,975	3,411	435
2011	1,450	434	2,305	1,891	3,141	318
2012	1,249	363	2,250	1,782	2,963	200
2013-2017	4,736	919	15,901	6,968	2,914	109
2018-2022	1,230	114	15,123	3,147	--	--
2023-2027	--	--	3,864	270	--	--
	12,553	3,547	46,517	20,271	19,591	2,302
Less: Unamortized bond discounts	(41)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(914)	--	--	--	--	--
Add: Unamortized bond premiums	696	--	896	--	72	--
Net debt service requirements	12,294	3,547	47,413	20,271	19,663	2,302

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2008	3,440	10,046	2	--	10,539	13,521	24,060
2009	4,720	9,901	--	--	11,939	13,106	25,045
2010	7,935	9,627	--	--	15,154	12,552	27,706
2011	8,265	9,314	--	--	15,161	11,957	27,118
2012	9,170	8,965	--	--	15,632	11,310	26,942
2013-2017	55,985	37,815	--	--	79,536	45,811	125,347
2018-2022	57,560	24,330	--	--	73,913	27,591	101,504
2023-2027	51,180	13,121	--	--	55,044	13,391	68,435
2028-2032	36,145	2,097	--	--	36,145	2,097	38,242
	234,400	125,216	2	--	313,063	151,336	464,399
Less: Unamortized bond discounts	(1,069)	--	--	--	(1,110)	--	(1,110)
Unamortized gain(loss) on bond refundings	(18,147)	--	--	--	(19,061)	--	(19,061)
Add: Unamortized bond premiums	4,634	--	--	--	6,298	--	6,298
Net debt service requirements	$ 219,818	125,216	2	--	299,190	151,336	450,526

d -- Debt Service Requirements

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 1,994	938	2,373	2,165	5,312	997
2009	1,569	836	2,497	2,073	5,437	823
2010	2,269	755	2,204	1,975	5,113	637
2011	2,101	639	2,305	1,891	4,777	460
2012	1,873	532	2,250	1,782	4,272	284
2013-2017	6,772	1,341	15,901	6,968	4,130	157
2018-2022	1,894	181	15,123	3,147	--	--
2023-2027	--	--	3,864	270	--	--
	18,472	5,222	46,517	20,271	29,041	3,358
Less: Unamortized bond discounts	(66)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(2,824)	--	--	--	--	--
Add: Unamortized bond premiums	1,011	--	896	--	113	--
Net debt service requirements	16,593	5,222	47,413	20,271	29,154	3,358

Fiscal Year Ended September 30	Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	594	401	309,130	2,249	--	1,106
2009	532	374	--	--	--	1,106
2010	564	348	--	--	--	1,106
2011	596	319	--	--	--	1,106
2012	627	288	--	--	--	1,106
2013-2017	4,274	846	--	--	--	5,530
2018-2022	621	31	--	--	28,000	551
	7,808	2,607	309,130	2,249	28,000	11,611
Less: Unamortized bond discounts	(40)	--	(127)	--	--	--
Net debt service requirements	$ 7,768	2,607	309,003	2,249	28,000	11,611

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

(2) These are variable rate notes with an assumed rate of 3.65%.

d -- Debt Service Requirements

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Revenue Bonds		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 164,799	159,507	750	64	1,805	179
2009	154,127	184,526	780	41	490	108
2010	136,607	195,988	915	15	508	90
2011	142,719	183,256	--	--	527	71
2012	152,188	172,960	--	--	163	56
2013-2017	915,524	568,826	--	--	207	245
2018-2022	591,549	401,040	--	--	266	187
2023-2027	599,482	173,965	--	--	341	111
2028-2032	328,796	55,988	--	--	265	22
2033-2037	96,297	10,870	--	--	--	--
	3,282,088	2,106,926	2,445	120	4,572	1,069
Less: Unamortized bond discounts	(16,825)	--	(11)	--	--	--
Unamortized gain(loss) on bond refundings	(172,424)	--	(26)	--	--	--
Add: Unamortized bond premiums	98,341	--	15	--	--	--
Net debt service requirements	3,191,180	2,106,926	2,423	120	4,572	1,069

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2008	486,757	167,606	654,363
2009	165,432	189,887	355,319
2010	148,180	200,914	349,094
2011	153,025	187,742	340,767
2012	161,373	177,008	338,381
2013-2017	946,808	583,913	1,530,721
2018-2022	637,453	405,137	1,042,590
2023-2027	603,687	174,346	778,033
2028-2032	329,061	56,010	385,071
2033-2037	96,297	10,870	107,167
	3,728,073	2,153,433	5,881,506
Less: Unamortized bond discounts	(17,069)	--	(17,069)
Unamortized gain(loss) on bond refundings	(175,274)	--	(175,274)
Add: Unamortized bond premiums	100,376	--	100,376
Net debt service requirements	$ 3,636,106	2,153,433	5,789,539

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. In 2007, $20.4 million of multiple-family housing revenue bonds was issued. The City has $103.2 million in bonds of various series outstanding as of September 30, 2007 that had an original issue value of $104.2 million.

Revenue bonds have been issued by various related entities to provide for facilities located at the international airport and convention center. These bonds are special limited obligations payable solely from and secured by a pledge of revenue to be received from agreements between the entities and various third parties. As of September 30, 2007, $360.7 million in revenue and revenue refunding bonds was outstanding that had an original issue value of $375.3 million.

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2007, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 13	--
	Nonmajor governmental funds	37,931	--
	Water and Wastewater	--	4,506
	Nonmajor enterprise funds	--	3,043
	Internal service funds	--	172
General Fund	Nonmajor governmental funds	227	--
	Proprietary	10	--
Internal Service funds:			
Information Systems	Internal service funds	230	--
Support Services	Nonmajor governmental funds	11	--
Wireless Services	Internal service funds	707	--
Business-type funds:			
Electric	Nonmajor enterprise funds	225	2,453
	Nonmajor governmental funds	--	7
Water and Wastewater (restricted)	Internal service funds	27	81
Airport (restricted)	General Fund	617	--
	Nonmajor governmental funds	--	140
Nonmajor enterprise funds	Nonmajor governmental funds	--	201
	Nonmajor enterprise funds	905	--
		$ 40,903	10,603

Interfund receivables and payables reflect loans between funds. Of the above current amount, $12.0 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash. The above current amount also includes $25.0 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund transfers during fiscal year 2007 were as follows (in thousands):

	Transfers In			
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Nonmajor Proprietary**	**Total**
General Fund	$ --	9,781	7,126	16,907
Nonmajor governmental funds	770	41,296	37,275	79,341
Electric	84,500	--	--	84,500
Water and Wastewater	21,971	3,520	--	25,491
Nonmajor enterprise funds	--	2,820	--	2,820
Internal service funds	--	7,337	1,057	8,394
Total transfers out	$ 107,241	64,754	45,458	217,453

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

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2007. 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 $67.1 million as of September 30, 2007. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

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

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

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2007, Austin Energy's investment in the STP was approximately $508 million, net of accumulated depreciation.

14 – COMMITMENTS AND CONTINGENCIES, continued
b -- South Texas Project, continued

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

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

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required for plant decommissioning. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2007, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2007	
Estimated cost to decommission STP	$ 237,126,400	
Decommissioning trust assets	130,478,554	(Includes other restricted assets of $31.3 million)

Austin Energy and other STP participants have provided the required information to the NRC and have collected decommissioning funds through rates since 1989. Austin Energy established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2007, Austin Energy collected $4,957,967 for decommissioning requirements.

d -- Energy Risk Management Program

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

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

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

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2007, Austin Energy's options, and swaps, valued at mark-to-market, net to an unrealized gain of $8,626,847. This reflects the present value of the difference between the cost and the fair market value of these contracts on September 30, 2007. Initial margins are flat fees per contract and are paid in cash or equity. Fair market values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by New York Mercantile Exchange or calculated by using prices on 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, 2007.

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

Options	
Contracts effective date	September 2005 through September 2007
Contracts maturity date	Through June 2012
Fair value	$(24,442,956)
Unrealized Gain/ (Loss)	(21,812,076)

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

Swaps	
Contracts effective date	June 2005 through September 2007
Contracts maturity date	Through June 2012
Fair market value	$418,672,544
Unrealized Gain/ (Loss)	30,438,923

SO2	
Contracts effective date	August 2007 through September 2007
Contracts maturity date	Through October 2007
Fair market value	$(137,745)
Unrealized Gain/ (Loss)	(137,745)

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

e -- Derivative Instruments

Swap for the Water & Wastewater System

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

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004, with a principal amount of $132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds.

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

The counterparty to the swap is JPMorgan Chase Bank. A summary of the terms and fair value of the swap, as of September 30, 2007, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA/AA-	68% of 1-month LIBOR	3.657%	$ (1,378,108)

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, 2007, of $1,378,108. This fair value takes into consideration the prevailing interest rate, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London InterBank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2007, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City's credit risk exposure is the amount of the positive fair value. Future interest rate increases or decreases determine the fair value and the extent of credit risk the City will incur. The current credit ratings of the JPMorgan Chase Bank are Aa2 (Moody's Investor Service Inc.), AA (Standard and Poor's) and AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Service, Inc.) and A (Standard and Poor's).

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

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

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

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

Swap payments and associated debt. As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Water and Wastewater Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 1,200	4,566	(318)	4,248
2009	--	4,534	(315)	4,219
2010	--	4,534	(315)	4,219
2011	830	4,523	(314)	4,209
2012	6,905	4,364	(303)	4,061
2013-2017	69,990	15,369	(1,068)	14,301
2018-2022	22,620	6,105	(424)	5,681
2023-2027	15,030	691	(48)	643
Total	$ 116,575	44,686	(3,105)	41,581

Swap for the Airport System

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

Terms, fair values, and credit risk. The City’s swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued on August 17, 2005, with a principal amount of $306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc (“Morgan Stanley”) with a guarantee from Morgan Stanley. A summary of the terms and fair value of the swap, as of September 30, 2007, is as follows:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	Aa3/AA-/AA-	71% of 1-month LIBOR	4.051%	$ (7,904,889)

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, 2007, of $7,904,889. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. The method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market’s best estimate of future spot interest rates.

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

The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2007, the City was not exposed to credit risk on its outstanding swap since the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City's exposure is the amount of the swap's positive fair value. This amount may become positive if interest rates increase in the future. The current credit ratings of Morgan Stanley are Aa3 (Moody's Investor Services, Inc.), AA- (Standard & Poor's), and AA- (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2 (Moody's Investor Services, Inc.) and A (Standard & Poor's).

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

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

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

Swap payments and associated debt. As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Airport Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 10,000	12,378	(898)	11,480
2009	10,475	11,925	(865)	11,060
2010	10,975	11,450	(831)	10,619
2011	11,500	10,953	(795)	10,158
2012	12,050	10,431	(757)	9,674
2013-2017	57,225	44,408	(3,223)	41,185
2018-2022	86,050	30,317	(2,200)	28,117
2023-2027	93,025	7,157	(520)	6,637
Total	$ 291,300	139,019	(10,089)	128,930

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

Swaps for the Hotel Occupancy Tax

Objective of the swaps. In order to lower its borrowing costs, the City entered into interest rate swaps in connection with its Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 (the "Series 2005 VRRB") on July 19, 2005. The variable rate bonds were issued to refund various outstanding bonds associated with the Hotel Occupancy Tax. The swaps were used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City. At the same time, the City incurs no basis risk over the escrow period of the refunded bonds.

Terms, fair values, and credit risk. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued on August 17, 2005, with a principal amount of $119,290,000. The swaps were structured to match the likely principal amortization structure and dates of the Series 2005 VRRB.

The counterparty to the swap that fixes the bonds at 3.4007% was Lehman Brothers Derivative Products, a Lehman Brothers subsidiary. The counterparty to the swap portion that eliminates basis risk for the escrow period is Lehman Brothers Special Financing Inc. with a guarantee from Lehman Brothers. The table below contains a summary of the terms and fair value of the swaps as of September 30, 2007:

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Fair Value
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2029	Lehman Brothers Derivative Products	Aaa/AAAt/AAA	BMA + 0.0525% to 11/15/09; 67% of 1 Mo USD-LIBOR thereafter	3.401%	$ 1,325,757
Hotel Occupancy Tax Subordinate Lein Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2009	Lehman Brothers Special Financing	A1/A+/AA-	VRRB Rate + 0.0525%	BMA + 0.0525%	$ --

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

Fair value. The swaps had a fair value as of September 30, 2007, of $1,325,757. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2007, the City was exposed to credit risk on its outstanding swaps since the swaps had a positive fair value of $1,325,757. The City's exposure is the amount of positive fair value. The current credit ratings of Lehman Brothers are A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and A+ (Fitch). The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if it is terminated.

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

The swap agreements contain collateral agreements with the counterparties. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, CIFG, maintains a credit rating above A3 (Moody's Investor Services, Inc.) and A- (Standard & Poor's).

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears no basis risk until November 15, 2009. Afterward, the swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City may be exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. The magnitude and duration of any basis risk shortfall will determine the extent of basis risk incurred.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. Tax risk exists only after November 15, 2009. The City is receiving 67% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

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

Swap payments and associated debt. As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Convention Center Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total
	Principal	Interest		
2008	$ --	4,593	(536)	4,057
2009	--	4,593	(536)	4,057
2010	3,045	4,495	(525)	3,970
2011	4,145	4,342	(506)	3,836
2012	4,290	4,178	(487)	3,691
2013-2017	23,690	18,228	(2,128)	16,100
2018-2022	21,970	13,219	(3,487)	9,732
2023-2027	39,145	7,288	1,093	8,381
2028-2032	23,005	1,054	(123)	931
Total	$ 119,290	61,990	(7,235)	54,755

f -- Certificates of Participation

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

$ 14,000,000 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 Water and Wastewater Fund.

The following table presents information regarding these certificates:

Description	Water and Wastewater Fund Office Project (1)
Date issued	August 1987
Amount issued	$ 14,000,000
Interest rates	5.25% - 8.00%
Interest payable on	May 15 and November 15
Maturity dates	November 15 1989 - 2007
Present value of lease payments	$ 1,377,475
Reserve Fund (2)	$ 1,250,000

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

g -- Federal and State Financial Assistance Programs

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

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate the excess amounts to the federal government. The estimated amounts payable at September 30, 2007, are as follows (in thousands):

	Business-type Activities		
Governmental Activities	Electric	Water and Wastewater	Total
$ 46	648	266	$ 914

i -- Capital Improvement Plan

As required by charter, the City has a *Capital Improvements Program* plan (capital budget) covering a five-year period which details anticipated spending for projects in the upcoming and future years. The City's 2007 Capital Budget includes new appropriations of $717.6 million for the City's enterprise funds and $160.6 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

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

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
General government	$ 89,063	43,420
Public safety	6,660	11,404
Transportation	182,491	142,671
Public health	1,342	13,050
Public recreation and culture	126,099	197,405
Urban growth management	83,457	57,705
Business-type activities:		
Electric	3,516,190	435,623
Water	619,694	734,063
Wastewater	1,111,666	553,788
Airport	115,090	110,101
Convention	4,555	4,862
Environmental and health services	35,996	61,451
Urban growth management	189,443	285,768
Total	$ 6,081,746	2,651,311

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. The amount of costs reported is based on landfill capacity as of the City's fiscal year-end. The $10.1 million reported as accrued landfill closure and postclosure costs at September 30, 2007, represents the cumulative amount reported to date based on the use of 98.9% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $112 thousand as the remaining estimated capacity is filled over the next year. The total estimated costs of $10.2 million include costs of closure in 2008 of $2.6 million and postclosure costs over the subsequent thirty years of $7.6 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

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

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

Fund name	Description
Employee Benefits	City employees and retirees may choose a self-insured PPO or an HMO for health coverage. Approximately 30% of city employees and 50% of retirees use the HMO option; approximately 70% of city employees and 50% of retirees use the PPO. Costs are charged to city funds through a charge per employee per pay period.
Liability Reserve	This self-insured program includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Premiums are charged to other city funds each year based on historical costs.
Workers' Compensation	Premium charges for this self-insured program are assessed to other funds each year based on historical costs.

The City purchases stop-loss insurance for the City's PPO. This stop-loss insurance covers individual claims that exceed $500,000 per calendar year, up to a maximum of $1 million. In fiscal years 2007 and 2006, no claims exceeded the stop-loss limit of $500,000; during fiscal year 2005, two claims exceeded the stop-loss limit of $500,000; and during fiscal year 2004, no claim exceeded the stop-loss limit of $500,000. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last three years. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. The amount to be paid out ultimately may vary from the amount accrued at September 30, 2007. Possible losses are estimated to range from $22.2 to $36.9 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	
	2007	2006	2007	2006	2007	2006
Liability balances, beginning of year	$ 4,382	4,940	6,862	13,919	9,965	9,959
Claims and changes in estimates	4,024	2,786	882	(3,126)	4,899	3,113
Claim payments	(4,024)	(3,344)	(2,098)	(3,931)	(2,671)	(3,107)
Liability balances, end of year	$ 4,382	4,382	5,646	6,862	12,193	9,965

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $2.8 million discounted at 4.63% in 2007 and $3.5 million discounted at 4.55% in 2006.

14 – COMMITMENTS AND CONTINGENCIES, continued
l -- Environmental Remediation Contingencies

Austin Energy may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of approximately $21 million at September 30, 2007. This amount includes the cost of PCB inspection and estimated remaining costs for the remediation of the contaminated sites. Austin Energy anticipates payment of these costs in 2007 and future years.

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

Austin Water is planning to close the Green Water Treatment Plant (GWTP) no later than September 2008. The estimated decommissioning cost to close the GWTP is $13 million. The financial statements include a decommissioning liability of approximately $6.3 million at September 30, 2007. Plant decommissioning is estimated to be completed February 2010.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $241,000 as of September 30, 2007.

m -- Redevelopment of Robert Mueller Municipal Airport

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

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

n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights-of-way, and certain equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2007, was $19.3 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements to finance personal computers and other equipment for both governmental and business-type activities. As mentioned in a preceding section of this note, certificates of participation have been issued by the Electric Fund and Water and Wastewater Fund for financing certain office buildings. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

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

The following summarizes assets recorded at September 30, 2007, under capital lease obligations (in thousands):

		Business-type Activities				
Assets	**Governmental Activities**	**Electric**	**Water and Wastewater**	**Airport**	**Nonmajor**	**Total**
Building and improvements	$ --	1,405	13,429	--	--	14,834
Equipment	1,022	6	27	2,372	31	2,436
Accumulated depreciation	(630)	(180)	(5,080)	(412)	(29)	(5,701)
Net assets	$ 392	1,231	8,376	1,960	2	11,569

15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

Years of Service	Retiree only	Dependent only
Less than 5 years	16% - 17%	11% - 12%
5 to 9 years	24% - 25%	17%
10 to 14 years	41% - 42%	28% - 29%
15 to 20 years	57% - 58%	39% - 41%
Greater than 20 years	81% - 83%	56% - 58%

The City pays 100% of the retiree's life insurance premium. Group dental coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental premium.

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund. Medical, dental and life insurance claims and premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,800 retirees was $16.9 million in 2007 and $15.7 million in 2006 for 2,682 retirees.

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

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, 2006, the City's portion of this obligation, $11.7 million, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS
a -- General Obligation Bonds Issues

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

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

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

b -- Water and Wastewater System Revenue Bond Refunding Issue

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

c -- Public Improvement Refunding Bond Issue

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

d -- Electric System Revenue Bond Refunding Issue

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

General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2007
(In thousands)

	2007					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
REVENUES						
Taxes	$ 326,576	--	326,576	321,408	321,408	5,168
Franchise fees	32,275	--	32,275	30,454	30,454	1,821
Fines, forfeitures and penalties	16,094	--	16,094	18,001	18,001	(1,907)
Licenses, permits and inspections	25,635	(59)	25,576	19,114	19,114	6,462
Charges for services/goods	26,357	(34)	26,323	26,069	26,069	254
Interest and other	13,602	(1,189)	12,413	11,466	11,466	947
Total revenues	440,539	(1,282)	439,257	426,512	426,512	12,745
EXPENDITURES						
General government						
Municipal Court	10,607	(412)	10,195	10,366	10,366	171
Public safety						
Police	198,115	873	198,988	197,746	198,597	(391)
Fire	108,024	(167)	107,857	108,449	108,449	592
Emergency Medical Services	40,589	(994)	39,595	39,715	39,715	120
Public Safety & Emergency Mgmt	5,421	(72)	5,349	5,465	5,465	116
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	297	--	297	300	300	3
Public health:						
Health	32,545	(460)	32,085	32,347	32,347	262
Public recreation and culture						
Parks and Recreation	32,125	185	32,310	32,318	32,318	8
Austin Public Library	21,088	160	21,248	21,391	21,391	143
Urban growth management						
Neighborhood Planning and Zoning	4,319	(59)	4,260	4,899	4,899	639
Development Services and Watershed Protection	14,567	(29)	14,538	14,659	14,659	121
General city responsibilities (4)	68,170	(58,749)	9,421	9,788	9,828	407
Total expenditures	535,867	(59,724)	476,143	477,443	478,334	2,191
Excess (deficiency) of revenues over expenditures	(95,328)	58,442	(36,886)	(50,931)	(51,822)	14,936
OTHER FINANCING SOURCES (USES)						
Transfers in	107,241	850	108,091	108,091	108,091	--
Transfers out	(16,907)	(59,151)	(76,058)	(73,677)	(75,739)	(319)
Total other financing sources (uses)	90,334	(58,301)	32,033	34,414	32,352	(319)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(4,994)	141	(4,853)	(16,517)	(19,470)	14,617
Fund balance at beginning of year	111,804	(12,286)	99,518	95,198	95,198	4,320
Fund balance at end of year	$ 106,810	(12,145)	94,665	78,681	75,728	18,937

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

1 – BUDGET BASIS REPORTING

a -- General

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

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement ($255,000), expenditures for workers' compensation ($3,027,009), liability reserve ($2,500,000), and public safety ($2,411,190).

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ (4,994)
Adjustments - increases (decreases) due to:	
Accrued payroll expenditures	1,081
Net compensated absences accrual	(3)
Outstanding encumbrances established in current year	(5,683)
Payments against prior year encumbrances	3,962
Transfer to Airport Fund	(700)
Other	1,484
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ (4,853)

c -- Budget Amendments

The original budget of the General Fund was amended several times during fiscal year 2007 primarily for increased public safety and urban growth management costs. The original and final budget is presented in the accompanying financial statements.

RETIREMENT PLANS

Trend Information

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

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
2004	1,356,800	1,678,200	321,400	80.8%	326,600	98.4%
2005	1,398,800	1,794,200	395,400	78.0%	348,600	113.4%
2006	1,497,800	1,974,000	476,200	75.9%	391,000	121.8%
Police Officers						
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
2004	343,447	451,580	108,133	76.1%	86,674	124.8%
2005	371,505	494,641	123,136	75.1%	93,429	131.8%
2006	417,284	576,125	158,841	72.4%	100,090	158.7%
Fire Fighters (2)						
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%
2005	493,567	580,054	86,487	85.1%	65,885	131.3%

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

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

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
Mayor

ATTEST:

SHIRLEY A. BROWN
City Clerk

(City Seal)

APPROVED:

ANDREW MARTIN
City Attorney

EXHIBIT "A"

DEFINITIONS

As used in the Ordinance, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Account" means any account created, established and maintained on the books and records of the City under the terms of any Supplement.

"Accountant" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"Annual Debt Service Requirements" means, for any Fiscal Year, the principal of and interest on all Parity Water/Wastewater Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(i) Committed Take Out. If the City has entered into a Credit Agreement with a Credit Provider to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased by the Credit Provider shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(ii) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable by reason of any required purchase of such Funded Debt by the City) in any Fiscal Year is either (a) equal to 25%, or more, of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or (b) exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(iii) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer executes a certificate to the effect that such Balloon Debt (a) may be treated as being retired in installments (and the instrument creating such Balloon Debt expressly permits such Debt to be treated as being retired in installments), or (b) paid from the funding and accumulation of a sinking fund (and the instrument creating such Balloon Debt expressly permits the funding and accumulation of a sinking fund) according to a fixed schedule stated in such certificate, then the principal of (and, in the case of retirement, or to the extent provided for the funding and accumulation of a sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such fixed schedule, provided this clause (iii) shall apply only to Balloon Debt when installments due and payable prior to such certificate have been duly paid or all deposits to the sinking fund established for such Debt have been duly credited to the sinking fund on or before the times required by such schedule; and provided further this clause (iii) shall not apply when the City has elected to apply the rule set forth in clause (ii) above;

(iv) Prepaid Debt. Principal of and interest on Parity Water/Wastewater Obligations, or portions thereof, payable from capitalized interest, accrued interest and amounts deposited or set aside in trust for the payment thereof with a financial institution shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year;

(v) Variable Rate. As to any Parity Water/Wastewater Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the City, either (a) an interest rate equal to the average rate borne by such Parity Water/Wastewater Obligations (or by comparable debt in the event that such Parity Water/Wastewater Obligations has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be used for this purpose;

(vi) Commercial Paper. Any Parity Water/Wastewater Obligations issued in the form of commercial paper shall use an interest rate for such Parity Water/Wastewater Obligations calculated in the manner provided in clause (v) of this definition and the maturity schedule shall be calculated in the manner provided in clause (ii) of this definition; and

(vii) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (i) through (vi) above and any payments otherwise included above under (i) through (vi) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"Bond Counsel" means Messrs. Fulbright & Jaworski L.L.P. or other firm engaged by the City with legal experience and expertise in the issuance and sale of obligations by municipalities in the State of Texas and with respect to the exclusion of interest on obligations from federal income taxation under Section 103(a) of the Code.

"City" and **"Issuer"** mean the City of Austin, Texas.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

"Commercial Paper Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Credit Agreement" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Water/Wastewater Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City in connection with the authorization, issuance, security, or payment of Parity Water/Wastewater Obligations and on a parity therewith.

"Credit Facility" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Water/Wastewater Obligations would rate the Parity Water/Wastewater Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Water/Wastewater Obligations would assign a rating to the Parity Water/Wastewater Obligations of one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Water/Wastewater Obligations and the interest thereon.

"Credit Provider" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

"Debt" of the City payable from Net Revenues means all:

(i) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Water/Wastewater System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(ii) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Net Revenues of the Water/Wastewater System, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (A) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (B) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"Debt Service Fund" means the "Water/Wastewater System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"Designated Financial Officer" shall mean the Director of Finance, Treasurer or such other financial or accounting official of the City so designated by the governing body of the City.

"Eligible Investments" means those investments in which the City is now or hereafter authorized by law, including, but not limited to, the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), as amended, to purchase, sell and invest its funds and funds under its control.

"Fiscal Year" means the twelve month financial accounting period for the Water/Wastewater System which currently ends on September 30 of each calendar year.

"Fund" means any fund created, established and maintained under the terms of the Ordinance and any Supplement.

"Funded Debt" of the Water/Wastewater System means all Parity Water/Wastewater Obligations (and, for purposes of Section 10(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"Government Obligations" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

"Gross Revenues" means all revenues, income, and receipts derived or received by the City from the operation and ownership of the Water/Wastewater System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Water/Wastewater System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code, and Other Available Water/Wastewater System Revenues . The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts and grants in aid of construction or impact fees charged under authority of Chapter 395, Texas Local Government Code, which by law are restricted as to use.

"Holder" or **"Bondholder"** or **"owner"** means the registered owner appearing on the books and records of the Registrar of any Parity Water/Wastewater Obligation registered as to ownership and the holder of any Parity Water/Wastewater Obligation payable to bearer.

"Maturity" when used with respect to any Debt means the date the principal of such Debt or any installment thereof becomes due and payable, whether at its Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

"Net Revenues" and **"Net Revenues of the Water/Wastewater System"** with respect to any period of time means the Gross Revenues for such period less Operating Expenses incurred during such period.

"Operating Expenses" means the expenses of operation and maintenance of the Water/Wastewater System, including all salaries, labor, materials repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Water/Wastewater Obligations. Operating Expenses shall include the purchase of water, the treatment and disposal of wastewater, and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

"Opinion of Counsel" means a written opinion of counsel acceptable to the City.

"Ordinance" means this Ordinance No. 000608-56A pertaining to the issuance Parity Water/Wastewater Obligations, and any amendments thereto.

"Other Available Water/Wastewater System Revenues" means an amount of unencumbered funds accumulated in the Water/Wastewater System Surplus Revenue Account designated as Other Available Water/Wastewater Funds and deposited to the credit of the System Fund as provided in Section 9 hereof; provided, the maximum amount which may be so designated in any Fiscal Year for purposes of complying with the provisions of Sections 4 and 10 of this Ordinance cannot exceed twenty-five per cent (25%) of the Debt Service Requirements for the Parity Water/Wastewater Obligations for such Fiscal Year.

"Outstanding" when used with respect to Parity Water/Wastewater Obligations means, as of the date of determination, all Parity Water/Wastewater Obligations theretofore delivered under this Ordinance and any Supplement, except:

(i) Parity Water/Wastewater Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(ii) Parity Water/Wastewater Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;

(iii) Parity Water/Wastewater Obligations upon transfer of or in exchange for and in lieu of which other Parity Water/Wastewater Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and

(iv) Parity Water/Wastewater Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless acquired for purposes of cancellation, Parity Water/Wastewater Obligations owned by the City shall be deemed to be Outstanding as though owned by any other owner.

"Outstanding Principal Amount" means, with respect to all Parity Water/Wastewater Obligations or to a series of Parity Water/Wastewater Obligations, the outstanding and unpaid principal amount of such Parity Water/Wastewater Obligations paying interest on a current basis and the accreted value as of each compounding date for Parity Water/Wastewater Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Water/Wastewater Obligations

"Prior First Lien Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Prior Subordinate Lien Obligations" means to obligations identified and described in the preamble of the Ordinance.

"Parity Water/Wastewater Obligations" means all Debt of the City, except Previously Issued Separate Lien Obligations, issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

"Paying Agent" means bank, trust company or other entity selected by the City in a Supplement undertaking the duties and responsibilities for the payment to the Holders of the principal of and interest on the series or issue of Parity Water/Wastewater Obligations.

"Previously Issued Separate Lien Obligations" means those obligations payable, in whole or in part under a contract with the City, from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and more particularly described as follows: (i) Circle C MUD#4 City of Austin, Texas Contract Revenue Bonds, Series 1990,dated date February 1, 1990 and currently outstanding in the principal amount of $2,745,000, (ii) Circle C MUD #3 City of Austin, Texas Contract Revenue Bonds, Series 1991,dated date June 15, 1991, and currently outstanding in the principal amount of $26,835,000, (iii) Village at Western Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $17,570,000, (iv) Southland Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $20,525,000, (v) Maple Run at Austin MUD City of Austin, Texas Contract Revenue Bonds, Series 1992, dated February 1, 1992, and currently outstanding in the principal amount of $13,255,000, and (vi) North Austin MUD#1 City of Austin, Texas Refunding Contract Revenue Bonds, Series 1994, dated February 1, 1994, and currently outstanding in the principal amount of $13,035,000.

"Prudent Utility Practice" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act at the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the Water/Wastewater System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"Rating Agency" means a nationally recognized securities rating agency which has assigned a rating to the Parity Water/Wastewater Obligations.

"Required Reserve Amount" means an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations then Outstanding, to the extent such Parity Water/Wastewater Obligations are to be secured by the Reserve Fund in accordance with the terms and provisions of Section 8 of the Ordinance and the provisions of any Supplement.

"Reserve Fund" means the "Water/Wastewater System Revenue Obligation Reserve Fund" established pursuant to Section 8 of the Ordinance.

"Reserve Fund Obligations" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

"Registrar" means bank, trust company or other entity selected by the City in a Supplement to serve as the registrar for the registration and transfer of a series or issue of Parity Water/Wastewater Obligations issued in fully registered form as to the payment of principal of and interest thereon.

"Stated Maturity" when used with respect to Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"Subordinated Debt" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Water/Wastewater Obligations then Outstanding or subsequently issued.

"Supplement" or **"Supplemental Ordinance"** means an ordinance supplemental to, and authorized and adopted by the governing body of the City pursuant to the terms of, the Ordinance.

"System Fund" means the **"Water and Sewer System Fund"** affirmed in Section 6 of the Ordinance.

"Term of Issue" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term in any Supplement authorizing the issuance of commercial paper) or (ii) twenty-five years.

"Utility System Consultant" means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal water and wastewater facilities and systems similar in size to the Water/Wastewater System.

"Value of Investment Securities" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

"Water/Wastewater System"means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of water and the collection, treatment and disposal or reuse/reclaim of wastewater, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Water/Wastewater System shall not include facilities of any kind which are declared not to be a part of the Water/Wastewater System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities.

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APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

SECTION : Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues." Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except: (i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and (iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows:

(i) City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B," dated February 1, 1990, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992," dated March 1, 1992, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A," dated May 15, 1992, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993," dated January 15, 1993, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A," dated June 1, 1993, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994," dated September 1, 1994, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A," dated August 1, 1996, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997," dated August 1, 1997, and (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998," dated July 1, 1996.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998," dated August 1, 1998, (ii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (iii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A," dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION Pledge. (a) Electric Light and Power System. Subject only to the prior lien on and pledge of the Net Revenues of the Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

SECTION : Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

(1) To pay the respective Maintenance and Operating Expenses thereof,

(2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,

(3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and

(4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

SECTION : Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

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

SECTION : Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

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

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

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

SECTION : Reserve Fund. (a) In connection with the issuance of the Prior Lien Bonds and Subordinate Lien Bonds, the City agrees and covenants to keep and maintain with its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on (i) the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement noted below, whichever date is the last to occur. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which, subject to the limitations hereinafter specified, may be withdrawn and transferred from the Reserve Fund) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is $106,790,235.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund.

When and so long as the money and investments, or Financial Commitments (hereinafter defined), 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 Assured Guaranty 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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IN REGARD to the authorization and issuance of the "City of Austin, Texas, Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008" (the "Bonds"), dated May 15, 2008, in the principal amount of $170,605,000, 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 in the year specified in the pricing certificate (the "Pricing Certificate'), executed pursuant to the ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance" and, collectively with the Pricing Certificate, the "Authorization"), unless redeemed prior to maturity in accordance with the applicable redemption provisions. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Authorization.

WE HAVE ACTED as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas, 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"), the Pricing Certificate, a Special Escrow Agreement between the City and U.S. Bank National Association (the "Escrow Agreement"), a special report of The Arbitrage Group, Inc., Certified Public Accountants (the "Accountants"); an 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,

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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 Escrow 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 Escrow Agreement and in accordance with the provisions of V.T.C.A., Government Code, Chapter 1207, as amended. 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

SCHEDULE OF REFUNDED BONDS

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	Maturity Date	Coupon	Maturity Amount	Redemption Date	Redemption Price
Combined Utility System Rev Ref Bonds, Series 1997					
	11/15/2008	4.800%	$ 425,000	6/16/2008	100
	11/15/2009	4.900%	1,440,000	6/16/2008	100
	11/15/2010	5.000%	4,980,000	6/16/2008	100
	11/15/2011	5.000%	5,255,000	6/16/2008	100
	11/15/2012	5.000%	5,555,000	6/16/2008	100
	11/15/2013	5.125%	12,615,000	6/16/2008	100
	5/15/2014	5.125%	9,225,000	6/16/2008	100
	11/15/2014	5.000%	8,710,000	6/16/2008	100
	11/15/2015	5.125%	1,135,000	6/16/2008	100
	11/15/2016	5.125%	3,410,000	6/16/2008	100
	11/15/2017	5.125%	3,500,000	6/16/2008	100
Term Bond	11/15/2020	5.125%	9,970,000	6/16/2008	100
Water/Wastwater Sys Revenue Ref Bonds, Series 2001A					
Term Bond	5/15/2027	5.125%	28,345,000	5/15/2011	100
Term Bond	5/15/2031	5.250%	36,500,000	5/15/2011	100
Water/Wastwater Sys Revenue Ref Bonds, Series 2001B					
Term Bond	5/15/2027	5.125%	10,040,000	5/15/2011	100
Term Bond	5/15/2031	5.250%	17,700,000	5/15/2011	100
Total Refunded Par			$ 158,805,000		

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APPENDIX G

Dexia Local Credit

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 20 billion euros as of December 31, 2007, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,500 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in La Défense, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2007 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2007, total funding raised by Dexia and Dexia Municipal Agency was 18.2 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2007, Dexia had total consolidated assets of 345 billion euros, outstanding medium and long-term loans to customers of 285.1 billion euros and shareholders' equity of over 6.29 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 991 billion euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2007, the exchange rate was 1.0000 euro equals 1.4721 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa1 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 8th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

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