STANDARD & POOR'S

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November 2, 2011

Austin, Texas; Water/Sewer

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Austin, Texas; Water/Sewer

Credit Profile		
US$210.47 mil wtr and wastewtr sys rev rfdg bnds ser 2011 dtd 11/01/2011 due 11/15/2041		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating and stable outlook to Austin, Texas' series 2011 water and wastewater system revenue refunding bonds. We also affirmed the 'AA' long-term rating and underlying rating (SPUR) on the parity separate-lien debt of the system, which does business as Austin Water Utility (AWU). The outlook is stable.

The ratings reflect the system's general creditworthiness, including its:

- Service area, which is not concentrated in revenues derived from its principal customers and continues to exhibit steady customer growth and very solid wealth and income levels;
- Water supply agreement with Lower Colorado River Authority in 1999, effectively securing a 100-year water supply at a reasonable cost, and which has not been interrupted even during the severe and prolonged ongoing drought;
- Sound financial condition, including consistently good debt service coverage (DSC) and liquidity; and
- Five-year capital improvement plan (CIP) that includes about $1.07 billion of capital expenditures, as much as 80% of which management expects to finance with additional debt, which will continue to pressure rates.

A pledge of the water and wastewater systems' net revenues secures the separate-lien system revenue bonds, which are junior to roughly $120 million of prior first-lien combined electric, water, and wastewater revenue bonds; these bonds also have a pledge on par with $208 million of prior subordinate-lien combined electric-water-wastewater utility revenue bonds as of September 2011, and roughly $1.99 billion of previously issued separate-lien (parity) water and wastewater revenue bonds.

City officials have demonstrated their willingness to raise rates, as necessary, to address roughly $1.07 billion of planned capital expenditures through fiscal 2016. There is a long record of annual rate increases to support water and sewer projects, including nearly $400 million of projects related to an administrative order for sewer overflows. Management has fully addressed all issues cited by the Environmental Protection Agency, and the order closed in 2009. The CIP's focus is now on the construction of the system's fourth water treatment plant. The plant's first 50 million gallons per day of capacity is still slated to be operational by 2014, and will be built within budget. To support continued system investments, elected officials approved a 6.6% water rate increase that will become effective in November 2011, as well as a 3.5% sewer rate increase. Similar rate adjustments will be necessary for each of the next five years, according to forecasts.

Despite rate increases, the $71 residential bill for 8,000 gallons of combined service is especially competitive because of the water supply agreements already in place. We expect annual DSC to remain steady, even if periodically affected by weather; projected coverage in fiscal 2011 is about 1.5x, up slightly from fiscal 2010. Both cash and DSC should see a positive variance from the 2011 budget, driven by the heat wave and drought; financial metrics would likely have been even stronger but for the city's aggressive water conservation and resource management programs. Management indicates projected annual DSC of all liens of between 1.5x and 1.6x through 2016. Management maintains a liquidity target of at least 45 days' working capital. City ordinance also caps transfers to the general fund, further securing liquidity.

As part of the fiscal 2012 budget, the city council adopted in concept a plan to update AWU's business model. Specifically, management will establish benchmarks for financial and operational performance and other guiding policies, which we believe could be credit positive over the long term. In addition, it introduced a revenue stability fee. The flat fee, currently $4.40 for a residential metered account, is intended to help AWU manage fixed costs from cash flow, as opposed to cash on hand, and thereby reduce cash flow volatility associated with seasonality and weather.

Austin Water Utility serves about 214,000 water customers and about 201,000 wastewater customers. The customer base grew more than 3% annually during the economic expansion's peak in the late 1990s. But officials now project growth of about half that pace for the next five years. The system obtains water from the Colorado River through the city's own water rights and purchases it from Lower Colorado River Authority. The system then treats the water at three treatment plants. In 1999, city officials secured a long-term water supply through an amendment to the water agreement with Lower Colorado River Authority that put a 50-year water supply in place, with an option to renew for an additional 50 years.

Outlook

The stable outlook reflects Standard & Poor's expectation that management will continue to adjust rates proactively, and implement or continue other as-necessary policies in line with its to-be-adopted business model in order to fund its CIP. We also expect officials to sustain the system's financial profile, including net margins and system liquidity, such that it is commensurate with the rating level.

Economy: The Austin Metropolitan Area Economy Is Stable And Vibrant

In 2011, Austin ('AAA/Stable' general obligation debt rating) announced the addition of major employers and significant expansions by existing employers. These developments have helped keep the city's unemployment rate well below that of the state and nation. While the announcements have been primarily related to the professional services and information technology sectors, local sales-tax trends have indicated that other sectors may be recovering as well. Sales tax growth for fiscal 2011 was 2.7%, exceeding the city's projected 2.5% and reflecting some stabilization among retailers. The top 10 largest employers include:

- State government (38,538 employees);
- The University of Texas at Austin (24,864);
- Dell Computer Corp. (14,000);
- City of Austin (11,815); and
- Austin Independent School District (11,570).

The declines in occupancy rates for commercial office space appear to be waning. Year-to-date occupancy in the central business district is up from 2010. The residential real estate sector has also stabilized in 2011. At 7.5% through August 2011, the city's unemployment rate remains lower than that of the state (8.8%) and nation (9.3%).

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The city serves as the state capital, so growth in private-sector employment has helped cushion the employment base as the state reduced its workforce during the recession. In addition, the health care sector remains a growth opportunity. In 2007, Dell Children's Medical Center of Central Texas opened its facility, anchoring the city's flagship redevelopment project of the former Mueller Airport. Dell Children's, part of the Seton Family of Hospitals, is a 169-bed, state-of-the-art replacement for the old Children's Hospital of Austin, which was roughly one-third the size of the new facility. Both Seton and Scott & White expect to move forward with expansion plans that could add as many as 4,000 health care jobs to the metropolitan area by decade's end.

Related Criteria And Research

USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

Ratings Detail (As Of November 2, 2011)		
Austin WS		
Long Term Rating	AA/Stable	Affirmed
Austin WS		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Austin WS (wrap of insured) (AGM & BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Austin (Indian Hills Pub Imp Dist) WS		
Long Term Rating	A+/Stable	Affirmed
Austin (Whisper Vy Pub Imp Dist) WS		
Long Term Rating	A+/Stable	Affirmed
AustinWS		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Austin WS		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Austin WS VRDB		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Long Term Rating	AA+/NR/Watch Neg	Affirmed

Many issues are enhanced by bond insurance.

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MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa2 RATING TO THE CITY OF AUSTIN'S WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2011

Global Credit Research - 01 Nov 2011

Aa2 RATING AFFECTS $1.9 BILLION IN PARITY DEBT

Austin (City of) TX
Water/Sewer
TX

Moody's Rating

ISSUE	RATING
Water and Wastewater System Revenue Refunding Bonds, Series 2011	Aa2

Sale Amount	$210,470,000
Expected Sale Date	11/05/11
Rating Description	REVENUE

Opinion

NEW YORK, Nov 1, 2011 -- Moody's Investors Service has assigned a Aa2 underlying rating to the City of Austin's [TX] $210.47 million Water and Wastewater System Revenue Refunding Bonds, Series 2011. Concurrently, Moody's has affirmed the Aa2 rating on the system's $1.9 billion in outstanding parity debt obligations.

RATING RATIONALE

Assignment of the Aa2 rating reflects the system's ample water rights, historical and planned rate increases, and adequate debt service coverage on the considerably leveraged system. The rating also incorporates the system's aggressive capital improvement plans funded primarily with bond proceeds. The bonds are secured by a pledge of net revenues from the city's water and wastewater utility system, and payment is subordinate to the remaining prior lien combined water and wastewater/electric system indebtedness (a closed lien) which is set to mature in 2019. The bonds are on parity with the system's subordinate lien combined water and wastewater utility bonds (also a closed lien) which is set to mature in 2028. The prior lien and sub prior lien bonds are rated A1 given that the majority of the debt is supported by the electric system which is rated A1. Proceeds of the bonds will be used to refund a portion of outstanding debt in the commercial paper program.

STRENGTHS

Ample water supply to meet growing service area

Improved liquidity position

CHALLENGES

Extreme weather conditions pressure financial operations

Ongoing rate increases will be necessary to fund large capital plan

WATER SUPPLY SECURED FOR LONG-TERM GROWTH

The City of Austin benefits from substantial institutional presence as the capital of the State of Texas (GO rated Aaa) and home to the University of Texas with 16,500 employees and 50,000 students. Additionally, the high tech sector has developed into leading economic drivers in the area anchored by the headquarters for Dell (A2) and AMD (Ba3). Between the 2007 and 2011 fiscal years, the city's full valuation experienced an average 8.1% growth rate annually including a 3.8% decline in fiscal 2011. In fiscal 2012, the full valuation increased 3.9% over the prior year to a sizable $80.09 billion. The increase was the cumulative impact of increases in existing properties, $3.5 billion in new construction and annexation with residential values holding flat.

Moody's believes the system's capacity will be sufficient to meet a growing customer demand over the long-term. The system spans approximately 538 square miles and operates two major water treatment plants and two wastewater treatment plants. In 1999, the city executed a 50-year agreement with the Lower Colorado River Authority, with an option to renew for another 50-year period. By securing 100 years of water supply, the system has a significant advantage to expand and accommodate a growing customer base within the city and to serve wholesale customers. Over the next five years, officials project customer accounts to grow by approximately 1.7% annually. In addition, the system will continue to serve wholesale customers within the city's extra territorial jurisdiction and in adjacent communities such as the cities of Rollingwood, Pflugerville and Sunset Valley. The water System includes two primary treatment plants (Davis and Ullrich) which have a rated capacity of 285 million gallons per day (mgd). The system anticipates construction of a third water treatment plant to be completed in spring 2014. The first phase of the plant will have 50 mgd capacity with the ability to expand to 300 mgd in the future. The wastewater system includes two main wastewater treatment plants (Walnut Creek and South Austin Regional Wastewater) with combined rated capacity of 150 mgd.

IMPROVED SYSTEM LIQUIDITY WITH REGULAR RATE ADJUSTMENTS

Since 2004, annual rate increases and customer growth have supported steady revenues that provide healthy debt service coverage. However, with heavy rain in fiscal 2010, system revenues were pressured as usage was down and coverage of the separate lien debt declined from 1.55

times to 1.30 times. Officials prepare long term forecasts and the five year forecast indicates coverage will remain at least equal to 1.6 times given annually anticipated rate increases which average 5.1% in fiscal 2012, 7.5% in fiscal 2013, 5.3% in fiscal 2014 and 4.3% in fiscal 2015 and fiscal 2016.

The system's unrestricted cash decreased significantly to $17 million in fiscal 2008 due to a utility transfer of operating cash to CIP funds (restricted cash) in September rather than using commercial paper. Typically the utility would have issued commercial paper before the year-end to cure the negative cash balances in CIP funds, but in FY 2008 the system had already issued the maximum commercial paper allowed under Austin Water Utility financial policies ($200 million). In addition, pooled investments and cash (restricted) were also reduced by land purchases totaling $17.8 million for water treatment plant four that came toward the end of the fiscal year and had not yet been reimbursed by commercial paper. Commercial paper was subsequently refunded in January 2009 and the cash position at the 2009 fiscal year end improved to $66.5 million. Due to heavy rain fall in fiscal 2010, revenues declined nearly $53 million which officials mitigated by utilizing capital recovery funds ($10 million), reducing expenditures ($16 million), and decreasing the system's transfer out by $36 million. The ability to cut expenditures to balance revenues supported maintenance of the improved liquidity position and cash totaled $67 million at 2010 FYE. The projected cash position for fiscal 201 1 is $64.8 million which is 37% of the fiscal 2010 operations and maintenance cost.

CAPITAL IMPROVEMENT PLAN DETAILS CONSIDERABLE ISSUANCE

Moody's believes the system is highly leveraged; however, additional debt should be manageable given planned rate increases, expected customer growth, and an increasing portion of the five-year plan funded with cash on hand. Due to frequent borrowings and ongoing support of general obligation debt with system revenues, the 58% debt ratio is relatively high. Moody's anticipates the system will remain leveraged with $1.07 billion in planned capital needs over the next five years. Officials would like to increase equity funding of the CIP to 30% to 35% from 20%. The plan incorporates four project areas: growth, regulatory compliance, service extension due to economic development, and rehabilitation. Principal on the parity bonds is repaid 50% in ten years.

ADEQUATE LEGAL PROVISIONS

The Bonds include a satisfactory rate covenant of 1.25 times from a three year rolling coverage for prior lien and separate lien and 1.1 times for prior subordinate and other debt. The debt service reserve fund will be funded at one-half average annual debt service, satisfied with a combination of cash and surety bond. The additional bonds test is 1.25 times the average annual debt service requirements.

INTEREST RATE DERIVATIVES

The water and sewer system has two outstanding variable rate bonds. Series 2004 has $115 million outstanding and the standby bond purchase agreement with Landesbank Baden-Wurttemberg (Aa2) expires December 29, 2015. In connection with the Series 2004 variable rate bonds, the system entered into an interest rate swap agreement with JP Morgan Chase Bank N.A. (Aa1). The system pays a fixed rate of 3.657% in exchange for a variable rate equal to 68% of LIBOR. The aggregate mark to market of these swaps was a negative $16.28 million as of October 17, 2011.

The Series 2008 variable rate bonds has $160.7 million outstanding and two letters of credit support the bonds with an expiration date of May 8, 2015. Sumitomo Mitsui Banking Corporation (Aa3) and Bank of Tokyo-Mitsubishi UFJ (Aa3) each support 50% of the outstanding principal. In association with these 2008 bonds, the system entered into a second swap agreement with Goldman Sachs Group, Inc. (A1). The system pays a fixed rate of 3.6% and receives SIFMA. The mark to market for this swap was a negative $22.3 million as of October 17, 2011.

WHAT COULD MAKE THE RATING GO UP

Trend of stronger debt service coverage levels

Decreasing debt ratio

Significant improvement in liquidity of the system

WHAT COULD MAKE THE RATING GO DOWN

Eroding annual coverage levels that are not off-set by rate adjustments

Considerable debt issuance that places burdens on the systems financial performance

Materially weakened liquidity

KEY STATISTICS:

2011 Water Customer Count: 212,098

2011 Wastewater Customer Count: 198,496

FY 2010 Operating Ratio: 47.5%

FY 2010 Debt ratio: 58.7%

FY 2010 annual debt service coverage: 1.30X

Principal retirement for all W&S obligations (10 years): 50%

Post-sale parity debt outstanding: $1.9 billion

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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adviser.

FitchRatings

FITCH RATES AUSTIN, TEXAS' WATER AND WASTEWATER REVS 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-26 October 2011: Fitch Ratings assigns an 'AA-' rating to the city of Austin, Texas' $210 million of water and wastewater system revenue refunding bonds, series 2011, to be sold via negotiation on Nov. 15. In addition, Fitch affirms the 'AA-' rating on the city's following revenue bonds, outstanding as of Sept. 30. 2011:

--$120 million combined utility systems (prior first lien) revenue bonds;
--$208 million combined utility systems (prior subordinate lien) revenue bonds;
--$1.8 billion water and wastewater system revenue bonds;
--$1.1 billion electric utility system revenue bonds.

The Rating Outlook on all bonds is Stable.

SECURITY

The series 2011 bonds are secured by net revenues of the Austin Water Utility, after provision for the prior first lien obligations. The series 2011 bonds are issued on a parity basis with the prior subordinate lien obligations and outstanding water and wastewater revenue bonds.

KEY RATING DRIVERS

Revenue Enhancements: The city of Austin provides water, wastewater, and electric services to the city and portions of Travis and Williamson counties. Rate increases for the Austin Water Utility (AWU) and Austin Energy (AE) are intended to improve both systems' operating margins from weakened positions in the past two fiscal years.

Currently Competitive Rates: Drought conditions and AWU's capital needs have caused the system to increase rates. Rates remain within range of other large cities, but additional increases through the fiscal 2016 planning period could pressure rate competitiveness.

AWU Fixed Revenue Increase: A new revenue stability fee beginning in fiscal 2012 will reduce AWU's revenue volatility from traditional volumetric charges. AWU expects the fee to raise its proportion of fixed revenues to approximately 17% from 12%.

Weaker AE Financial Position: An electric rate study currently underway is expected to result in a recommended 13% increase to base rates beginning Oct. 1, 2012. The increase will help improve AE's weakened operating margins from increased spending principally on renewables in recent years.

Sufficient Water Supply: AWU's long-term water supply agreement with the Lower Colorado River Authority (LCRA) runs through 2050, with the option to extend through 2100. AWU's existing conservation efforts are expected to blunt a potential LCRA mandate to reduce usage if drought conditions persist.

Sound Infrastructure: AWU's water and wastewater treatment capacity will be sufficient for the foreseeable future, after completion of a new water treatment plant in 2014. In addition, AE's portfolio of power resources is well diversified; coal-fired facilities are equipped with scrubbers to remove sulfur dioxide emissions.

Above-Average Leverage: Expected debt offerings to fund capital spending over the next few years will likely keep AWU's leverage well above average. Debt to customers of approximately $5,000 in fiscal 2010 was several times Fitch's 'AA' rating category median.

Strong Service Area: Austin's deep and diverse economy, which performed relatively well through the recent economic recession, limits customer concentration in both systems.

WHAT COULD TRIGGER A RATING ACTION

Improved Operating Positions: Ongoing improvements in both systems' operating margins and debt service coverage ratios nearer to the rating category medians are critical to the ratings.

Revenue Shortfalls: An unexpected revenue shortfall stemming from an LCRA water use curtailment could reverse the improving operating performance and pressure the rating.

CREDIT PROFILE

Additional rate increases will likely be important to the health of AWU's and AE's financial operations in the ensuing years. Current rates for both systems are within range of other large cities. However, management will have to balance the need for increases to bolster financial metrics with rate competitiveness over time. Both systems' financial metrics weakened in recent years, but fiscal 2011 results indicate the beginning of a positive trend.

Beginnings of a Turnaround at AWU

Poor weather conditions hampered financial results already under the weight of increased leverage in fiscal 2010. Water restrictions invoked early in the year due to drought conditions were followed by heavy rainfalls that limited customers' demand requirements. Debt service coverage of total AWU obligations registered a low 1.2 times (x). Likewise, days cash on hand equaled just 59 days. Both metrics were well below Fitch's 'AA' rating category medians.

Drier weather in fiscal 2011 helped improve margins. Water sales were stronger than budgeted. In addition, lower electric and chemical costs, as well as vacant positions, contributed to a stronger operating result. While AWU had budgeted for a $10.8 million draw on reserves in fiscal 2011, the estimated ending balance is for a $15 million gain.

A new revenue stability fee structured to raise $17 million, coupled with a volumetric rate increase for $13 million, is expected to build a positive trend in fiscal 2012. Recent revenue volatility stemming largely from drought conditions prompted AWU to increase the overall predictability of revenues with greater use of fixed charges. The new revenue stability fee will increase AWU's proportion of fixed revenues to 17% from 12% of the total.

AWU reports that LCRA has not yet mandated usage curtailments related to the Texas drought. However, some clarity is expected within the next couple of months. Usage restrictions could have an effect on AWU's operating position that ultimately pressures the rating, but management expects that LCRA would provide ample lead time for AWU to adjust rates. Separately, AWU believes that its conservation efforts currently in place could provide a credit against some portion of potential restrictions.

Weakened But Satisfactory Position at AE

Operating margins at AE have weakened as expense growth mainly for renewables has outpaced revenues. Fiscal 2010 coverage of debt service was a low 1.6x, down from an average of over 2x the prior three years. Cash on hand likewise fell to 113 days from an average of 170 days, but remained near Fitch's rating category median of 123 days. Leverage and equity numbers were consistent with the medians of 5.2x and 54.1%, respectively.

AE has not increased base rates since 1994, but a fuel adjustment is made annually. A rate review currently underway is expected to result in a 13% increase effective Oct. 1, 2012 that will be important to the health of AE's financial position. The increase will offset rising costs for greater use of renewables and capital spending.

In 2007, the city passed a resolution to make Austin a leader in addressing climate change. The city set a goal of using renewables for 35% of generation by 2020. Currently, renewables - predominantly wind - represent about 15% of generation.

Sufficient Treatment Capacity and Water Supply

Water treatment capacity is reportedly sufficient until at least 2030. AWU's Water Treatment Plant No. 4, currently under construction, will provide 50 million gallons daily (MGD) of additional capacity in 2014. Moreover, the facility will be expandable to 300MGD. Wastewater treatment capacity is likewise sufficient for the foreseeable future; both wastewater treatment plants were expanded within the past decade.

An agreement with LCRA through 2050 provides AWU with adequate water supply. In addition, AWU has the option to extend the agreement through 2100. The average water flow from 1986-2010 was 1,337,340 acre feet per year. The lowest year of water flows 528,785 acre feet (2006), or 172 billion gallons, was four times the amount of water treated by the city in the fiscal year ended Sept. 30, 2010.

Strong Service Territory

The city's economy benefits from the large and stabilizing presence of state government, as well as seven colleges and universities. High technology manufacturing is also a major employer in the area, due to the well-educated workforce, relatively low cost of living, and the availability of major research facilities.

Revenue concentration at AWU and AE is minimal, given the depth and diversity of the economy. AWU and AE serve 415,000 and 414,000 customers, respectively, a healthy percentage of which are residential.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from CreditScope.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', June 20, 2011;
--'U.S. Water and Sewer Revenue Bond Rating Criteria', August 10, 2011;
--'U.S. Public Power Rating Criteria', March 28, 2011.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs.'

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130
U.S. Water and Sewer Revenue Bond Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647331
U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=613065

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City of Austin, Texas

Revenue Bonds

New Issue

Ratings

New Issue

$210,470,000 Water and Wastewater System Revenue Refunding Bonds, Series 2011	AA–

Outstanding Debt[a]

$327,457,000 Combined Utility Systems Revenue Bonds (Prior First- and Subordinate-Lien Obligations)	AA–
$1,766,825,000 Water and Wastewater System Revenue Bonds	AA–
$1,103,605,000 Electric Utility System Revenue Bonds	AA–

[a]As of Sept. 30, 2011. Excludes the refunded obligations.

Rating Outlook

Stable

Key Utility Statistics (AWU)

Fiscal Year Ended 9/30/10

System Type	Retail
No. of Customers (Water)	210,225
Annual Revenues ($ Mil.)	390,205
Top User (% of Revenues)	1.0
Max. Pumpage (mgd)	190
Avg. Daily Consumption Growth (mgd, %)	(16.2)
Debt Service Coverage (x)	1.15
Days Operating Cash	59
Equity/Capitalization (%)	19.7

Related Research

Austin, Texas, Aug. 22, 2011

U.S. Public Power Peer Study — June 2011, June 20, 2011

2011 Water and Wastewater Medians, Jan. 18, 2011

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New Issue Details

Sale Information: $210,470,000 water and wastewater system revenue refunding bonds, series 2011, via negotiation on Nov. 15, 2011.

Security: Net revenues of the Austin Water Utility (AWU), after provision for the prior first-lien obligations.

Purpose: Refund $175,000,000 of the city's outstanding tax-exempt CP issued for AWU, and refund $54,900,000 of AWU's outstanding water and wastewater system revenue bonds.

Final Maturity: Serially to Nov. 15, 2041.

Key Rating Drivers

Revenue Enhancements: The city of Austin provides water, wastewater, and electric services to the city and portions of Travis and Williamson counties. Rate increases for AWU and Austin Energy (AE) are intended to improve both systems' operating margins from weakened positions in the past two fiscal years.

Currently Competitive Rates: Drought conditions and AWU's capital needs have caused the system to increase rates. Rates remain within the range of other large cities, but additional increases through the fiscal 2016 planning period could pressure rate competitiveness.

AWU Fixed-Revenue Increase: A new revenue stability fee beginning in fiscal 2012 will reduce AWU's revenue volatility from traditional volumetric charges. AWU expects the fee to raise its proportion of fixed revenues to approximately 17% from 12%.

Weaker AE Financial Position: An electric rate study currently underway is expected to result in a recommended 13% increase to base rates by Oct. 1, 2012. The increase will help improve AE's weakened operating margins.

Sufficient Water Supply: AWU's long-term water supply agreement with the Lower Colorado River Authority (LCRA) runs through 2050, with the option to extend through 2100. AWU's existing conservation efforts are expected to blunt a potential LCRA mandate to reduce usage if drought conditions persist.

Sound Infrastructure: AWU's water and wastewater treatment capacity will be sufficient for the foreseeable future, after completion of a new water treatment plant in 2014. AE's portfolio of power resources is well diversified; coal-fired facilities are equipped with scrubbers to remove sulfur dioxide emissions.

Above-Average Leverage: Debt offerings expected to fund capital spending over the next few years will likely keep AWU's leverage well above average. Debt to customers of approximately $5,000 in fiscal 2010 was several times Fitch Ratings' 'AA' rating category median.

Strong Service Area: Austin's deep and diverse economy, which performed relatively well through the recent economic recession, limits customer concentration in both systems.

Rating History (AWU)

Rating	Action	Outlook/ Watch	Date
AA–	Affirmed	Stable	10/26/11
AA–	Affirmed	Stable	11/8/10
AA–	Affirmed	Stable	5/21/10
AA–	Affirmed	Stable	10/27/09
AA–	Affirmed	Stable	2/3/09
AA–	Affirmed	Stable	11/25/08
AA–	Affirmed	Stable	7/16/08
AA–	Affirmed	Stable	4/28/08
AA–	Affirmed	Stable	11/2/07
AA–	Affirmed	Stable	10/23/07
AA–	Affirmed	Stable	4/4/07
AA–	Affirmed	Stable	3/19/07
AA–	Affirmed	Stable	11/08/06
AA–	Affirmed	Stable	10/10/06
AA–	Upgrade	Stable	5/5/06
A+	Affirmed	Stable	11/2/05
A+	Affirmed	Stable	10/6/05
A+	Affirmed	Stable	5/11/05
A+	Affirmed	Stable	9/17/04
A+	Watch	Evolving	6/8/04
A+	Affirmed	—	1/29/03
A+	Affirmed	—	7/3/02
A+	Affirmed	—	11/21/01
A+	Upgrade	—	1/4/01
A	Revision	—	5/30/00

Credit Profile

AWU and AE operate as enterprise funds of the city of Austin, TX. AWU provides treated water and wastewater services to 215,000 and 200,000 customers, respectively, and AE provides electric services to 414,000 customers.

Additional rate increases will likely be important to the health of AWU's and AE's financial operations in the ensuing years. Current rates for both systems are within the range of other large cities. However, management will have to balance the need for increases to bolster financial metrics with rate competitiveness over time. Both systems' financial metrics weakened in recent years, but fiscal 2011 results indicate the beginning of a positive trend.

Legal Provisions

Security

The prior first- and subordinate-lien obligations were issued pursuant to an ordinance adopted in 1982. The bonds are secured by a joint and several pledge of AWU and AE net revenues. Provision for the subordinate-lien obligations is made after the prior first-lien obligations.

The master ordinance adopted in June 2000 prohibits the issuance of additional bonds secured by a joint and several pledge of net revenues from both systems (i.e. the prior lien is closed). Prior first- and subordinate-lien obligations fully mature on May 15, 2020, and in 2028, respectively.

AWU and AE revenue bonds are secured by a pledge of AWU and AE net revenues, respectively, after provision for the prior first-lien obligations. The AWU bonds are issued on a parity basis with the prior subordinate-lien obligations (the respective water portion). The AE bonds are likewise issued on a parity basis with the prior subordinate-lien obligations (the respective electric portion).

CP is secured by a joint and several pledge of AWU and AE net revenues. Unlike the prior first- and subordinate-lien obligations, the city may continue to issue CP with a joint and several pledge of both systems' net revenues. CP is payable after provision for all outstanding long-term debt.

AWU

Rate Covenant

Pursuant to the prior lien ordinance, gross revenues of the respective systems must be sufficient to fund (i) operations and maintenance, (ii) amounts owed to all reserve funds, and (iii) produce net revenues after (ii) equal to 1.25x annual debt service (ADS) for the prior first-lien obligations and separate-lien obligations, plus 1.10x ADS for the prior subordinate-lien obligations.

Pursuant to the master lien ordinance, AWU gross revenues must be sufficient (i) to fund operations and maintenance and (ii) produce net revenues, after provision for prior first- and subordinate-lien obligations, equal to the greater of (a) ADS on all outstanding parity bonds, or (b) 1.25x ADS on all outstanding parity bonds, including available water and wastewater revenues.

Related Criteria

U.S. Water and Sewer Revenue Bond Rating Criteria, Aug. 10, 2011

Revenue-Supported Rating Criteria, June 20, 2011

U.S. Public Power Rating Criteria, March 28, 2011

Additional Bonds

Net revenues in any 12 consecutive months of the 15 months immediately preceding the issuance of additional parity obligations, after deductions for the prior first- and subordinate-lien bonds and together with other available revenues, must equal at least 1.25x average annual debt service (AADS) of the parity obligations then outstanding and proposed.

Reserve Fund

The reserve requirement is equal to 50% of the AADS on parity obligations.

Governance

AWU is owned and operated by the city of Austin. The city is governed by a mayor and six council members elected at large for staggered, three-year terms. The council approves AWU's budget, capital plans, rates, and bond transactions. The council also appoints the city manager, who administers the utility systems. Mark Ott, the current city manager, has been in his role since January 2008.

Assets and Operations

Water System

AWU supplies water to 215,000 customers, mainly in the city and in portions of Travis and Williamson counties. Treatment capacity is reportedly sufficient until 2030 with the addition of a new facility in 2014, and an agreement with the LCRA through 2050 provides adequate water supply. AWU has the option to extend this agreement through 2100.

Treatment

AWU's water treatment plants provide ample excess treatment capacity. The two facilities, the Davis Plant and the Ullrich Plant, have a combined treatment capacity of 285 million gallons per day (mgd), which was sufficient to meet average daily consumption and maximum daily consumption of 123 mgd and 216 mgd, respectively, over the past three years.

AWU Water Treatment Capacity

(mgd)	Average Daily Consumption	Maximum Daily Consumption
Historical Peak (2006)	136	241
% of Existing Capacity	47.6	84.7

Mgd – Million gallons per day.
Source: City of Austin, TX.

A third plant currently under construction, Water Treatment Plant No. 4 (WTP No. 4), will have an initial capacity of 50 mgd in 2014, expandable to 300 mgd over time. The system should have adequate water treatment capacity for the foreseeable future with this addition.

Supply

AWU has an ample, long-term water supply, pursuant to an agreement with LCRA that is extendable through 2100 at AWU's option. The agreement gives AWU independent rights to impound, divert, and use water from the Colorado River and its tributaries. These rights have been adjudicated before the Texas Commission on Environmental Quality (TCEQ).

The agreement, for which AWU made a $100 million up-front payment, provides the utility with up to 201,000 firm acre-feet of water per year without incurring additional charges. AWU does not anticipate using more than this amount until at least 2021. AWU has reserved access for up to 325,000 acre-feet of water per year for additional charges.

The average flow from water sources was 1,337,340 acre-feet per year from 1986–2010. The lowest year of water flows was 528,785 acre-feet, or 172 billion gallons, in 2006, which equaled four times the amount of water treated by the city in the fiscal year ended Sept. 30, 2010.

Conservation Plan

Management believes the city's existing conservation efforts would provide a credit for a portion of any water curtailment mandated by LCRA in response to the severe Texas drought. AWU reports that LCRA has not yet mandated such curtailments. However, some level of notification is expected within the next couple of months, and LCRA would likely provide several months of lead time for implementation.

A water conservation plan in place from May 1 to Sept. 30 of each year outlines three stages of progressively more restrictive water use. AWU implemented stage 2 restrictions on Sept. 6, 2011, limiting watering to once per week from twice per week, before 10 a.m and after 7 p.m. Ascending block rates based on water usage also promote conservation.

Wastewater System

AWU provides wastewater services to 200,000 customers, principally in the city of Austin and portions of Travis and Williamson counties. Existing wastewater treatment capacity is sufficient for the foreseeable future, and discharge permits are current. AWU's capital plan does not include any increased treatment capacity.

Treatment

AWU's two treatment plants provide 150 mgd of capacity, which was sufficient to meet average flows of 98 mgd in fiscal 2010. Upgrades to the Walnut Creek (15 mgd) and South Austin Regional (25 mgd) facilities were completed in 2004 and 2006, respectively. The TCEQ issued the city five-year discharge permits in 2009 and 2010.

The Environmental Protection Agency (EPA) mandated that Austin take corrective action to eliminate overflow points by June 30, 2009. The EPA issued a letter confirming the completion of this effort on May 4, 2009.

AWU Capital Plan

AWU's fiscal 2012–2016 capital improvement plan totals $1.074 billion, 72% of which is debt-funded. The addition of approximately $350 million of net debt will likely require rate increases to preserve financial margins that will be important to the AWU's credit rating over time.

Water improvements total $687 million, the largest project being the completion of WTP No. 4 in fiscal 2014. Capital spending after that will consist largely of routine maintenance. Wastewater improvements total $356 million for customary needs.

AWU Operating Statistics

(mgd, Fiscal Years Ended Sept. 30)

	Water					Wastewater	
Fiscal Year	Customers	Total Pumpage (mg)	% Change	Average Daily Consumption	Maximum Daily Pumpage	Flows	% Change
2002	181,181	50,883	1.5	122	214	34,146	(1.9)
2003	183,737	51,111	0.4	119	232	33,314	(2.4)
2004	186,620	48,469	(5.2)	114	197	31,762	(4.7)
2005	190,041	51,374	6.0	120	247	32,638	2.8
2006	195,042	56,603	10.2	136	241	30,273	(7.2)
2007	198,883	45,868	(19.0)	112	180	37,142	22.7
2008	202,057	53,066	15.7	131	227	32,006	(13.8)
2009	208,424	53,331	0.5	130	240	32,184	0.6
2010	210,225	43,827	(17.8)	109	190	37,287	15.9
2011	—	52,284	19.3	—	231	32,951	(11.6)
2012[a]	—	49,662	(5.0)	—	235	35,866	8.8
2013[a]	—	49,797	0.3	—	236	36,230	1.0
2014[a]	—	50,383	1.2	—	239	36,595	1.0
2015[a]	—	51,241	1.7	—	243	36,959	1.0
2016[a]	—	52,048	1.6	—	247	37,323	1.0
2017[a]	—	52,695	1.2	—	250	37,688	1.0
2018[a]	—	53,474	1.5	—	253	38,052	1.0
2019[a]	—	54,242	1.4	—	257	38,417	1.0
2020[a]	—	55,064	1.5	—	261	38,781	0.9

[a]Forecast. Mgd – Million gallons per day. Mg – Million gallons.
Source: City of Austin, TX.

Austin Energy

AE is the eighth-largest municipal electric utility in the country by customers served, according to the American Public Power Association. The utility serves approximately 414,000 customers in a service territory that includes 206 miles within the city and 231 miles outside the city. Power resources are well diversified, including all major fuel sources.

AE Generation by Fuel Type

(%, Fiscal Years Ended Sept. 30)

Generation	2006	2007	2008	2009	2010
Coal	29.7	32.2	33.2	28.3	32.6
Natural Gas and Oil	27.9	27.3	25.7	26.5	22.4
Nuclear	27.3	25.8	27.1	26.4	25.3
Renewable	5.7	5.1	6.1	9.5	9.8
Purchased Power	9.4	9.6	7.9	9.3	9.9

Source: City of Austin, TX.

Resources

AE has a diversified power supply, consisting primarily of two jointly owned coal units, a jointly owned nuclear facility, owned natural gas/oil units, and renewable projects (primarily wind). Total resources are 2,922 megawatts (MW) versus fiscal 2010 peak demand of 2,602 MW.

Renewable purchased power contracts have increasingly been supplanting thermal generation. The biggest contracts were signed in 2005 and 2008, when the system entered into wind contracts for 128 MW and 166 MW, respectively. Austin anticipates growing its renewable portfolio to achieve the utility's goal of 35% of its total energy by 2020. Renewables, predominantly wind, currently represent approximately 11% of total energy.

AE's capital plan through fiscal 2016 totals $1.019 billion for general needs. Scrubbers were installed on both coal units in 2010.

AE Operating Statistics

(Fiscal Years Ended Sept. 30)	2007	2008	2009	2010	2011[a]
Customers					
Residential	345,197	352,574	363,217	368,700	371,719
Commercial	41,825	42,585	43,050	43,489	43,694
Industrial	75	79	80	80	80
Public Street and Highway	4	4	4	4	4
Governmental Authorities	1,519	1,549	1,575	1,597	1,620
Total	**388,620**	**396,791**	**407,926**	**413,870**	**417,117**
Percentage Change (%)	N.A.	2.1	2.8	1.5	0.8
Percentage of Total (Residential) (%)	89	89	89	89	89
Energy Sales (MWh)					
Residential	3,908,318	4,226,036	4,218,600	4,238,690	4,362,292
Commercial	4,350,912	4,530,470	4,480,902	4,553,866	4,644,484
Industrial	1,930,289	2,233,904	2,218,315	2,038,706	2,220,520
Public Street and Highway	47,230	47,657	47,831	48,078	48,261
Governmental Authorities	1,088,320	1,147,973	1,137,492	1,096,986	1,106,461
Total	**11,325,069**	**12,186,040**	**12,103,140**	**11,976,326**	**12,382,018**
Percentage Change (%)	N.A.	7.6	(0.7)	(1.0)	3.4
Percentage of Total (Residential) (%)	35	35	35	35	35
Peak Demand (MW)	**2,430**	**2,391**	**2,514**	**2,602**	**2,628**
Percentage Change (%)	N.A.	(1.6)	5.1	3.5	1.0
Revenues ($000)					
Residential	356,143	416,809	406,393	407,074	423,559
Commercial	365,991	408,808	402,032	409,952	423,072
Industrial	113,248	138,901	132,792	122,714	134,186
Public Street and Highway	8,106	8,403	8,430	8,515	8,539
Governmental Authorities	76,358	86,069	82,751	81,875	83,928
Total	**919,846**	**1,058,990**	**1,032,398**	**1,030,130**	**1,073,284**
Percentage Change (%)	N.A.	15.1	(2.5)	(0.2)	4.2
Percentage of Total (Residential) (%)	39	39	39	40	39
Average Revenues per kWh ($)					
Residential	0.091	0.099	0.096	0.096	0.097
Commercial	0.084	0.090	0.090	0.090	0.091
Industrial	0.059	0.062	0.060	0.060	0.060
Public Street and Highway	0.172	0.176	0.176	0.177	0.177
Governmental Authorities	0.070	0.075	0.073	0.075	0.076

[a]12 months ended June 30, 2011. N.A – not applicable.
Source: City of Austin, TX.

Cost Structure

Combined water and wastewater rates are within the range of other large cities. However, weak fiscal 2010 results and additional capital needs principally through fiscal 2014 will require additional rate increases that could erode competitiveness. Residential rates are equal to 1.56% of median household income, which as a measure of affordability, is in line with other 'AA' providers rated by Fitch. The Austin City Council sets water and wastewater rates. Rates are not subject to regulation by the TCEQ.

Electric rates, including an annual fuel adjustment, are competitive with other large Texas cities. Similar to the water and wastewater systems, electric rates are not subject to rate regulation.

Water System

Water rates include a customer account charge and a volumetric charge. Volumetric charges for single-family residences increase with usage to promote conservation. Average monthly residential bills in fiscal 2008–2010 were $31.82, $36.66, and $29.17, respectively. The fiscal 2012 budget includes a 6.7% rate increase.

A newly instituted fee of $4.40 per month is intended to increase overall revenue stability through greater use of fixed charges. The fee, structured to produce $17 million, is part of a $30 million revenue enhancement for fiscal 2012. The remaining $13 million will come from an increase in the volumetric rate. The revenue enhancement is intended to mitigate weak fiscal 2010 results and anticipated capital spending.

Wastewater System

Wastewater rates include a monthly customer charge of $9.25. Similar to water rates, volumetric charges increase with usage. Average monthly residential bills in fiscal 2008–2010 were $32.83, $36.00, and $32.35, respectively. The fiscal 2012 budget includes a 5.0% rate increase.

Electric System

Electric rates consist of a $6 monthly customer charge and a graduated energy charge to promote conservation. Base rates have not been changed since 1994. However, a rate review is currently underway. AE expects to recommend a 13% base rate increase effective by Oct. 1, 2012. The increase will offset rising costs for operations, greater use of renewables, and capital spending.

Financial Performance

Weather conditions drove weak fiscal 2010 results at AWU. Water restrictions invoked early in the year due to drought conditions were followed by heavy rainfalls that limited customers' demand requirements. However, drier weather in fiscal 2011 helped improve margins. A new revenue stability fee, coupled with a rate increase approved for fiscal 2012, is expected to build a positive trend. However, an unexpected revenue shortfall stemming from an LCRA water use curtailment could reverse AWU's improving operating performance and pressure the rating.

Operating margins have weakened at AE as expense growth has outpaced revenues. The rate review currently underway is expected to result in a 13% increase, effective by Oct. 1, 2012, to help bolster the utility's financial position.

Ongoing improvements in both systems' operating margins and debt service coverage ratios nearer to the rating category medians are critical to the ratings.

AWU

AWU's fiscal 2011 beginning cash balance was $9.2 million greater than expected, despite weak fiscal 2010 results. Drier weather caused water sales to be $17.7 million stronger than budgeted. Lower electric and chemical costs, and vacant positions also contributed to a stronger operating result that year. The city budgeted for a $10.8 million draw, but the estimated ending balance is for a $15 million gain to $73.2 million (budgetary basis).

Fiscal 2011 operating gains should go some way toward improving AWU's below-average liquidity position, which at 59 DCOH was well below average in fiscal 2010. Fiscal 2010 total debt service coverage was likewise weak at 1.2x, and leverage was high at $5,000 per customer.

Financial projections show debt service coverage of 1.5x–1.6x through fiscal 2016, assuming annual rate increase. Forecasts include additional debt issuance in fiscal 2012 ($175 million) and 2013 ($175 million). Debt issuances trail off after 2014, when the bulk of infrastructure, principally related to WTP No. 4, is in place.

AE

AE's financial position has weakened in recent years, but remains satisfactory for the rating category. Debt service coverage and DCOH have fallen as operating expenses have grown by three times the rate of revenues since fiscal 2006. An expected rate increase effective no later than Oct. 1, 2012, should bolster financial metrics.

Fiscal 2010 coverage of debt service and DCOH equaled 1.6x and 113 days, respectively, each down approximately one-third from fiscal 2008. However, DCOH was in line with rating category medians, as were debt to funds available for debt service (5.3x) and equity to capitalization (53.2%). Fitch's rating category median for debt service coverage is 2.48x.

AE targets a 2.0x debt service coverage ratio for electric utility bonds, which it currently does not meet. Its strategic reserve includes an emergency reserve, with 60 days of non-power-supply operating costs, as a last resort for natural disasters; a contingency reserve, with up to an additional 60 days of non-power-supply operating costs for unexpected events such as plant outages or fuel spikes that affect financial operations; and a rate-stabilization reserve, with cash over 120 days, not to exceed 90 days of power-supply costs.

General fund transfers have averaged 8.1% of total operating revenues over three years with little deviation. The transfers are limited to 12% of AE's three-year average of revenues.

Customer Profile and Service Area

Austin's economy benefits from the large and stabilizing presence of state government, and seven colleges and universities. High technology manufacturing is also a major employer in the area, due to the well educated workforce, relatively low cost of living, and accessibility of major research facilities. The city unemployment rate was a relatively low 6.9% in September 2011. The rate did not exceed 7.0% during the recent economic recession, in a testament to the strength of the local economy. The city of Austin's general obligation bonds are rated 'AAA' with a Stable Outlook by Fitch.

AWU and AE serve 415,000 (water and wastewater) and 414,000 customers, respectively, a healthy percentage of which is residential. The depth and diversity of the economy limits the extent of revenue concentration among the largest customers. There is consequently minimal risk that the loss of a customer would cause a significant decline in revenues.

Financial Summary — Austin Combined Utility (ACU)

($000, Fiscal Years Ended Sept. 30)	2006	2007	2008	2009	2010
Cash Flow (x)					
Debt Service Coverage	2.19	1.83	2.01	1.61	1.39
Coverage of Full Obligations	1.81	1.46	1.61	1.22	0.98
Liquidity					
Days Cash On Hand	161	184	134	139	104
Leverage					
Debt/Funds Available for Debt Service (x)	5.0	5.5	5.1	6.3	7.6
Equity/Capitalization (%)	39.9	40.4	41.0	39.3	37.8
Net Debt/Net Utility Plant (x)	0.53	0.51	0.51	0.50	0.52
Other (%)					
Operating Margin	26.1	23.3	23.9	20.4	16.1
General Fund Transfer/Total Revenue	7.3	8.2	7.6	8.1	8.9
Capex/Depreciation	163.0	177.3	276.5	242.2	203.4
Income Statement					
Total Operating Revenues	**1,376,843**	**1,348,956**	**1,582,858**	**1,554,182**	**1,508,325**
Total Operating Expenses	**1,017,091**	**1,034,763**	**1,203,912**	**1,236,888**	**1,265,598**
Operating Income	359,752	314,193	378,946	317,294	242,727
Adjustment to Operating Income for Debt Service Coverage	221,912	226,825	228,273	207,480	214,843
Funds Available for Debt Service	581,664	541,018	607,219	524,774	457,570
Total Annual Debt Service	**265,952**	**295,251**	**302,062**	**326,811**	**329,817**
Balance Sheet					
Unrestricted Funds	363,961	428,643	371,425	396,497	302,973
Restricted Funds	445,821	475,552	469,561	484,209	519,759
Total Debt	**2,912,617**	**2,976,746**	**3,105,219**	**3,285,460**	**3,467,845**
Equity and/or Retained Earnings	1,935,436	2,020,045	2,159,909	2,129,133	2,109,784

Source: City of Austin, TX.

Financial Summary — Austin Water Utility (AWU)

($000, Fiscal Years Ended Sept. 30)	2006	2007	2008	2009	2010
Cash Flow (x)					
Debt Service Coverage	1.49	1.31	1.45	1.42	1.15
Coverage of Full Obligations	1.29	1.10	1.25	1.22	0.95
Liquidity					
Days Cash On Hand	74	66	18	90	59
Leverage					
Debt/Funds Available for Debt Service (x)	9.0	10.4	8.4	8.7	10.9
Equity/Capitalization (%)	21.2	20.3	20.4	20.8	19.7
Net Debt/Net Utility Plant (x)	0.67	0.67	0.65	0.65	0.66
Other (%)					
Operating Margin	36.1	28.7	36.2	35.3	28.8
General Fund Transfer/Total Revenue	7.7	8.7	7.8	7.8	9.3
Capex/Depreciation	246.8	194.3	331.8	258.3	235.4
Income Statement					
Total Operating Revenues	**306,237**	**292,468**	**365,123**	**391,896**	**360,649**
Total Operating Expenses	**195,576**	**208,416**	**233,113**	**253,469**	**256,876**
Operating Income	110,661	84,052	132,010	138,427	103,773
Adjustment to Operating Income for Debt Service Coverage	66,758	74,949	78,542	80,318	85,004
Funds Available for Debt Service	177,419	159,001	210,552	218,745	188,777
Total Annual Debt Service	**119,462**	**121,703**	**145,209**	**153,854**	**163,833**
Balance Sheet					
Unrestricted Funds	26,962	24,954	7,852	42,990	27,684
Restricted Funds	81,123	90,221	83,950	104,031	145,997
Total Debt	**1,592,852**	**1,656,516**	**1,759,130**	**1,906,032**	**2,053,918**
Equity and/or Retained Earnings	428,942	421,726	451,965	499,071	504,920

Source: City of Austin, TX.

Financial Summary — Austin Energy (AE)

($000, Fiscal Years Ended Sept. 30)	2006	2007	2008	2009	2010
Cash Flow (x)					
Debt Service Coverage	2.76	2.20	2.53	1.77	1.62
Coverage of Full Obligations	2.23	1.71	1.95	1.22	1.01
Liquidity					
Days Cash On Hand	177	207	155	148	113
Leverage					
Debt/Funds Available for Debt Service (x)	3.3	3.5	3.4	4.5	5.3
Equity/Capitalization (%)	53.3	54.8	55.9	54.2	53.2
Net Debt/Net Utility Plant (x)	0.38	0.35	0.35	0.34	0.38
Other (%)					
Operating Margin	23.3	21.8	20.3	15.4	12.1
General Fund Transfer/Total Revenue	7.2	8.0	7.5	8.2	8.8
Capex/Depreciation	120.9	166.8	239.0	231.1	181.0
Income Statement					
Total Operating Revenues	**1,070,606**	**1,056,488**	**1,217,735**	**1,162,286**	**1,147,676**
Total Operating Expenses	**821,515**	**826,347**	**970,799**	**983,419**	**1,008,722**
Operating Income	249,091	230,141	246,936	178,867	138,954
Adjustment to Operating Income for Debt Service Coverage	155,154	151,876	149,731	127,162	129,839
Funds Available for Debt Service	404,245	382,017	396,667	306,029	268,793
Total Annual Debt Service	**146,490**	**173,548**	**156,853**	**172,957**	**165,984**
Balance Sheet					
Unrestricted Funds	336,999	403,689	363,573	353,507	275,289
Restricted Funds	364,698	385,331	385,611	380,178	373,762
Total Debt	**1,319,765**	**1,320,230**	**1,346,089**	**1,379,428**	**1,413,927**
Equity and/or Retained Earnings	1,506,494	1,598,319	1,707,944	1,630,062	1,604,864

Source: City of Austin, TX.

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