

OFFICIAL STATEMENT

Dated June 10, 2010

Ratings: Moody's: "A1"*
Standard & Poor's: "A+"*
Fitch: "AA-"

(See "OTHER RELEVANT INFORMATION – Ratings" and "BOND INSURANCE")

NEW ISSUES – Book-Entry-Only

Delivery of the Bonds is subject to the receipt of the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, to the effect that, assuming continuing compliance by the City with certain covenants contained in the Tenth Supplement described herein interest on the Series 2010A Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "TAX MATTERS – SERIES 2010A BONDS" herein, including the alternative minimum tax on corporations. Interest on the Series 2010B Bonds will be included in gross income for federal income tax purposes. See "TAX MATTERS – SERIES 2010B BONDS".

\$119,255,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Electric Utility System Revenue Refunding
Bonds, Series 2010A

\$100,990,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Electric Utility System Revenue Refunding
Bonds, Taxable Series 2010B
(Direct Subsidy - Build America Bonds)

Dated: June 1, 2010

Due: As shown herein

The bonds offered hereby are the \$119,255,000 City of Austin, Texas (the "City") Electric Utility System Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds") and the \$100,990,000 City of Austin, Texas Electric Utility System Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy - Build America Bonds) (the "Series 2010B Bonds"). The Series 2010A Bonds and the Series 2010B Bonds are collectively referred to as the "Bonds". The Bonds are the tenth series of "Parity Electric Utility Obligations" issued pursuant to the master ordinance governing the issuance of electric utility system indebtedness (the "Master Ordinance") and are authorized and being issued in accordance with a Supplemental Ordinance (the "Tenth Supplement"). The Master Ordinance provides the terms for the issuance of Parity Electric Utility Obligations and the covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations (as hereinafter defined) and Prior Subordinate Lien Obligations (as hereinafter defined) while they remain outstanding. The Master Ordinance provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations (as hereinafter defined) currently authorized having a combined pledge of Electric Light and Power System and Water and Wastewater System revenues may continue to be issued on a subordinate lien basis to the Parity Electric Utility Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from, and together with the outstanding Parity Electric Utility Obligations and Prior Subordinate Lien Bonds, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Electric Utility System as provided in the Master Ordinance and the Tenth 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 American Recovery and Reinvestment Act of 2009 (the "Recovery Act") authorizes the City to issue taxable bonds known as "Build America Bonds" to finance capital expenditures that could otherwise be financed with the issuance of tax-exempt bonds and to elect to receive a subsidy payment (each a "Subsidy Payment") from the federal government equal to 35% of the amount of each interest payment on such taxable bonds. The interest on the Series 2010B Bonds will not be excludable from gross income for federal income tax purposes. The Subsidy Payments will be paid to the City. The Subsidy Payments may be available for payment of debt service on the Series 2010B Bonds, but are not pledged as security to pay debt service on the Series 2010B Bonds. No holders of Series 2010B Bonds are entitled to such Subsidy Payments or to receive a tax credit with respect to the Series 2010B Bonds.

*  The scheduled payment of principal of and interest on the Series 2010A Bonds maturing on November 15 in each of the years 2028 and 2029 (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASURANCE INC.). See "BOND INSURANCE" AND "BOND INSURANCE RISK FACTORS".

The definitive Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from June 1, 2010 and shall be payable on November 15, 2010 and each November 15 and May 15 thereafter until maturity or prior redemption. The Bonds will be registered initially in the name Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The City reserves the right to discontinue such book-entry system. See "DESCRIPTION OF THE BONDS" herein. Regions Bank, Houston, Texas, will serve as the initial paying agent/registrars (the "Paying Agent/Registrar") for the Bonds.

CITI

Barclays Capital
Morgan Stanley

Cabrera Capital Markets, LLC
Rice Financial Products Company
Southwest Securities

Morgan Keegan & Company, Inc.
Siebert Brandford Shank & Co., LLC

MATURITY SCHEDULE

See “Maturity Schedule” Herein

The City reserves the right, at its option, to redeem the Bonds prior to their scheduled maturity, see “REDEMPTION” herein.

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

It is expected that the Bonds will be delivered through the facilities of DTC on or about July 8, 2010.

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CITY OF AUSTIN, TEXAS
\$119,255,000 Electric Utility System Revenue Refunding Bonds, Series 2010A
Base CUSIP No. 052414 ⁽¹⁾

MATURITY SCHEDULE
\$104,620,000 Series 2010A Serial Bonds

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
11-15-2012	\$2,820,000	2.000%	1.100%	052414LC1	11-15-2021	\$ 720,000	4.000%	3.690%	052414LM9
05-15-2013	1,985,000	3.000%	1.400%	052414MA4	11-15-2022	6,610,000	5.000%	3.860%	052414LN7
11-15-2013	2,875,000	5.000%	1.430%	052414LD9	11-15-2023	6,935,000	5.000%	3.970%	052414LP2
05-15-2014	1,500,000	3.000%	1.800%	052414MB2	11-15-2024	7,370,000	5.000%	4.070%	052414LQ0
11-15-2014	3,020,000	5.000%	1.830%	052414LE7	11-15-2025	2,210,000	4.000%	4.190%	052414LR8
05-15-2015	2,000,000	4.000%	2.200%	052414MC0	11-15-2025	5,585,000	5.000%	4.190%	052414LS6
11-15-2015	3,170,000	5.000%	2.230%	052414LF4	11-15-2026	8,200,000	5.000%	4.260%	052414LT4
11-15-2016	3,330,000	4.000%	2.650%	052414LG2	11-15-2027	8,735,000	5.000%	4.330%	052414LU1
11-15-2017	3,465,000	5.000%	2.950%	052414LH0	11-15-2028 (2)	9,160,000	5.000%	4.320%	052414LV9
11-15-2018	3,635,000	5.000%	3.150%	052414LJ6	11-15-2029 (2)	9,700,000	5.000%	4.370%	052414LW7
11-15-2019	670,000	4.000%	3.380%	052414LK3	11-15-2030	1,750,000	4.375%	4.490%	052414LX5
11-15-2020	695,000	4.000%	3.560%	052414LL1	11-15-2030	8,480,000	5.000%	4.490%	052414LY3

\$14,635,000 5.000% Series 2010A Term Bond due November 15, 2040, Initial Yield 4.750%, CUSIP 052414LZ0 ⁽¹⁾

(Plus Accrued Interest from June 1, 2010)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. Neither the City, the Financial Advisor, nor the Underwriters take any responsibility for the accuracy of such numbers.

(2) Bonds insured by Assured Guaranty Municipal Corp. See "BOND INSURANCE" herein.

The City reserves the right, at its option, to redeem the Series 2010A Bonds, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, pursuant to the terms stated herein. In addition, the Series 2010A Term Bonds are subject to mandatory sinking fund redemption pursuant to the terms stated herein (see "REDEMPTION" herein).

CITY OF AUSTIN, TEXAS
\$100,990,000 Electric Utility System Revenue Refunding Bonds, Taxable Series 2010B
(Direct Subsidy - Build America Bonds)
Base CUSIP No. 052414 ⁽¹⁾

MATURITY SCHEDULE

\$6,395,000 4.536% Taxable Series 2010B Term Bonds due November 15, 2020, Initial Yield 4.536%, CUSIP 052414MD8 ⁽¹⁾

\$17,840,000 5.086% Taxable Series 2010B Term Bonds due November 15, 2025, Initial Yield 5.086%, CUSIP 052414ME6 ⁽¹⁾

\$21,120,000 5.570% Taxable Series 2010B Term Bonds due November 15, 2030, Initial Yield 5.575%, CUSIP 052414MF3 ⁽¹⁾

\$55,635,000 5.720% Taxable Series 2010B Term Bonds due November 15, 2040, Initial Yield 5.725%, CUSIP 052414MG1 ⁽¹⁾

(Plus Accrued Interest from June 1, 2010)

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The City reserves the right, at its option, to redeem the Series 2010B Bonds, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, pursuant to the terms stated herein. In addition, the Series 2010B Bonds are subject to mandatory sinking fund redemption pursuant to the terms stated herein (see "REDEMPTION" herein).

CITY OF AUSTIN

Elected Officials

	<u>Term Expires June 15</u>
Lee Leffingwell	Mayor 2012
Chris Riley	Councilmember Place 1 2011
Mike Martinez, Mayor Pro Tem	Councilmember Place 2 2012
Randi Shade	Councilmember Place 3 2011
Laura Morrison	Councilmember Place 4 2011
Bill Spelman	Councilmember Place 5 2012
Sheryl Cole	Councilmember Place 6 2012

Appointed Officials

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

BOND COUNSEL

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

SECURITIES COUNSEL FOR THE CITY

McCall, Parkhurst & Horton L.L.P.
Austin and Dallas, Texas

FINANCIAL ADVISOR

Public Financial Management, Inc.
Austin, Texas

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Austin, Texas

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SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

The selected financial information below presents selected historical information related to the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the years ended September 30, 2005 through 2009 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				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Combined Gross Revenues	\$1,573,459	\$1,628,261	\$1,393,344	\$1,412,853	\$1,260,401
Combined Maintenance and Operating Expenses	<u>1,041,685</u>	<u>1,012,532</u>		<u>824,870</u>	<u>730,697</u>
Combined Net Revenues	<u>\$ 531,774</u>	<u>\$ 615,729</u>	<u>846,005</u> <u>\$ 547,339</u>	<u>\$ 587,983</u>	<u>\$ 529,704</u>
Principal and Interest on Revenue Bonds (1)	\$ 125,934	\$ 112,931	\$ 137,553	\$ 108,258	\$ 131,749
Debt Service Coverage on Revenue Bonds (1)	4.22x	5.45x	3.98x	5.43x	4.02x

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

Electric Utility System Only

The selected financial information below presents selected historical information related to the Electric Utility System of the City. The financial information for the years ended September 30, 2005 through 2009 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				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Gross Revenues	\$1,179,688	\$1,260,817	\$1,096,869	\$1,103,665	\$989,534
Maintenance and Operating Expenditures	<u>869,247</u>	<u>858,317</u>	<u>711,181</u>	<u>695,271</u>	<u>614,219</u>
Net Revenues	<u>\$ 310,441</u>	<u>\$ 402,500</u>	<u>\$ 385,688</u>	<u>\$ 408,394</u>	<u>\$375,315</u>
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Obligations	\$ 92,720	\$ 87,726	\$ 117,951	\$ 88,681	\$111,944
Net Revenues available for Separate Lien Obligations (1)	\$ 217,721	\$ 314,774	\$ 267,737	\$ 319,713	\$263,371
Principal and Interest on Separate Lien Obligations (1)	\$ 78,430	\$ 68,603	\$ 50,035	\$ 50,282	\$ 45,911
Debt Service Coverage (Separate Lien Obligations)	2.78x	4.83x	5.35x	6.36x	5.74x

(1) Parity Electric Utility Obligations.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES 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.

CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau, and the City, Public Financial Management, Inc. and the Underwriters are not responsible for the selection or correctness of CUSIP numbers.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “Bond Insurance” and “APPENDIX F - Specimen Bond Insurance Policy”.

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

This Official Statement contains “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.** See “OTHER RELEVANT INFORMATION – Forward-Looking Statements.”

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OFFICIAL STATEMENT

Relating to

\$119,255,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Electric Utility System Revenue Refunding
Bonds, Series 2010A

\$100,990,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Electric Utility System Revenue Refunding
Bonds, Taxable Series 2010B
(Direct Subsidy - Build America Bonds)

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City") of its \$119,255,000 Electric Utility System Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds") and its \$100,990,000 Electric Utility System Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy - Build America Bonds) (the "Series 2010B Bonds"). The Series 2010A Bonds and the Series 2010B Bonds are collectively referred to as the "Bonds". The Bonds are to be issued pursuant to authority conferred by the laws of the State of Texas, a master ordinance of the City Council (the "Master Ordinance") providing the terms for the issuance of Parity Electric Utility Obligations and the covenant and security provisions related thereto, and a supplemental ordinance of the City Council (the "Tenth Supplement") providing for the specific terms relating to the issuance of the Bonds in accordance with the Master Ordinance. A summary of certain provisions of the Master Ordinance is attached hereto as APPENDIX C. As noted under "PLAN OF FINANCING" below, the City will not issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations but must comply with the covenants contained in the ordinances (collectively, the "Bond Ordinance"), authorizing their issuance while such obligations are outstanding. A summary of certain provisions of the Bond Ordinance is attached hereto as APPENDIX D. **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance as modified by the Tenth Supplement, or the Bond Ordinance, as applicable (see APPENDICES C and 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

General

The Series 2010A Bonds are being issued as tax-exempt bonds pursuant to the provisions of the Tenth Supplement.

The Series 2010B Bonds are being issued as taxable bonds pursuant to the provisions of the Tenth Supplement, and the City has elected to designate the Series 2010B Bonds as "Build America Bonds" under and pursuant to the authority provided for in the federal American Recovery and Reinvestment Act of 2009, effective February 17, 2009 (the "Recovery Act"), and in accordance with the guidance included in the Internal Revenue Service's Notice 2009-26, effective as of April 3, 2009 ("Notice 2009-26") (see "SECURITY FOR THE BONDS - Build America Bonds" and "SECURITY FOR THE BONDS - Designation of the Series 2010B Bonds as Qualified Build America Bonds" herein).

A portion of the Series 2010A Bonds are being issued to refund a portion of the City's outstanding Utility System bonds issued for the Electric Utility System, as described in SCHEDULE I attached hereto (the "Refunded Bonds"), for debt service savings.

A portion of the Series 2010A Bonds, together with the Series 2010B Bonds will be issued to refund approximately \$150,000,000.00 of the City's outstanding tax-exempt commercial paper notes issued for the Electric Utility System (the "Refunded Notes"), thereby enabling the City to restore the available capacity under its tax-exempt commercial paper note program, which will permit the City to issue commercial paper notes pursuant to its current program in the principal amount of the Refunded Notes. The City anticipates issuing the Series 2010B Bonds as "Build America Bonds". See "SECURITY FOR THE BONDS - Build America Bonds". The Series 2010B Bond proceeds will be used to reimburse the City for capital expenditures paid or incurred after February 17, 2009 (the effective date of the

Recovery Act) that were financed originally with temporary short-term financing, i.e., the Refunded Notes. The Refunded Notes that will be retired with Series 2010B Bond proceeds were issued after the effective date of the Recovery Act. Under IRS Notice 2009-26, such reimbursements are not treated as a refunding for federal income tax purposes under Section 150 of the Internal Revenue Code of 1986, as amended (the "Code"). Proceeds from a portion of the Series 2010A Bonds, along with the proceeds from the Series 2010B Bonds, in an aggregate amount equal to the principal amount of the Refunded Notes will be deposited with the Issuing and Paying Agent for the Refunded Notes. (Any interest on the Refunded Notes due is expected to be paid from available Electric Utility System Revenues.) Proceeds from the Bonds will also be used to pay costs of issuance. The Bonds represent the tenth encumbrance to be issued or incurred as Parity Electric Utility Obligations under the Master Ordinance. The City has issued certain Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City's Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance no additional Prior First Lien Obligations or Prior Subordinate Lien Obligations may be issued. At such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all Electric Utility System revenue obligations then outstanding shall be Parity Electric Utility Obligations, or obligations subordinate to the Parity Electric Utility Obligations then outstanding, and shall be payable only from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility 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 Electric Utility 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 Water and Wastewater System pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance. As noted under "Debt Payable from Systems Revenues" herein, approximately \$414 million of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of March 31, 2010 and no assurances can be given as to when or if such obligations will be defeased or paid so as to allow the Parity Electric Utility Obligations (including the Bonds) to be first lien obligations of the Net Revenues of the Electric Utility 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 date of such Refunded Bonds from funds to be deposited pursuant to a certain Special Escrow Agreement (the "Escrow Agreement") between the City and Regions Bank (the "Escrow Agent"). The Tenth Supplement provides that the proceeds of the sale of the Series 2010A 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 Series 2010A Bonds to the Underwriters 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 debt service on the Bonds.

By deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and cash held for such purpose by the Escrow Agent, and such Refunded Bonds will not be deemed as being outstanding for the purpose of any limitation on debt or pledge of Net Revenues.

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 for the Series 2010A Bonds are as follows.

Sources:	
Par Amount of Bonds	\$119,255,000.00
Net Premium	7,620,079.95
Accrued Interest	585,963.09
Transfer from Debt Service Fund	<u>549,503.26</u>
Total Sources of Funds	<u>\$128,010,546.30</u>
Uses:	
Tax-exempt Commercial Paper Refunding	\$ 50,000,000.00
Deposit to Escrow Fund	76,150,382.70
Underwriters' Discount	623,655.38
Cost of Issuance (including Bond Insurance Premium)	650,545.13
Deposit to Debt Service Fund	<u>585,963.09</u>
Total Sources of Funds	<u>\$128,010,546.30</u>

The estimated sources and uses of funds for the Series 2010B Bonds are as follows.

Sources:	
Par Amount of Bonds	\$100,990,000.00
Original Issue Discount	(59,080.80)
Accrued Interest	<u>571,046.24</u>
Total Sources of Funds	<u>\$101,501,965.44</u>
Uses:	
Tax-exempt Commercial Paper Refunding	\$100,000,000.00
Underwriters' Discount	630,093.38
Cost of Issuance	300,825.82
Deposit to Debt Service Fund	<u>571,046.24</u>
Total Sources of Funds	<u>\$101,501,965.44</u>

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DEBT PAYABLE FROM SYSTEMS REVENUES

(As of March 31, 2010)

<u>Combined Utility Systems Obligations</u>	
Prior First Lien Obligations	\$ 168,211,746
Prior Subordinate Lien Obligations	<u>240,419,512</u>
Sub-Total	\$ 408,631,258
<u>Parity Electric Utility Obligations (a)</u>	\$1,143,615,000
<u>Water and Wastewater System Separate Lien Obligations (b)</u>	
Parity Water & Wastewater Obligations	\$1,647,845,000
<u>Commercial Paper (c)</u>	\$ 160,086,000
<u>General Obligation Bonds (d)</u>	\$ 18,306,787
<u>Assumed Bonds and Obligations</u>	
Assumed District Bonds (e)	<u>\$ 19,562,368</u>
TOTAL (e)	<u>\$3,398,046,413</u>

See "SECURITY FOR THE BONDS".

- (a) Includes the Bonds, but 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) The City has a Tax-Exempt Commercial Paper Program in place for the Combined Utility Systems in an amount not to exceed \$350,000,000 and a Taxable Commercial Paper Program for the Combined Utility Systems in an amount not to exceed \$50,000,000. The outstanding amount shown above excludes the Refunded Notes. See "PLAN OF FINANCING". 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 and Wastewater System Separate Lien Obligations. The City's current Financial Policy provides that the proceeds of Commercial Paper Notes issued for the Electric Utility can only be utilized (i) to finance capital improvements required for normal business operation for Electric System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations without prior voter authorization; however, this shall not apply to new nuclear or conventional coal generation, or (ii) for voter authorized projects (although such voter authorization is not required by State law).
- (d) Contractual Obligations and Public Improvement Bonds payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System.
- (e) Such bonds are 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	Outstanding Subordinate Lien Bonds	Total Prior & Subordinate Lien Bond Requirements	The Bonds		Electric Utility System Obligations	Water & WW Separate Lien Obligation Bonds	Assumed MUD Obligations (c)	Total Separate Lien and Combined Utility Systems Requirements
				Principal	Interest (b)				
2010	\$ 16,920,250	\$ 9,259,429	\$ 26,179,679	\$ -	\$ -	\$ 23,948,771	\$ 48,529,680	\$ 1,226,441	\$ 99,884,569
2011	106,257,531	15,912,755	122,170,286	-	10,757,060	86,878,384	105,752,979	2,060,692	327,619,401
2012	100,945,594	16,861,853	117,807,446	-	11,257,388	85,086,113	119,636,328	2,062,707	335,849,983
2013	61,293,113	17,129,078	78,422,190	4,805,000	11,229,188	112,719,726	136,725,232	2,069,917	345,971,253
2014	504,700	18,579,978	19,084,678	4,375,000	11,069,563	153,810,673	165,985,431	2,208,806	356,534,150
2015	6,045,000	30,478,963	36,523,963	5,020,000	10,877,188	104,075,411	147,536,473	2,205,366	306,238,400
2016	6,045,000	31,239,715	37,284,715	3,170,000	10,642,438	67,220,930	152,217,318	2,234,530	272,769,931
2017	42,150,000	21,563,885	63,713,885	3,330,000	10,496,588	69,297,292	126,813,967	1,955,338	275,607,069
2018	62,050,000	21,805,425	83,855,425	3,465,000	10,343,363	55,425,822	105,240,474	1,663,292	259,993,376
2019	31,735,000	21,129,813	52,864,813	3,635,000	10,165,863	55,213,873	105,716,296	1,030,083	228,625,927
2020	-	23,728,400	23,728,400	3,820,000	9,990,146	54,882,786	112,600,408	1,033,498	206,055,237
2021	-	23,806,325	23,806,325	3,940,000	9,817,808	52,149,553	111,657,639	1,046,118	202,417,443
2022	-	29,843,513	29,843,513	4,060,000	9,630,975	46,085,005	108,366,400	1,036,678	199,022,569
2023	-	28,853,025	28,853,025	10,060,000	9,278,655	40,072,260	109,600,346	1,041,188	198,905,473
2024	-	28,640,038	28,640,038	10,500,000	8,761,639	39,989,537	109,704,811	1,038,575	198,634,599
2025	-	25,298,938	25,298,938	11,050,000	8,219,773	40,073,386	96,483,057	1,044,475	182,169,629
2026	-	9,630,775	9,630,775	11,600,000	7,661,355	39,917,274	96,729,413	943,463	166,482,278
2027	-	10,046,013	10,046,013	12,130,000	7,066,318	39,919,786	94,898,884	-	164,061,001
2028	-	10,138,313	10,138,313	12,805,000	6,420,143	39,777,011	94,920,819	-	164,061,285
2029	-	-	-	13,380,000	5,741,892	39,599,745	94,507,982	-	153,229,618
2030	-	-	-	14,070,000	5,031,160	26,306,444	86,442,125	-	131,849,729
2031	-	-	-	14,760,000	4,290,514	26,320,563	46,248,933	-	91,620,009
2032	-	-	-	5,860,000	3,750,670	26,217,613	31,906,863	-	67,735,146
2033	-	-	-	6,090,000	3,417,486	26,093,261	31,987,006	-	67,587,753
2034	-	-	-	6,335,000	3,071,149	22,105,631	32,019,125	-	63,530,905
2035	-	-	-	6,585,000	2,711,105	22,043,244	31,980,500	-	63,319,849
2036	-	-	-	6,845,000	2,336,925	21,960,000	32,344,500	-	63,486,425
2037	-	-	-	7,120,000	1,947,948	12,606,000	32,276,750	-	53,950,698
2038	-	-	-	7,405,000	1,543,495	12,590,625	23,378,250	-	44,917,370
2039	-	-	-	7,700,000	1,123,012	12,576,750	14,522,500	-	35,922,262
2040	-	-	-	8,005,000	685,945	-	14,385,000	-	23,075,945
2041	-	-	-	8,325,000	231,597	-	1,060,000	-	9,616,597
2042	-	-	-	-	-	-	1,065,000	-	1,065,000

As of March 31, 2010

(a) Excludes the Refunded Bonds and Commercial Paper Notes (including the Refunded Notes).

(b) Excludes anticipated Subsidy Payments in respect of Series 2010B Bonds. See "SECURITY FOR THE BONDS - Designation of the Series 2010B Bonds as Qualified Build America Bonds."

(c) 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 ordinances authorizing the issuance of the Prior First Lien Obligations and the Prior Subordinate Lien Obligations, the City retained the right to issue "Separate Lien Obligations", which are defined as obligations payable solely from the Net Revenues of either the Electric Utility System or the Water and Wastewater System, but not both, and such payments for their retirement by the terms of the ordinance authorizing their issuance are secured solely by a lien on and pledge of the Net Revenues of the Electric Utility System or the Net Revenues of the Water and Wastewater System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Prior Subordinate Lien Obligations.

Parity Electric Utility Obligations. . . . The Bonds are "Separate Lien Obligations" under the terms of the Bond Ordinance, and represent the tenth issue or series of Separate Lien Obligations of the City's Electric Utility System. The Master Ordinance and the Tenth Supplement pledge the Net Revenues of the Electric Utility System to the payment of the "Parity Electric Utility Obligations" (the Outstanding Parity Electric Utility Obligations, the Bonds and additional parity obligations hereafter issued or incurred), and the Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System, subject to the prior claim on and lien on the Net Revenues of the Electric Utility 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 Parity Electric Utility Obligations are secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplemental Ordinance and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance. The Tenth Supplement affirms that a Reserve Fund will be created and established only when the "Pledged Net Revenues" of the System for a Fiscal Year are less than one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. When a Reserve Fund is required to be maintained, the amount to be accumulated is to be based on the amount of the shortfall in the Pledged Net Revenues below 150% of the annual Debt Service Requirements for the Parity Electric Utility Obligations and range from a maximum amount of 50% of the Maximum Annual Debt Service when the Pledged Net Revenues for a Fiscal Year are less than 110% of the annual Debt Service Requirement for such Fiscal Year to a minimum of 10% of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year. Currently, the Pledged Net Revenues are in excess of 150% of the Annual Debt Service Requirements, and therefore the City is not required, and currently does not intend, to fund a reserve fund for the Bonds (see "No Reserve Fund for Parity Electric Utility Obligations" below).

Build America Bonds

General Description. In February 2009, as part of the Recovery Act, Congress added Sections 54AA and 6431 to the Code, which permit state or local governments to obtain certain tax advantages when issuing taxable obligations that meet certain requirements of the Code and the related Treasury regulations. Such bonds are referred to as Build America Bonds. A Build America Bond is a qualified bond under Section 54AA(g) of the Code (a "Qualified Build America Bond") if it meets certain requirements of the Code and the related Treasury Regulations and the issuer has made an irrevocable election to treat the bonds as Qualified Build America Bonds. Interest on Qualified Build America Bonds is not excluded from gross income for purposes of the federal income tax, and beneficial owners of Qualified Build America Bonds will not receive any tax credits or Subsidy Payments (as defined below) as a result of ownership of such Qualified Build America Bonds.

Designation of the Series 2010B Bonds as Qualified Build America Bonds

The City has irrevocably elected to designate the Series 2010B Bonds as “Qualified Build America Bonds” for purposes of the Recovery Act, permitting it to receive cash subsidies (the “Subsidy Payments”) from the United States Treasury in connection therewith. Pursuant to the Recovery Act, the City expects to receive Subsidy Payments from the United States Treasury equal to 35% of the interest payable on the Series 2010B Bonds. Subsidy Payments received by the City will not be pledged to the payment of the Series 2010B Bonds. Subsidy Payments may be used for any lawful purpose of the City, including but not limited to, the payment of the debt service on the Series 2010B Bonds. No holder of the Series 2010B Bonds will be entitled to a tax credit nor any Subsidy Payments with respect to the Series 2010B Bonds. Although the City expects to receive such Subsidy Payments contemporaneously with each applicable interest payment date of the Series 2010B Bonds, the City anticipates that, until such time as the federal government has completed the adoption and implementation of the rules and procedures necessary to effectively implement and administer the tax provisions of the Recovery Act (as they relate to the disbursement of Subsidy Payments), the City may experience delays in its receipt of the Subsidy Payments.

The receipt of Subsidy Payments is subject to certain requirements, including the filing of a form (Form 8038-CP) with the Internal Revenue Service (the “IRS”) between 90 and 45 days prior to each interest payment date. The Subsidy Payments do not constitute a full faith and credit guarantee of the United States Government, but are required to be paid by the United States Treasury under the Recovery Act.

No assurances are provided that the City will receive the Subsidy Payments, or that it will use the Subsidy Payments to defray a portion of the debt service payments on the Series 2010B Bonds. The amount of any Subsidy Payment is subject to legislative changes by Congress. Subsidy Payments will only be paid if the Series 2010B Bonds are Qualified Build America Bonds. For the Series 2010B Bonds to be and remain Qualified Build America Bonds, the City must comply with certain covenants and the City must establish certain facts and expectations with respect to the Series 2010B Bonds, the use and investment of proceeds thereof and the use of property financed therewith. If the City fails to comply with the conditions of the United States Treasury for the continued receipt of the Subsidy Payments throughout the term of the Series 2010B Bonds, it may no longer receive the Subsidy Payments and could be subject to a claim for return of previously received Subsidy Payments. There are currently no procedures for requesting a Subsidy Payment after the 45th day prior to an interest payment date; therefore, if the City fails to file the necessary tax return in a timely fashion, it is possible that the City will never receive such Subsidy Payment. Also, Subsidy Payments are subject to offset against certain amounts that may, for unrelated reasons, be owed by the City to an agency of the United States of America, under the Treasury Offset Program administered by the United States Treasury. See “OTHER RELEVANT INFORMATION – Miscellaneous Information” for information concerning the recent offset of a subsidy payment in respect of certain Build America Bonds previously issued by the City.

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

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

Rate Covenant Required by Master Ordinance

The City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility 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 (x) deducting amounts expended during the Fiscal Year from the Electric Utility System’s Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations

and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility 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, charges and fees to be revised and adjusted to comply with such rate covenant or obtain a written report from a Utility System Consultant, after a review and study of the operations of the Electric Utility System has been made, concluding that, in their opinion, the rates, charges and fees then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates, charges and fees to comply with the rate covenant described in the immediately preceding paragraph and such adjustments and revisions to electric rates, charges and fees are promptly implemented and enacted in accordance with such Utility System Consultant's report. The City shall be deemed to be in compliance with the rate covenant described in the immediately preceding paragraph 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 Prior First Lien Obligations and Prior Subordinate Lien Obligations

A separate reserve fund has been established for the benefit of the Prior First Lien Obligations and Prior Subordinate Lien Obligations. 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 Bond Ordinance relating to the Reserve Fund to allow for the funding of all or a part of the amount required to be maintained in the Reserve Fund (the "Required Reserve") with Financial Commitments (defined below) and change the Required Reserve to an amount equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, as determined on (i) the date of the initial deposit of a Financial Commitment to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement, whichever date is the last to occur. The term "Financial Commitments" means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength rated in the highest rating category by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings ("Fitch") and, 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 Bond Ordinance as of April 30, 2010 is \$44,011,588.69 and such amount is funded with Financial Commitments issued by Financial Security Assurance Inc. ("FSA"). The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior First Lien Obligations and Prior Subordinate Lien Obligations in a manner that reduces the principal amount and Maturity Amount of outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations.

No Reserve Fund for Parity Electric Utility Obligations

The Master Ordinance does not provide for a Reserve Fund for the Parity Electric Utility Obligations. The Tenth Supplement, however, affirms that a Reserve Fund shall not be required to be established or maintained by the City for the payment of the Parity Electric Utility Obligations so long as the "Pledged Net Revenues" of the Electric Utility System for a Fiscal Year (the Net Revenues of the System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements for Prior First Lien Obligations and Prior Subordinate Lien Obligations in such Fiscal Year) equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. If for any Fiscal Year such "Pledged Net Revenues" do not exceed 150% of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, the City shall be obligated to establish and maintain on the books of the City a separate fund or account designated as the "Electric Utility System Revenue Obligation Reserve Fund" (the "Reserve Fund"). When a Reserve Fund is required to be established, the Required Reserve Amount to be accumulated and maintained in such Fund shall

be determined and redetermined as follows:

- ten per cent (10%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year;
- (i) twenty per cent (20%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 140% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 130% of the annual Debt Service Requirement for such Fiscal Year;
 - (ii) thirty per cent (30%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 130% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 120% of the annual Debt Service Requirement for such Fiscal Year;
 - (iii) forty per cent (40%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 120% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 110% of the annual Debt Service Requirement for such Fiscal Year;
 - (iv) fifty per cent (50%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 110% of the annual Debt Service Requirement for such Fiscal Year.

When a Reserve Fund is required, the City may deposit cash to such Fund or acquire and deposit a surety bond to provide the Required Reserve Amount or a combination of such cash and a surety bond. In funding such Required Reserve Amount, or to increase the Required Reserve Amount pursuant to a Supplement, the Required Reserve Amount or increase in the Required Reserve Amount, as applicable, may be funded in up to twelve (12) substantially equal consecutively monthly deposits commencing not later than the month following that receipt of audited financial statements for the System for the preceding Fiscal Year.

Issuance of Additional Prior First Lien Obligations and Prior Subordinate Lien Obligations 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.

Issuance of Parity Electric Utility Obligations

Under the Master Ordinance the City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of the Master Ordinance and any Supplement. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing: (i) 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 in the Master Ordinance and any Supplement thereof, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility 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) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility 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, exceed one hundred ten percent (110%) of the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the Parity Electric Utility Obligations then being issued.

For purposes of clause (ii) in the preceding paragraph, if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the required Designated Financial Officer's certificate described above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

In making a determination of Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility 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 Electric Utility System for the period of time covered by such certification based on such change in rates, charges and fees being in effect for the entire period covered.

Short-Term Parity Electric Utility Obligations

Pursuant to the Ordinance the City may issue or incur additional Parity Electric Utility Obligations issued in the form of commercial paper and for the purposes of satisfying the Net Revenues coverage test for additional Parity Electric Utility 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 Electric Utility 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.

Special Facilities Debt and Subordinated Debt

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

Credit Agreements

Payments to be made under a Credit Agreement may be treated as Parity Electric Utility 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 Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility 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.

System Fund

The Master Ordinance recites that 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 Electric Utility Obligations are Outstanding a separate fund or account known and designated as the "Electric Light and Power System Fund" (the "Electric 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 the Electric Utility 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, and (ii) the special Funds and Accounts for the payment of the Parity Electric Utility 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.

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

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series 2010A Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) (“AGM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Series 2010A Bonds maturing on November 15 in each of the years 2028 and 2029 (the “Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp. (Formerly Known as Financial Security Assurance Inc.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (“Holdings”). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

On July 1, 2009, AGL acquired the financial guaranty operations of Holdings from Dexia SA (“Dexia”). In connection with such acquisition, Holdings’ financial products operations were separated from its financial guaranty operations and retained by Dexia. For more information regarding the acquisition by AGL of the financial guaranty operations of Holdings, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the “SEC”) on July 8, 2009.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM’s financial strength is rated “AAA” (negative outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “Aa3” (negative outlook) by Moody’s Investors Service, Inc. (“Moody’s”). On February 24, 2010, Fitch, Inc. (“Fitch”), at the request of AGL, withdrew its “AA” (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Recent Developments

Ratings

On May 17, 2010, S&P published a Research Update in which it affirmed its “AAA” counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the “AA” (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch’s comments.

On December 18, 2009, Moody’s issued a press release stating that it had affirmed the “Aa3” insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moody.com, for the complete text of Moody’s comments.

There can be no assurance as to any further ratings action that Moody’s or S&P may take with respect to AGM.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the SEC on March 1, 2010, and AGL’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010. Effective July 31, 2009, Holdings is no longer subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”).

Capitalization of AGM

At March 31, 2010, AGM’s consolidated policyholders’ surplus and contingency reserves were approximately \$2,220,015,145 and its total net unearned premium reserve was approximately \$2,228,912,193 in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010); and
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption “BOND INSURANCE – Assured Guaranty Municipal Corp. (Formerly Known as Financial Security Assurance Inc.)” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Insured Bonds when all or some becomes due, any owner of an Insured Bond shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Insured Bonds by the City which is recovered by the City from the owner of an Insured Bond as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by AGM at such time and in such amounts as would have been due absent such prepayment by the City unless AGM chooses to pay such amounts at an earlier date.

Under no circumstances does default of payment of principal and interest obligate acceleration of the obligations of AGM without its consent. AGM may direct and must consent to any remedies that a trustee exercises and AGM's consent may be required in connection with amendments to the applicable agreements.

In the event AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Insured Bonds are payable solely from the moneys received by the trustee pursuant to the applicable Agreements. In the event AGM becomes obligated to make payments with respect to the Insured Bonds, no assurance is given that such event will not adversely affect the market price of the Insured Bonds or the marketability (liquidity) for the Insured Bonds.

The long-term ratings on the Insured Bonds are dependent in part on the financial strength of AGM and its claim paying ability. AGM's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of AGM and of the ratings on the Insured Bonds insured by AGM will not be subject to downgrade and such event could adversely affect the market price of the Insured Bonds or the marketability (liquidity) for the Insured Bonds. See "Ratings" herein.

The obligations of AGM are general obligations of AGM and in an event of default by AGM, the remedies available to the Insured Bondholders may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the City or the Underwriter have made independent investigation into the claims paying ability of AGM and no assurance or representation regarding the financial strength or projected financial strength of AGM is given.

DESCRIPTION OF THE BONDS

The Bonds will be dated June 1, 2010, and interest will accrue from their dated date and will be payable on November 15, 2010, and on each May 15 and November 15 thereafter until maturity or prior redemption. The Bonds will mature on May 15 and November 15 in the years and in the principal amounts set forth on the inside cover page hereof. Principal of the Bonds is payable at maturity, subject only to prior redemption as is hereinafter defined.

REDEMPTION

Optional Redemption of the Series 2010A Bonds

The City reserves the right at its option to redeem Series 2010A Bonds maturing on or after November 15, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on November 15, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Upon any optional redemption of Series 2010A Bonds, if less than all of the Series 2010A Bonds are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Series 2010A Bonds, or portion thereof, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

Optional Redemption of the Series 2010B Bonds

The City reserves the right and option to redeem the Series 2010B Bonds in whole or in part in principal amounts equal to \$5,000 or any integral multiple thereof, on any date before their respective maturity dates, at a redemption price (the "Make Whole Optional Redemption Price") equal to the greater of:

- (1) the issue price (but not less than 100%) of the principal amount of the Series 2010B Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010B Bonds are to be redeemed, discounted to the date on which the Series 2010B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 25 basis points, plus, in each case, accrued and unpaid interest on the Series 2010B Bonds to be redeemed to the redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2010B Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available at least five (5) Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2010B Bonds to be redeemed; provided, however, that, if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

At the request of the Paying Agent/Registrar, the Make-Whole Optional Redemption Price of Series 2010B Bonds to be redeemed will be determined by an independent accounting firm, investment banking firm or financial advisor retained by and at the expense of the City to calculate such redemption price. The Paying Agent/Registrar and the City may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Upon any optional redemption of Series 2010B Bonds, if less than all of the Series 2010B Bonds are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Series 2010B Bonds, or portion thereof, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

Extraordinary Optional Redemption of the Series 2010B Bonds

The City has reserved the right and option to redeem the Series 2010B Bonds, in whole or part, in principal amounts equal to \$5,000 or any integral multiple thereof, before their respective maturity dates, at any time on or after the occurrence of an Extraordinary Event, at a redemption price (the "Extraordinary Optional Redemption Price") equal to the greater of:

- (1) the issue price (but not less than 100%) of the principal amount of the Series 2010B Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010B Bonds are to be redeemed, discounted to the date on which the Series 2010B Bonds are to be redeemed, on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points, plus, in each case, accrued and unpaid interest on the Series 2010B Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if a change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act) pertaining to Build America Bonds pursuant to which the Subsidy Payments applicable to the Series 2010B Bonds are reduced or eliminated.

At the request of the Paying Agent/Registrar, the Extraordinary Optional Redemption Price of Series 2010B Bonds to be redeemed will be determined by an independent accounting firm, investment banking firm or financial advisor retained by and at the expense of the City to calculate such redemption price. The Paying Agent/Registrar and the City may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Upon any optional redemption of Series 2010B Bonds, if less than all of the Series 2010B Bonds are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Series 2010B Bonds, or portion thereof, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

Mandatory Sinking Fund Redemption of the Series 2010A Bonds

The Series 2010A Bonds maturing on November 15, 2040 (the “Series 2010A Term Bonds”) are subject to mandatory redemption prior to maturity, in part, at the redemption price of par plus accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

<u>Series 2010A Term Bonds Maturing November 15, 2040</u>	
Mandatory Sinking Fund	
<u>Redemption Date</u>	<u>Mandatory Sinking</u>
<u>(November 15)</u>	<u>Fund Payment</u>
2031	\$ 1,165,000
2032	1,220,000
2033	1,285,000
2034	1,345,000
2035	1,410,000
2036	1,485,000
2037	1,560,000
2038	1,640,000
2039	1,720,000
2040*	<u>1,805,000</u>
	\$14,635,000

*Stated maturity.

The principal amount of the Series 2010A Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Series 2010A Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Series 2010A Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

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Mandatory Sinking Fund Redemption of the Series 2010B Bonds

All of the Series 2010B Bonds are subject to mandatory redemption prior to maturity, in part, at the redemption price of par plus accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

Series 2010B Bonds Maturing November 15, 2020

Mandatory Sinking Fund

Redemption Date (November 15)	Mandatory Sinking Fund Payment
2019	\$3,150,000
2020*	<u>3,245,000</u>
	\$6,395,000

Series 2010B Bonds Maturing November 15, 2025

Mandatory Sinking Fund

Redemption Date (November 15)	Mandatory Sinking Fund Payment
2021	\$ 3,340,000
2022	3,450,000
2023	3,565,000
2024	3,680,000
2025*	<u>3,805,000</u>
	\$17,840,000

Series 2010B Bonds Maturing November 15, 2030

Mandatory Sinking Fund

Redemption Date (November 15)	Mandatory Sinking Fund Payment
2026	\$ 3,930,000
2027	4,070,000
2028	4,220,000
2029	4,370,000
2030*	<u>4,530,000</u>
	\$21,120,000

Series 2010B Bonds Maturing November 15, 2040

Mandatory Sinking Fund

Redemption Date (November 15)	Mandatory Sinking Fund Payment
2031	\$ 4,695,000
2032	4,870,000
2033	5,050,000
2034	5,240,000
2035	5,435,000
2036	5,635,000
2037	5,845,000
2038	6,060,000
2039	6,285,000
2040*	<u>6,520,000</u>
	\$55,635,000

*Stated maturity.

The principal amount of the Series 2010B Term Bonds of a maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the City, by the principal amount of Series 2010B Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of the Series 2010B Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

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

With respect to any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption may, at the option of the City, be conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient

moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

Defeasance

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

Paying Agent/Registrar

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

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

Record Date for Interest Payment

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

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, printed certificates delivered to the Holders and thereafter the Bonds may be transferred and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration shall be at the expense of the City, except for any tax or other governmental charge with respect thereto. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds of like series and aggregate principal amount will be delivered by the Paying Agent/Registrar to the last assignee (the new registered owner) in exchange for such transferred and assigned Bonds not more than three days after receipt of the Bonds to be transferred in proper form. Such new Bond or Bonds must be in the denomination of \$5,000 or any integral multiple thereof within a maturity.

Bondholders Remedies

Neither the Master Ordinance nor the Tenth Supplement specify events of default with respect to the Bonds of either series. 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 Tenth 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 Tenth 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 Tenth 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 Tenth 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 Tenth 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.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of 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 creditors' rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

For a more detailed explanation of the various covenants and agreements with the Holders of the Bonds, including provisions for amendments to the Master Ordinance and any supplements thereto, and defeasance of the Bonds, see APPENDIX C attached hereto.

BOOK-ENTRY-ONLY SYSTEM

The City has elected to utilize the Book-Entry-Only System of DTC, as described under this heading. The obligation of the City is to timely pay the Paying Agent/Registrar the amount due under the Master Ordinance and Tenth Supplement. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described herein.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants as referred to collectively as "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 Bonds under the DTC system must be made by or through Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 Paying Agent/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 Bonds 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 Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as depository with respect to the Bonds 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, Bond 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, Bond certificates will be printed and delivered.

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

THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") and a Water and Wastewater System (also referred to herein as the "Water 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 1,621 full-time regular employees as of March 31, 2010. The Water and Wastewater System had approximately 1,057 full-time regular employees as of the same date.

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**ELECTRIC SYSTEM
“AUSTIN ENERGY”**

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City*</u>
Robert Goode	Interim General Manager	2 Years
Cheryl Mele	Chief Operating Officer	18 Years
Kerry Overton	Deputy General Manager	10 Years
Elaine Hart, CPA	Senior Vice President, Finance and Corporate Services	21 Years**
Vacant	Vice President, Power Production	-
David Wood	Vice President, Electric Service Delivery	17 Years
JJ Guterrez	Vice President, Customer Care	15 Years
Karl Rabago	Vice President, Distributed Energy Services	1 Year

* As of March 31, 2010.

**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

<u>As of September 30, 2009</u>	<u>Average Monthly Number of Customers</u>	<u>Percent</u>
Residential	363,217	89.04%
Commercial	43,050	10.55%
Industrial	80	0.02%
Public Street & Highway	4	0.00%
Sales to Governmental Authorities	<u>1,575</u>	<u>0.39%</u>
Total Service Area Customers	<u>407,926</u>	<u>100.00%</u>

DESCRIPTION OF PHYSICAL PROPERTY

Generation

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

Generation – TABLE ONE

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

<u>Unit</u>	<u>Year Installed</u>	<u>Nameplate Rating (MW)</u>	<u>Fuel</u>
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	321.0	Gas/No. 2 oil backup
Unit No. 2	1977	405.0	Gas or Nos. 1 through 5 oil
Gas Turbines	1988	200.0	Gas/No. 1 oil backup
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Combined Cycle	2004	300.0	Gas
MEC CHP (Dell Children’s Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	<u>200.0</u>	Nuclear
Total Capacity owned by Austin Energy		2,380.6	
Purchased Power (1):			
LCRA Texas Wind Contract	1995	10.0	Wind
FPL Energy Upton Wind I, LP.	1999-2001	76.7	Wind
RES North America Sweetwater Wind	2005	128.0	Wind
Whirlwind Energy LLC	2007	60.0	Wind
Hackberry Wind LLC	2008	165.6	Wind
Gas Recovery System, LLC	1994-2003	4.0	Landfill Methane
Ecogas Inc. and Energy Developments, Inc	2002-2003	<u>7.8</u>	Landfill Methane
Total Capability including Purchase Power		2,832.7	

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

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

Fuel Supply

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

Percent of Power by Fuel Type

<u>% Generation</u>	As of September 30,				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Coal	34.6%	29.7%	32.2%	33.2%	28.3%
Natural Gas & Oil	25.2%	27.9%	27.3%	25.7%	26.5%
Nuclear	27.9%	27.3%	25.8%	27.1%	26.4%
Renewable Energy	4.3%	5.7%	5.1%	6.1%	9.5%
Purchased Power	<u>8.0%</u>	<u>9.4%</u>	<u>9.6%</u>	<u>7.9%</u>	<u>9.3%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Fuel Type

Coal . . . Coal supply and transportation are procured through a portfolio of contracts with transportation specifically managed to minimize cost. Typically, several months of coal inventory are maintained to protect against disruptions. As of April 2010, coal inventories are near targeted amounts and train sets have been removed from service because rail service is sufficient to maintain coal inventory with fewer train sets in operation.

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

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

Fayette Power Project

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

The Clean Air Act and other regulations require all existing coal plants to reduce the levels of SO₂ and NO_x by 2010. As a result, the Fayette Power Project is in the process of installing scrubbers on Units 1 & 2. It is estimated that the project cost will be in the range of \$225 million for Austin Energy’s share. The Design Phase was completed in February of 2006. Procurement of equipment and Phase II Engineering and Construction are currently underway. Project completion is scheduled for late 2011.

Austin Energy Gas Generation Facilities

All four (4) of Austin Energy’s gas generation facilities are located in Austin Energy’s service territory. Austin Energy began commercial operation of a 300 MW combined cycle gas-fired electric generating facility at the Sand Hill Energy Center on September 1, 2004. The “one-on-one” combined cycle unit consists of one (1) “F” class combustion turbine (“CT”), one (1) natural circulation, duct fired, heat recovery steam generator (“HRSG”), one (1) steam turbine and balance of plant equipment and controls. The unit was designed so that a future “F” technology CT/HRSG train may be added to achieve a nominal rating of 500 MW for this power block. The facility was funded with cash from operations. Currently, a project is underway to add two General Electric LM6000 aeroderivative gas turbines at the Sand Hill Energy Center. The two new units (45 MW each) will be similar to the four existing peaking units installed at Sand Hill in 2001. The new units will help Austin Energy meet generation capacity requirements after the closure of the Holly Street Power Plant on October 1, 2007. The project, estimated to be completed in mid-2010 at a cost of \$70 million, is funded by 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, chilled water and power for adjacent buildings. Excess electric power generated at the facility is sent to the electric grid. The electric power is produced by a Mercury 50 gas turbine. The nameplate rating at ISO conditions is 4.6 MW. The gas turbine exhaust passes through a heat recovery steam generator producing steam for use by an adjoining hospital and/or in an absorption chiller. A 1.5 MW standby diesel generator gives the plant “Black Start” capability.

South Texas Project Electric Generation Station

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

South Texas Project Ownership

<u>Participants</u>	<u>Ownership %</u>	<u>Nominal MW Output</u>
City of Austin – Austin Energy	16.0	410.0
NRG South Texas LP	44.0	1,127.5
CPS Energy (San Antonio)	<u>40.0</u>	<u>1,025.0</u>
Total	100.0	2,562.5

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

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. Under NRC regulations, the STP owners can request a 20-year license renewal. The STP license renewal process is underway for Units 1 and 2. Completion of the license review process by STPNOC is expected in the fourth quarter of 2010 and submission to the NRC in 2011. Austin Energy currently anticipates receiving NRC approval in 2012.

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

South Texas Project Capacity Factor

For the calendar year ended December 31, 2009, the STP capacity factor for Unit 1 was 92.1%, and for Unit 2 the capacity factor was 103.3%, resulting in a total capacity factor of 97.7%. Low Pressure turbine upgrades were completed in 2007 for both units. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy's share is 21.9 MW. A scheduled major capital project is the replacement of the reactor vessel heads. Unit 1's replacement is now complete and work on Unit 2's reactor vessel head replacement began on March 29, 2010 and was completed on schedule during May 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 total of both projects are 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

<u>City</u>	<u>Electric Bill*</u>
San Antonio	\$ 88.04
AUSTIN	94.88
El Paso	110.97
Dallas/Fort Worth	129.21
Houston	133.28
Corpus Christi	141.92

*Average Residential Bill for 1,000 KWh during the period April 2009 – March 2010 including fuel costs. The cities shown, other than Austin and San Antonio, are served by competitive retail service providers.

Source: Public Utility Commission of Texas and powertochoose.org.

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CUSTOMER STATISTICS

TABLE TWO shows service area billed customer sales since the year ended September 30, 2005. The revenue per year varies in large degree due to the price of fuel which is passed through to customers in the fuel adjustment clause as stated above. MWH sales variances are due to a combination of customer growth and weather.

Five Year Electric Customer Statistics – TABLE TWO

	Fiscal Year Ended September 30				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Revenue (000's)</u>					
Residential	\$ 348,282	\$ 387,540	\$ 356,143	\$ 416,809	\$ 406,393
Commercial	335,859	367,017	365,991	408,808	402,032
Industrial	93,448	108,491	113,248	138,901	132,792
Public Street & Highway	7,579	8,128	8,106	8,403	8,430
Sales to Government Authorities	<u>74,110</u>	<u>80,334</u>	<u>76,358</u>	<u>86,069</u>	<u>82,751</u>
Total	\$ 859,278	\$ 951,510	\$ 919,846	\$ 1,058,990	\$ 1,032,398
<u>MWH</u>					
Residential	3,879,940	4,079,909	3,908,318	4,226,036	4,218,600
Commercial	4,195,212	4,287,176	4,350,912	4,530,470	4,480,902
Industrial	1,662,458	1,779,333	1,930,289	2,233,904	2,218,315
Public Street & Highway	46,366	46,873	47,230	47,657	47,831
Sales to Government Authorities	<u>1,081,420</u>	<u>1,103,589</u>	<u>1,088,320</u>	<u>1,147,973</u>	<u>1,137,492</u>
Total	10,865,396	11,296,880	11,325,069	12,186,040	12,103,140
<u>Average Monthly Number of Customers</u>					
Residential	331,490	338,184	345,197	352,574	363,217
Commercial	39,691	40,934	41,825	42,585	43,050
Industrial	68	75	75	79	80
Public Street & Highway	4	4	4	4	4
Sales to Government Authorities	<u>1,482</u>	<u>1,501</u>	<u>1,519</u>	<u>1,549</u>	<u>1,575</u>
Total	372,735	380,698	388,620	396,791	407,926
<u>Average Monthly KWH per Customer</u>					
Residential	975	1,005	943	999	968
Commercial	8,808	8,728	8,669	8,866	8,674
Industrial	2,037,325	1,974,842	2,135,275	2,384,102	2,310,745
Public Street & Highway	965,967	976,519	983,969	992,844	996,479
Sales to Government Authorities	60,809	61,283	59,712	61,749	60,192
<u>Average Monthly Bill per Customer</u>					
Residential	\$ 87.55	\$ 95.30	\$ 85.98	\$ 98.52	\$ 93.24
Commercial	705.15	747.17	729.21	799.98	778.23
Industrial	114,519.75	120,411.70	125,274.28	148,240.41	138,325.00
Public Street & Highway	157,883.58	169,328.09	168,883.61	175,066.04	175,625.00
Sales to Government Authorities	4,167.25	4,460.99	4,134.63	4,629.61	4,378.92
<u>Average Revenues per KWH</u>					
Residential	\$ 0.08976	\$0.09499	\$0.09112	\$0.09863	\$0.09633
Commercial	0.08006	0.08561	0.08412	0.09024	0.08972
Industrial	0.05621	0.06097	0.05867	0.06218	0.05986
Public Street & Highway	0.16345	0.17340	0.17164	0.17633	0.17625
Sales to Government Authorities	0.06853	0.07279	0.06924	0.07497	0.07275

Source: Austin Energy.

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Electric Rates – TABLE THREE

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

<u>Customer Class</u>	<u>Fuel Adjustment Clause (2)</u>	<u>Customer Charge</u>	<u>1st 500 kWh</u>	<u>Energy Charge</u>	
				<u>Winter</u> <u>November – April</u>	<u>Summer</u> <u>May - October</u>
Residential Service (E01)	All kWh	\$6.00	\$.0355 Per kWh	\$.0602 All kWh Above 500 kWh	\$.0782 All kWh Above 500 kWh
General Service Non-Demand (E02)	All kWh	6.00		.0464 All kWh	.0644 All kWh
State Accounts Non-Demand (E13)	All kWh	6.00		.0319 All kWh	.0499 All kWh
			<u>Minimum Bill (3)</u>		
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
			<u>Energy Charge</u>	<u>Demand Charge</u>	
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	<u>Fuel Charge</u>		<u>Pole Rental</u>	<u>Customer Charge</u>	
175 Watt Mercury Vapor	60 kWh Per Light		\$1.74 Per Pole	\$ 7.34 Per Light	
100 Watt High Pressure Sodium	35 kWh Per Light		1.74 Per Pole	4.28 Per Light	
400 Watt Mercury Vapor	140 kWh Per Light		1.74 Per Pole	17.11 Per Light	
250 Watt High Pressure Sodium	90 kWh Per Light		1.74 Per Pole	11.00 Per Light	

(1) Does not include special contracts, time-of-use and economic development rates.

(2) The Fuel Adjustment Clause recovers fuel costs. Customers also have the option for Green Choice rider in lieu of the Fuel Adjustment Clause, discussed on the following page.

(3) Minimum Bill is applied when the sum of energy, demand and fuel charges is less than \$12.00.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On June 9, 2006, the PUCT approved the City's most recent wholesale transmission rate of \$1.002466/kW. Transmission revenues are expected to total approximately \$61 million in 2010. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

Within ERCOT, each load serving entity, including Austin Energy, pays for transmission services on a pro-rata basis. PUCT Docket No. 33672 designated competitive renewable energy zones (CREZ) and eventually promulgate alternative plans to construct approximately \$5 billion in new transmission plant. The new transmission plant is estimated to be completed by 2015 and will link renewable energy resources, more specifically wind farms located in the Panhandle and West Texas, to load centers throughout ERCOT. The cost of these facilities will eventually be passed on to distribution service providers. The total Texas transmission construction cost estimate is \$8.2 billion of which CREZ is \$5 billion.

GreenChoice® Energy Rider

In March 2001, Austin Energy adopted a GreenChoice Energy charge for renewable energy. Customers who subscribe to the GreenChoice program will pay a renewable energy charge in lieu of the fuel adjustment factor as determined by Austin Energy. Austin Energy's GreenChoice program has been recognized as the leading utility-sponsored green power program in the nation for sales for seven years in a row by the National Renewable Energy Laboratory. Subscribers see the fuel charge on their electric bill replaced with a GreenChoice charge that remains fixed for 5 years, depending on the contracted renewable energy source.

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

Power and Energy Sales Contracts

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

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Generation And Use Data – TABLE FOUR

	Fiscal Year Ended September 30									
	2005		2006		2007		2008		2009	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		10,734,106,000		10,730,704,000		10,999,758,000		11,446,861,000		10,780,499,000
kWh Received from ERCOT		1,272,416,000		1,472,202,000		1,661,154,000		2,067,170,000		2,763,237,000
Less: kWh Delivered to ERCOT		(223,536,000)		(196,935,000)		(571,210,000)		(355,061,000)		(401,123,000)
Less: kWh Delivered to Other Utilities		<u>(318,678,000)</u>		<u>(207,998,000)</u>		<u>(151,020,000)</u>		<u>(369,236,000)</u>		<u>(483,631,000)</u>
Total kWh Delivered to Service Area		<u>11,464,308,000</u>		<u>11,797,973,000</u>		<u>11,938,682,000</u>		<u>12,789,734,000</u>		<u>12,658,982,000</u>
Service Area Energy Use:										
Residential	331,490	3,879,940,471	338,184	4,079,909,225	345,197	3,908,317,955	352,574	4,226,036,265	363,217	4,218,600,234
General Service (Less UT & ENW)	<u>40,380</u>	<u>6,620,136,778</u>	<u>41,650</u>	<u>6,829,923,758</u>	<u>42,559</u>	<u>7,042,867,290</u>	<u>43,342</u>	<u>7,566,322,558</u>	<u>43,829</u>	<u>7,477,806,302</u>
	<u>371,870</u>	<u>10,500,077,249</u>	<u>379,834</u>	<u>10,909,832,983</u>	<u>387,756</u>	<u>10,951,185,245</u>	<u>395,916</u>	<u>11,792,358,823</u>	<u>407,046</u>	<u>11,696,406,536</u>
Public Street Lighting	4	33,713,031	4	34,145,561	4	34,486,701	4	35,142,877	4	47,830,865
City Utility Departments	173	200,818,623	172	213,515,923	180	200,560,827	179	210,643,582	187	214,401,264
Other City Departments	<u>687</u>	<u>118,133,880</u>	<u>687</u>	<u>126,657,490</u>	<u>679</u>	<u>126,263,735</u>	<u>690</u>	<u>133,769,398</u>	<u>688</u>	<u>130,345,139</u>
	<u>864</u>	<u>352,665,534</u>	<u>863</u>	<u>374,318,974</u>	<u>863</u>	<u>361,311,263</u>	<u>873</u>	<u>379,555,857</u>	<u>879</u>	<u>392,577,268</u>
Total Service Area Sales	372,734	10,852,742,783	380,697	11,284,151,957	388,619	11,312,324,408	396,790	12,171,914,680	407,925	12,088,983,804
Sales to UT & ENW (Nightwatchman)	1	12,653,375	1	12,727,340	1	12,743,795	1	14,124,875	1	14,156,478
Loss and Unaccounted For		<u>598,911,842</u>		<u>501,093,703</u>		<u>613,613,797</u>		<u>603,694,445</u>		<u>555,841,718</u>
Total kWh Delivered to Service Area	<u>372,735</u>	<u>11,464,308,000</u>	<u>380,698</u>	<u>11,797,973,000</u>	<u>388,620</u>	<u>11,938,682,000</u>	<u>396,791</u>	<u>12,789,734,000</u>	<u>407,926</u>	<u>12,658,982,000</u>
System Peak Demand (kW)		2,445,000		2,430,000		2,391,000		2,514,000		2,602,000

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Energy Risk Management

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

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of December 31, 2009, the netting of Austin Energy's options, futures, and basis swaps, valued at mark-to-market, resulted in an unrealized loss of \$70,338,175. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts. For further information, refer to the footnotes to the financial statements for the fiscal year ended September 30, 2009 (APPENDIX B).

Power and Energy Purchase Contracts

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

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

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

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

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

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

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

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

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

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

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

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

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

Transmission and Distribution System

The transmission and distribution plant statistics of Austin Energy as of December 31, 2009 are as follows:

Electric Transmission & Distribution System Statistics

	<u>Number of Substations</u>	<u>Miles of Lines</u>	<u>Kilovolts</u>
Transmission	11	634	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 normal and emergency conditions. The diversification of fuel sources of the member systems increases the potential for economic interchanges among the respective systems. Sale and purchase transactions generally maximize the use of less expensive fuel sources by all members of the interconnected system.

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

ISO 9001 Registration

The Austin Energy division responsible for the construction, maintenance and operation of Austin's electric system has become the first of any utility in the nation to earn ISO 9001 registration. ISO (International Organization for Standardization) 9000 is a series of international quality standards designed to ensure that all activities related to providing and delivering a product or service are appropriately quality assured. To earn the registration, applicants must develop a Quality Management System that reflects standards of performance for every major task, in this case, related to building, maintaining and repairing the electric system. Auditors from the National Standards Authority of Ireland (NSAI), the worldwide entity that administers the ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the Electric Service Delivery Quality Management System by NSAI auditors. The ISO auditors noted that procedures and written work instructions have been implemented for more than 530 work activities. More than 250,000 companies worldwide, including 25,000 in the U.S., are certified in the ISO 9000 series. Austin Energy transmission and distribution work units however, are the first of any utility in the country to be so certified.

Conventional System Improvements

In September 2009, the 2010-2014 Capital Improvements Spending Plan was approved by the City Council in the amount of \$1,124,198,000. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and the issuance of commercial paper.

Austin Energy Smart Meter Installation Program

Austin Energy initiated a pilot project in 2001 to evaluate the then new automated meter technology. Austin Energy installed (1-way) automated meter read ("AMR") meters at apartment buildings throughout Austin, 110,000 of which are still installed. In 2008, Austin Energy began the second phase of its smart meter program to exchange the remaining 300,000 customer meters with 2nd generation-2-way AMR meters. These AMR meters communicate daily meter reads radio signals. As of March 31, 2010, automated meters have been installed for all Austin Energy customers excluding 3,000 hard to access meters. All remaining exchanges should be completed by July 31, 2010.

Accuracy of AMR Meters

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

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

Customer Complaints Regarding AMR Meters

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

Austin Energy has reviewed customer call logs and associated service orders, and found that, in the past 2 years while the AMR meters were being exchanged, 10,743 (3.8%) of customers whose meters were being exchanged called with questions about the new meters or high consumption. After talking with Austin Energy customer service representatives, only 231 requested meter accuracy tests, of which 25 were exchanged.

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

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

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

Second, a strategy to provide Excellent Customer Service positions Austin Energy to meet evolving customer expectations in a rapidly changing energy industry. Under this strategy Austin Energy 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 has developed a Resource, Generation and Climate Protection Plan to 2020 discussed further in the next section.

Five objectives were identified to support the strategies including:

- Maintain Financial Integrity - Austin Energy's goal is to achieve an "AA" (Standard & Poor's) Credit Rating by 2010 on its separate lien revenue bonds. Austin Energy has achieved an "A+" rating in 2007-2008.
- Create and Sustain Economic Development - Austin Energy will create and sustain economic development by providing contract opportunities for local businesses, attracting new businesses, and supporting the development of a clean energy industry.
- Customer Satisfaction - Austin Energy will develop a better understanding of its customers by monitoring indicators and conducting customer surveys. Austin Energy's target is a customer satisfaction score of 83/100 by 2010. The current survey used to measure customer satisfaction will be conducted during the summer of 2010 with results tallied and available by the end of 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. The survey used to measure employee satisfaction will be conducted during the spring of 2010 with results tallied and available by the fall of 2010.

- Exceptional System Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages.
 - SAIFI (system average interruption frequency index) = 0.8 interruptions per year
 - SAIDI (system average interruption duration index) = 60 minutes per year
 - SATLPI (system average transmission line performance index) = 4.1 ave/yr
 - EAF (equivalent availability factor) = 94.8% for STP and 94.2% for FPP
- Renewable Portfolio Standard - Austin Energy will continue its nationally recognized renewable resources and Green Building programs.
- The initial strategic plan originally called for 20% renewable by 2020 however, it has subsequently adjusted.
- In 2007, 30% by 2020

- In 2010, 35% by 2020
- Further the initial plan called for 15% increase in demand side management, which was adjusted.
- In 2007 to include 700 MW of peak demand savings by 2020
- In 2010 increased to 800 MW of peak demand savings by 2020.

- Austin Energy set an initial solar energy goal of 100 MW of solar generation by 2020, which was adjusted.
- In 2010 to 200 MW solar 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 2006-2009

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

<u>STRATEGY</u>	<u>OBJECTIVE</u>	<u>TARGET</u>	<u>2005 – 2006</u>		<u>2006 – 2007</u>		<u>2007 – 2008</u>		<u>2008 – 2009</u>			
Risk Management	Maintain Financial Integrity	“AA” (S&P) credit rating by 2010 – Separate lien electric utility system revenue bonds	“A+”		“A+”		“A+”		“A+”			
Excellent Customer Service	Create and Sustain Economic Development	Exceed M/WBE Goals by 2008	MBE (%)	WBE (%)								
		Construction	12.90	12.60	1.07	5.48	6.58	0	NA	NA	NA	NA
		Commodity	3.50	6.20	0.87	6.20	0.92	2.49	1.22	4.39	NA	NA
		Non-Professional	14.10	15.00	4.24	3.37	5.82	0.40	7.33	5.11	NA	NA
		Professional	16.50	14.20	0.08	0.00	0.00	0.00	NA	NA	NA	NA
	Customer Satisfaction	Employee Satisfaction target of 10% improvement on LTW Survey by 2010, i.e. 75% positive rating overall (1)	73.4%		74.0%		68.3%		73.3%			
		Customer Satisfaction target of 83/100 by 2010	80/100		80/100		82/100		78/100			
	Exceptional System Reliability	SAIDI @ 60 minutes	86.10		82.13		48.29		63.41			
		SAIFI of 0.8 interruptions/yr	0.99		1.02		0.66		0.89			
		SATLPI of 4.1 average/yr	4.20		4.10		3.60		3.00			
		Intermediate/Peaking Peak Season	93.2%		95.9%		96.3%		95.70%			
		EAF greater than or equal to 95% STP	95.3%		90.6%		96.1%		92.96%			
		FPP EAF of 94.2%	87.0%		93.1%		91.1%		90.50%			
Energy Resource	Renewable Portfolio Standard & Energy Efficiency	35% renewable energy by 2020	6.0%		5.8%		6.6%		10.57% (2)			
		15% energy efficiency by 2020	7.3%		8.2%		8.8%		10.30%			
		100MW solar generation by 2020	1.00 MW		1.60 MW		2.603 MW		4.51 MW			
		700 MW peak demand savings by 2020	65.4 MW		129 MW		182 MW					

(1) The calculation has recently been changed to reflect employee satisfaction.

(2) Measured using retail electric sales.

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

The City Council adopted the Austin Climate Protection Plan (“ACPP”) in 2007 to build a more sustainable community. Every City department was subsequently tasked to create action plans intended to ensure that departmental operations were consistent with the ACPP. Austin Energy developed this Resource, Generation, and Climate Protection Plan to 2020 (the “Plan”) to meet these objectives.

The City Council adopted this Plan on April 22, 2010, as a resource planning tool that brings together demand and energy management options over the planning horizon.

Developing the Plan involved extensive analysis of the expected risks, costs, and opportunities to meet the future demand for electricity services. The goals outlined in this document are based on Austin Energy’s current understanding of technology and of national, state and local energy policies. The Plan also benefited from substantial input from citizens, customer groups, utility advisory commissions and a Council appointed Taskforce.

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

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

Goals Summary

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

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

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

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Austin Energy Recommendation Generation Resources in MW

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

* Expiring Wind Contract MWs shown in ()

Figure 1

Austin Energy Recommendation Generation Resources & Load Forecast (updated to April 2010)

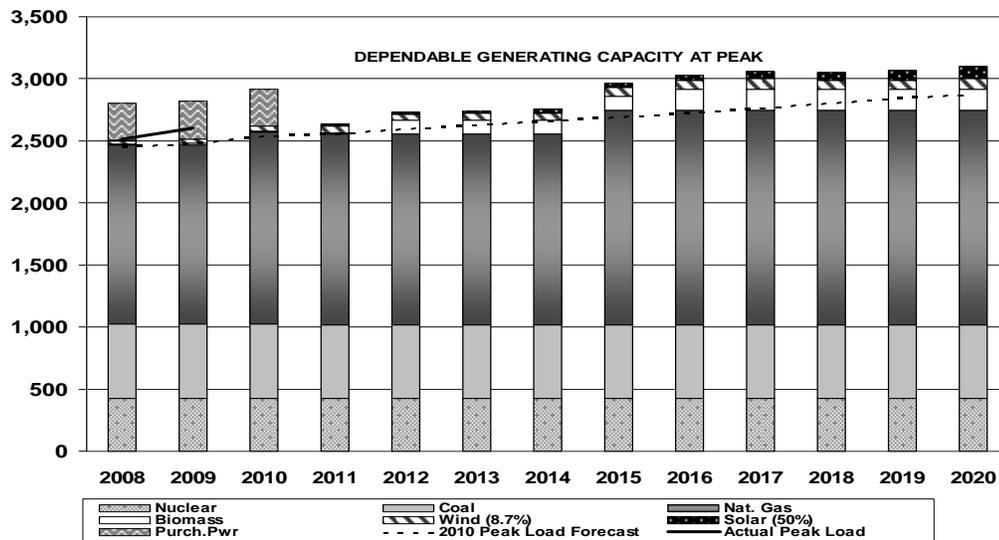


Figure 2

Plan implementation (Figure 2) will provide a reserve versus projected peak demand through 2010. The projected peak demand, represented by the dotted line, also takes into account an increase from 700 to 800 MW of energy efficiency and load shifting proposed by 2020.

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

Natural Gas. The proposed plan calls for the build out of the gas-fueled Sand Hill Energy Center to add 200 megawatts of combined cycle capacity. This is in addition to the installation underway of 100 MW of peaking units at the facility. That installation began last year and is expected to be completed by this summer.

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

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

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

Austin Energy Recommendation Energy Mix: 2009 Calendar Actuals vs 2020 Forecasted

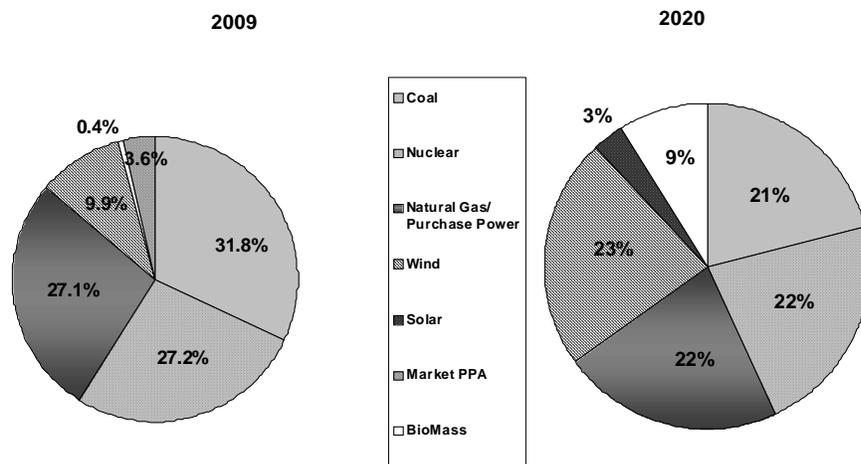


Figure 3

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

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Financial Policies

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

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as “structural balance”). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance.
- 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 (“Contingency Reserve”).
 - Any additional funds over the maximum 120 days of operating cash may be set aside in a Competitive Reserve (“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% since 2003.)
- 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/09-10/downloads/Perf%20Final%20Draft.pdf>.

Real Estate Taxes

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

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

The City's rates, except for wholesale transmission rates, are regulated by the City Council. Ratepayers can appeal rate changes to the PUCT under section 33.101 of 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 the 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 SB7 are to (1) ensure nondiscriminatory access to the ERCOT transmission system; (2) ensure the reliability and adequacy of the ERCOT network; (3) ensure timely and accurate customer switching; and (4) ensure the accuracy of accounts among wholesale buyers and sellers. Austin Energy is a member of ERCOT, and Austin Energy staff are very active participants in the ERCOT stakeholder process.

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

State Wholesale Market Design Developments

In the summer of 2002, the PUCT initiated an investigation to convert the wholesale market in the ERCOT region from a zonal-based market design to a nodal market design. On September 22, 2003, the PUCT adopted a rule requiring that ERCOT use a stakeholder process to develop a nodal market design. The PUCT's purpose in ordering the change 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 by December 1, 2010. In anticipation of the opening of the nodal market, Austin Energy employees are active participants in ERCOT's transition preparedness activities. Austin Energy's Energy and Market Operations staff, system planning and operations staff, and finance and accounting staff are taking steps to modify key systems and processes to assure Austin Energy's capability to participate fully in the ERCOT Nodal market.

Federal Rate Regulation

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

Austin Energy is not subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under Texas law that is similar to the RTOs envisioned in the Order and which predates the Order by several years. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas electric market. ERCOT is responsible for the management and oversight of the day-to-day operations of the transmission network. Under PURA, the PUCT has specific responsibilities to oversee ERCOT operations and market participant compliance with ERCOT Protocols.

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

Environmental Regulation General

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

Environmental Regulation Related to Air Emissions

Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power production facilities. All of Austin Energy's large generating units have been issued Federal Operating Permits and Federal Acid Rain Permits for the individual units by the Texas Commission on Environmental Quality ("TCEQ") and the United States Environmental Protection Agency ("USEPA").

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

rate from the Decker Unit 2 is considered very low compared to similar units, this unit was voluntarily included in this same permitting program. By making this voluntary move, Austin Energy significantly reduced the costs of complying with this program. A total of 1,741 tons of NOx were allocated to the “grandfathered” units and Decker Unit 2.

In addition to the NOx reductions made to comply with SB7, Austin Energy has made voluntary commitments to cap the emissions of NOx from the Decker Plant and the new units at the Sand Hill Energy Center to a total of 1,500 tons per year. This commitment was made in order to assist with the Early Action Compact or EAC made between the governmental bodies of the Austin Area and USEPA.

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

Beginning with calendar year 2009, Austin Energy’s large facilities must comply with the Clean Air Interstate Rule (“CAIR”), a cap-and-trade program for annual NOx emissions. CAIR, although ruled illegal by the Courts, remains in effect pending a mandate to the USEPA to replace it.

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

Austin Energy has voluntarily reported point and non-point source greenhouse gas emissions to the California Climate Action Registry (“CCAR”) as one of its members since 2007. In 2009, Austin Energy reported to The Climate Registry (“TCR”) since CCAR no longer functions as a registry, and beginning with calendar year 2010, Austin Energy and all other major industrial sources in the country will begin mandatory greenhouse gas reporting to the USEPA. Austin Energy expects the transition to mandatory reporting to be relatively easy given its voluntary reporting experience.

Environmental Regulation Water

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

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

Environmental Other

Austin Energy has completed the decommissioning and remediation of the Seaholm Power Plant (“Seaholm”). Extended remediation work on the property surrounding the former plant is also currently being completed. USEPA recognized Seaholm as the first facility in the nation to receive a certificate of Ready for Reuse under the Toxic Substance Control Act related to Polychlorinated Biphenyls (“PCB’s”). This certification is given to contaminated industrial facilities that have been cleaned and made available for public use. Additionally, Austin Energy was selected by the TCEQ to receive its annual Environmental Excellence Award for Innovative Technology in the methods employed for the remediation activities performed during the decommissioning. In 2009, planning began to decommission Austin Energy’s Holly Street Power Plant, which ceased operations in 2007.

The Decker Power Plant and the Fayette Power Units 1 and 2 are “Gold” level member of Clean Texas. Clean Texas is a voluntary environmental leadership program to protect air, water, and land resources in Texas. Clean Texas recognizes organizations for creative approaches in resolving environmental challenges and setting goals that exceed compliance levels under existing regulations. Sand Hill Energy Center, Austin Energy Laboratory Services and the Kramer Lane Service Center are “Bronze” level members in Clean Texas and have established goals for reducing environmental impacts.

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

Nuclear Regulation

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

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors. The Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at \$12.59 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$174.95 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$17.55 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

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

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

The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion, but is less than the total amount available for such losses. The \$2.75 billion of nuclear property insurance consists of \$500 million in primary property damage insurance and \$2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (“NEIL”). In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is \$29.9 million during any one-policy year.

The NRC regulations set forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license is required to submit to the NRC a bi-annual report indicating how reasonable assurance would be provided. The City provides the required report on their share of STP to the NRC which is based on the minimum amount for decommissioning excluding waste disposal as required by the NRC regulations of \$105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The 2008 report

provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A. The City has been collecting for its share of anticipated decommissioning activities which may begin as early as 2027 through its rates since Fiscal Year 1989. The decommissioning trust market value on December 31, 2009 was \$157.9 million. For Fiscal Year 2010, Austin Energy estimates that it will continue to collect approximately \$5 million for decommissioning expense. In 2007 dollars, the minimum amount for decommissioning the City's share of STP is \$221 million. See "INVESTMENTS – Legal Investments".

THE WATER UTILITY

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City*</u>
Greg Meszaros	Director	2 Year
David Anders	Assistant Director, Finance and Business Services	22 Years
Jane Burazer	Assistant Director, Treatment	16 Years
George Calhoun	Assistant Director, Pipeline Operations	20 Years
Gopal Guthikonda, P.E.	Assistant Director, Engineering	22 Years
David Juarez, P.E.	Assistant Director, Water Resource Management	18 Years**
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	13 Years**

* As of March 31, 2010.

**Length of service not continuous.

WATER SYSTEM

Service Area

Austin's Combined Water and Wastewater System is referred to herein as the "Austin Water Utility".

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 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 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. Lady Bird Lake (formerly known as Town Lake), which has a capacity of approximately 3,500 acre-feet, is created by Longhorn Dam. Lady Bird Lake is now estimated by the Texas Water Development Board in a Volumetric Survey from December 2008 to impound 6,874 acre-feet at the same elevation. 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).

1984 – 764,000 Acre Feet	1993 – 978,000 Acre Feet	2002 – 1,674,985 Acre Feet
1985 – 751,000 Acre Feet	1994 – 708,200 Acre Feet	2003 – 1,017,294 Acre Feet
1986 – 886,500 Acre Feet	1995 – 896,700 Acre Feet	2004 – 928,065 Acre Feet
1987 – 3,399,000 Acre Feet	1996 – 758,300 Acre Feet	2005 – 1,077,031 Acre Feet
1988 – 834,000 Acre Feet	1997 – 3,013,512 Acre Feet	2006 – 528,785 Acre Feet
1989 – 667,900 Acre Feet	1998 – 1,313,831 Acre Feet	2007 – 2,155,974 Acre Feet
1990 – 692,300 Acre Feet	1999 – 803,240 Acre Feet	2008 – 621,526 Acre Feet
1991 – 829,700 Acre Feet	2000 – 627,370 Acre Feet	2009 – 584,735 Acre Feet
1992 – 5,419,000 Acre Feet	2001 – 1,371,435 Acre Feet	

Using the last twenty-five years from 1985-2009, the average flow was 1,335,360 acre feet per year or 435 billion gallons. Using the lowest year, 2006, the flow for the Colorado River at Austin was 528,785 acre feet, or 172 billion gallons, which is over 3 times the amount of water treated for distribution (53 billion gallons) by the City for the fiscal year ended September 30, 2009.

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

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

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 Lady Bird 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 or beyond. The amendment also had numerous provisions that benefited the City. Also, a legal issue regarding the building of WTP No. 4 was settled. LCRA's option to acquire up to 50% of the WTP No. 4 lapsed on January 1, 2000. All sections of the 1987 Settlement Agreement related to WTP No. 4 were deleted as part of the 1999 First Amendment. The First Amendment provides for mutual release of the City and LCRA from any claims or causes of action relating to the delayed construction of WTP No. 4.

Water Treatment Plants

Austin Water 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 has initiated construction of a new water treatment plant, WTP No. 4, which 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 from bonds, current revenue and/or through the issuance of commercial paper. Additional costs are anticipated to be funded with current revenue of Austin Water Utility or by issuing commercial paper.

The City's Water 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.

Water Conservation Plan

Austin Water Utility developed a water conservation plan for emergency purposes in the early 1980s 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, which is designed to educate customers to use water effectively, especially May 1 to September 30 of each year, has three stages with progressively more restrictive water use provisions. The plan sets out a mandatory twice a week watering schedule, with properties with odd numbered addresses watering on Wednesdays and Saturdays, and even addresses watering on Thursdays and Sundays. In addition, watering must be done before 10 AM or after 7 PM on the designated watering day. If daily pumpage exceeds a specific limit established by the City Manager which relates to treatment capacity, the plan would move to one of the more restrictive levels. Inclining block rates, which were first implemented April 1, 1994, are designed to promote water conservation among residential customers. Seasonal rates for multi-family, commercial, and large volume customers, which were first implemented in 2000, are also designed to promote water conservation.

Water Storage and Pumping Facilities

In addition to the water treatment plants, the Water 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 Utility.

Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 1998 through 2009.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2000	52,194	12.4	227
2001	50,140	(3.9)	243
2002	50,883	1.5	214
2003	51,111	.4	232
2004	48,469	(5.2)	197
2005	51,374	6.0	247
2006	56,603	10.1	217
2007	45,868	(19.0)	180
2008	53,066	15.7	227
2009	53,331	0.5	228

Source: City's Water 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.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2010	55,872	249
2011	56,869	254
2012	57,850	258
2013	58,948	263
2014	60,067	268
2015	60,940	272
2016	61,962	277
2017	62,977	281
2018	64,010	286
2019	65,060	290

Source: City's Water Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2005		2006		2007		2008		2009	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		51,373,925		56,602,592		51,373,925		53,065,960		53,331,330
Less: Sales to Other Water Utilities (1)		<u>3,048,823</u>		<u>4,116,576</u>		<u>3,048,823</u>		<u>3,830,477</u>		<u>3,553,293</u>
Thousand Gallons to System		<u>48,325,102</u>		<u>52,486,016</u>		<u>48,325,102</u>		<u>49,235,483</u>		<u>49,778,037</u>
Water Sales:										
Urban	177,431	36,138,345	182,417	41,300,660	186,888	34,867,508	190,116	40,520,123	196,595	40,236,545
Rural	<u>12,535</u>	<u>2,263,397</u>	<u>12,142</u>	<u>2,763,320</u>	<u>11,504</u>	<u>1,981,852</u>	<u>11,444</u>	<u>2,158,250</u>	<u>11,254</u>	<u>2,157,708</u>
	189,966	38,401,742	194,559	44,063,980	198,392	36,849,360	201,560	42,678,373	207,849	42,394,253
City Departments	<u>435</u>	<u>972,462</u>	<u>483</u>	<u>1,290,559</u>	<u>491</u>	<u>1,001,517</u>	<u>497</u>	<u>1,195,465</u>	<u>575</u>	<u>1,356,366</u>
Total Sales to Ultimate Consumer	<u>190,401</u>	<u>39,374,204</u>	<u>195,042</u>	<u>45,354,539</u>	<u>198,883</u>	<u>37,850,877</u>	<u>202,057</u>	<u>43,873,838</u>	<u>208,424</u>	<u>43,750,619</u>
Used by Water Utility		1,442,454		1,770,463		1,445,523		174,946		70,090
Other Unmetered Usage		2,745,350		1,664,116		1,348,508		1,560,139		1,567,941
Loss and Unaccounted For		<u>4,763,094</u>		<u>3,696,898</u>		<u>2,064,124</u>		<u>3,626,560</u>		<u>4,389,387</u>
Thousand Gallons to System		<u>48,325,102</u>		<u>52,486,016</u>		<u>42,709,032</u>		<u>49,235,483</u>		<u>49,778,037</u>
Maximum Daily Consumption		236,540		241,456		176,979		227,144		228,234
Average Daily Consumption in Thousands of Gallons		120,179		135,537		112,355		130,697		129,600

(1) Includes sales to all wholesale customers.

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Large Water Customers - TABLE ELEVEN

**Water Utility
Large Water Customers
Five Year Comparative Data (2005 - 2009)**

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

	<u>2005</u>		<u>2006</u>		<u>2007</u>		<u>2008</u>		<u>2009</u>	
	<u>Gallons</u>	<u>Revenue</u>								
Freescale, Inc. (1)	927,240	\$ 2,694	848,429	\$ 2,597	886,402	\$ 2,909	1,085,005	\$ 3,521	1,170,061	\$ 4,147
University of Texas	893,173	3,337	936,929	3,203	855,424	4,799	1,056,852	2,722	1,057,082	3,276
Samsung	499,761	1,440	688,096	1,964	783,881	2,604	1,118,400	4,020	1,024,114	4,116
Water District 10	844,337	2,030	1,078,395	2,765	775,830	2,011	748,582	2,696	698,391	2,816
Spansion (formerly AMD)	635,518	1,853	613,290	1,931	552,661	1,687	530,506	1,376	565,819	1,580
Anderson Mill MUD	474,223	1,040	571,852	1,308	494,179	1,194	749,225	2,024	555,174	1,937
Wells Branch MUD	522,027	1,176	584,127	1,363	429,686	1,052	430,012	1,167	484,918	1,502
North Austin MUD	352,984	978	433,122	1,096	357,873	962	316,004	895	320,820	963
Lost Creek	286,023	701	346,036	900	251,273	667	255,934	691	286,030	819
Shady Hollow MUD	<u>222,032</u>	<u>589</u>	<u>309,501</u>	<u>887</u>	<u>202,342</u>	<u>586</u>	<u>225,365</u>	<u>672</u>	<u>242,315</u>	<u>774</u>
	<u>5,657,318</u>	<u>\$15,838</u>	<u>6,409,777</u>	<u>\$18,014</u>	<u>5,589,551</u>	<u>\$18,471</u>	<u>6,515,885</u>	<u>\$19,786</u>	<u>6,404,754</u>	<u>\$21,931</u>

(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

Austin Water 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

Austin Water 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. Two of the permits were renewed in 2009 and renewals for seven more permits are expected within the next three months.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During 2009 average flow was 48 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 2009 average flow was 34 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") purchased Round Rock's share in the Project and have 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 required the City to pay for its portion of capital expansions and operations and maintenance costs on an annual basis, reserved enough wastewater capacity to adequately serve all of the area inside the City's city limits or extraterritorial jurisdiction and within the Brushy Creek watershed. In December 2009, for approximately \$12 million, the City purchased an operating interest in operating assets from LCRA.

Similar to other municipal wastewater systems, the 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. On May 4, 2009, the USEPA issued a letter stating the City had satisfactorily completed all mandated corrective actions and infrastructure improvements and that the Administrative Order had been closed.

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

Lift Stations

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

<u>Name</u>	<u>Firm Capacity (Gallons per Minute)</u>
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 2000 through 2009.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
2000	30,684	(10.5)
2001	34,289	11.7
2002	33,361	(2.7)
2003	31,815	(4.6)
2004	31,316	(1.6)
2005	31,184	(0.4)
2006	28,399	(8.9)
2007	35,623	25.4
2008	30,265	(15.0)
2009	29,943	(1.1)

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Projected Wastewater Flows - TABLE THIRTEEN

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

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>
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 Utility. Such projections are based on actual operating experience.

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

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the current approved FY 2010-14 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately \$1,399.0 million for system improvements. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of \$1,067.4 million additional Parity Water/Wastewater Obligations; and (2) the application of \$331.6 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand.

Services Financed by Utility Districts

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

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

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

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

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

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

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

Water and Wastewater Rates

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

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

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

Water Service Rates Effective November 1, 2009 – TABLE FOURTEEN

Monthly Customer Charges

<u>Customer Account Charge</u>	<u>Equivalent Meter Charge</u>			
	<u>Customer Account Charge per Month</u>	<u>Meter Size</u>	<u>Retail Meter Charge per Month</u>	<u>Wholesale Meter Charge per Month</u>
Retail Customer Account Charge (\$/Month)	\$4.69	5/8	\$ 2.01	\$ 1.29
		3/4	3.22	1.93
Wholesale Customer Account Charge (\$/Month)	\$4.61	1	4.69	2.83
		1 ¼	6.80	4.34
		1 ½	9.83	5.40
		2	16.86	7.97
		3	34.63	19.29
		4	71.35	32.14
		6	147.36	64.28
		8	832.49	96.43
		10	871.25	128.57
		12	894.51	147.85

Volume Unit Charge (1)

<u>Unit Cost per 1,000 Gallons</u>	
Single-Family Residential (2)	
0 – 2,000 Gallons	\$ 1.00
2,001 – 9,000 Gallons	2.62
9,001 – 15,000 Gallons	6.71
15,001 – 25,000 Gallons	9.00
25,001 – Over Gallons	10.00
Multifamily (3)	
Off Peak	\$3.50
Peak	3.86
Commercial (3)	
Off Peak	\$4.21
Peak	4.63
Large Volume (4)	
Off Peak	Varies
Peak	Varies

- (1) Wholesale unit charges vary between \$2.86 and \$7.33 for each 1,000 gallons.
- (2) The City has approved an inclining block rate structure to promote water conservation for the Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.
- (3) Off Peak (November 1 – June 30 Bills). Peak (July 1 – October 31 Bills).
- (4) The Large Volume Class has been disaggregated and the rates vary between \$3.86 and \$4.63 for each 1,000 gallons.

Wastewater Service Rates Effective November 1, 2009 – TABLE FIFTEEN

Customer Account Charge

Customer Account Charge (\$/month)	<u>Inside City</u> \$8.50	<u>Wholesale Customers</u> \$8.50
------------------------------------	------------------------------	--------------------------------------

Volume Unit Charge (1)

	<u>Unit Cost per 1,000 Gallons (2)</u>
Retail Inside City:	
Single-Family	
0 - 2,000 Gallons	\$3.43
2,001 - Over Gallons	7.73
Multifamily	\$7.19
Commercial	\$7.22
Large Volume (3)	Varies

- (1) Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.
 (2) Wholesale unit charges vary between \$3.72 and \$4.94 for each 1,000 gallons.
 (3) The Large Volume Class has been disaggregated and the rates vary between \$6.25 and \$7.22 for each 1,000 gallons.

The Water and Wastewater service rates effective November 1, 2009, reflect a 4.5% increase over the rates charged in the prior year.

Water and Wastewater Capital Recovery Fees

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

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Drinking Water Protection Zone in the City's extraterritorial jurisdiction	\$2,500	\$1,400	\$3,900
Drinking Water Protection Zone in the City limits	2,200	1,200	3,400
Desired Development Zone in the City's extraterritorial jurisdiction	1,800	1,000	2,800
Desired Development Zone in the City limits	1,000	600	1,600
Urban watersheds	800	500	1,300
Central urban redevelopment combining district area and the area bounded by Lady Bird Lake, Lamar Boulevard, 15 th 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

<u>Average Monthly Bill Per Customer - Water</u>	Fiscal Year Ended September 30				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Inside City (Urban)					
Residential	\$ 25.66	\$ 31.16	\$ 22.64	\$ 31.82	\$ 36.66
Multi-Family	366.72	410.58	403.61	449.00	496.04
Commercial	218.37	256.95	231.33	269.13	286.87
Industrial	97,646.05	101,314.54	114,819.11	133,215.70	137,990.95
City Departments	703.57	749.31	524.49	559.07	665.31
Outside City (Rural)					
Residential	30.66	38.01	27.51	39.73	47.04
Multi-Family	311.23	392.34	356.31	481.47	521.13
Commercial	369.57	440.01	266.96	238.10	263.07
Average Monthly Bill					
Above Customers	55.78	69.09	54.48	67.42	74.48
Sales to Other Water Utilities*	33,575.67	42,981.04	34,079.94	49,534.41	50,551.73
Average Monthly Bill					
All Customers	\$ 59.30	\$ 69.49	\$ 57.91	\$ 71.58	\$ 78.84
 <u>Average Monthly Use in 1000 Gallons - Water</u>					
Inside City (Urban)					
Residential	7.90	9.06	6.80	8.27	8.70
Multi-Family	133.34	140.50	130.24	133.12	132.72
Commercial	64.05	71.33	59.26	64.55	62.42
Industrial	33,892.48	32,226.37	35,148.39	36,920.25	34,837.35
City Departments	206.27	222.26	171.02	197.55	200.44
Outside City (Rural)					
Residential	8.81	10.34	7.77	9.63	10.24
Multi-Family	104.33	127.28	124.25	141.63	141.09
Commercial	109.38	115.99	73.32	55.01	58.33
Average Monthly Use					
Above Customers	17.59	19.31	15.91	17.75	17.82
Sales to Other Water Utilities*	14,049.02	17,127.23	13,239.38	18,489.52	16,781.03
Average Monthly Use					
All Customers	19.06	21.06	17.24	19.30	19.27
 <u>Average Revenue Per 1000 Gallons - Water</u>					
Inside City (Urban)					
Residential	3.25	3.44	3.33	3.85	4.21
Multi-Family	2.75	2.92	3.10	3.37	3.74
Commercial	3.41	3.60	3.90	4.17	4.60
Industrial	2.88	3.14	3.27	3.61	4.01
City Departments	3.41	3.37	3.07	2.83	3.32
Outside City (Rural)					
Residential	3.48	3.68	3.54	4.12	4.59
Multi-Family	2.98	3.08	2.87	3.40	3.69
Commercial	3.38	3.79	3.64	4.33	4.51
Average Revenue					
Above Customers	3.17	3.37	3.42	3.80	4.18
Sales to Other Water Utilities*	2.39	2.51	2.57	2.68	3.01
Average Revenue					
All Customers	3.11	3.30	3.36	3.71	4.09

*Includes all wholesale customers.

Analysis of Wastewater Bills - TABLE SIXTEEN B

<u>Average Monthly Bill Per Customer - Wastewater</u>	Fiscal Year Ended September 30				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Inside City (Urban)					
Residential	\$ 24.21	\$ 26.43	\$ 28.25	\$ 32.83	\$ 36.00
Multi-Family	502.41	540.34	601.92	708.35	742.18
Commercial	235.85	255.75	271.92	313.23	327.27
Industrial	116,270.85	119,912.89	130,895.01	160,122.61	155,973.46
City Departments	257.71	177.19	195.06	218.13	365.15
Outside City (Rural)					
Residential	29.82	32.73	35.78	41.39	44.01
Multi-Family	463.32	599.96	707.28	921.50	966.67
Commercial	475.17	575.54	552.38	670.41	704.51
Average Monthly Bill					
Above Customers	56.06	59.74	64.04	74.50	78.34
Sales to Other Utilities*	29,263.88	34,418.20	36,934.27	44,450.94	49,907.13
Average Monthly Bill					
All Customers	\$ 57.55	\$ 61.44	\$ 66.03	\$ 76.85	\$ 80.89
 <u>Average Monthly Use in 1000 Gallons - Wastewater</u>					
Inside City (Urban)					
Residential	4.61	4.68	4.51	4.61	4.83
Multi-Family	108.60	108.69	109.60	111.74	111.27
Commercial	46.02	46.76	45.19	45.81	44.36
Industrial	26,468.38	24,063.62	24,676.79	25,903.39	23,946.17
City Departments	56.58	35.48	30.04	30.87	51.30
Outside City (Rural)					
Residential	5.12	5.26	5.28	5.44	5.57
Multi-Family	99.67	120.67	129.58	143.31	146.08
Commercial	89.69	102.00	94.60	96.83	95.72
Average Monthly Use					
Above Customers	11.28	11.13	10.84	11.02	10.96
Sales to Other Wastewater Utilities*	9,112.44	9,455.98	9,649.13	9,708.18	10,182.46
Average Monthly Use					
All Customers	11.75	11.60	11.36	11.53	11.48
 <u>Average Revenue Per 1000 Gallons - Wastewater</u>					
Inside City (Urban)					
Residential	5.25	5.65	6.26	7.13	7.45
Multi-Family	4.63	4.97	5.49	6.34	6.67
Commercial	5.12	5.47	6.02	6.84	7.38
Industrial	4.39	4.98	5.30	6.18	6.51
City Departments	4.55	4.99	6.49	7.07	7.12
Outside City (Rural)					
Residential	5.82	6.22	6.78	7.61	7.89
Multi-Family	4.65	4.97	5.46	6.43	6.62
Commercial	5.30	5.64	5.84	6.92	7.36
Average Revenue					
Above Customers	4.97	5.37	5.91	6.76	7.15
Sales to Other Utilities*	3.21	3.64	3.83	4.58	4.90
Average Revenue					
All Customers	4.90	5.30	5.81	6.67	7.05

*Includes all wholesale customers.

**COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 2005 TO SEPTEMBER 30, 2009**
(in thousands rounded)

	Fiscal Year Ended September 30				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
INCOME					
Revenue	\$1,573,459	\$1,628,261	\$1,393,344	\$1,412,853	\$1,260,401
Operating Expense	<u>(1,041,685)</u>	<u>(1,012,532)</u>	<u>(846,005)</u>	<u>(824,870)</u>	<u>(730,697)</u>
Balance Available for Debt Service	531,774	615,729	547,339	587,983	529,704
Depreciation and Amortization Expense	<u>(196,619)</u>	<u>(192,726)</u>	<u>(190,203)</u>	<u>(193,517)</u>	<u>(167,150)</u>
Earnings Before Interest Expense	335,155	423,003	357,136	394,466	362,554
Interest Incurred on Debt	(181,898)	(175,301)	(180,957)	(169,818)	(173,391)
Other	<u>(26,632)</u>	<u>(10,868)</u>	<u>(16,530)</u>	<u>(9,840)</u>	<u>(10,640)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS					
(a) (b) (c) (d)	<u>\$ 126,625</u>	<u>\$ 236,834</u>	<u>\$ 159,649</u>	<u>\$ 214,808</u>	<u>\$ 178,523</u>
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>(66.20%)</u>	<u>(62.18%)</u>	<u>60.72%</u>	<u>(58.38%)</u>	<u>(57.97%)</u>
Balance Available for Debt Service	33.80%	37.82%	39.28%	41.62%	42.03%
Depreciation and Amortization Expense	<u>(12.50%)</u>	<u>(11.84%)</u>	<u>(13.65%)</u>	<u>(13.70%)</u>	<u>(13.26%)</u>
Earnings Before Interest Expense	21.30%	25.98%	25.63%	27.92%	28.76%
Interest Incurred on Debt	(11.56%)	(10.77%)	(12.99%)	(12.02%)	(13.76%)
Other	<u>(1.69%)</u>	<u>(0.67%)</u>	<u>(1.19%)</u>	<u>(0.70%)</u>	<u>(0.84%)</u>
INCOME BEFORE EXTRAORDINARY GAIN (LOSS)	<u>8.05%</u>	<u>14.55%</u>	<u>11.46%</u>	<u>15.20%</u>	<u>14.16%</u>

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

Transfer to General Fund	\$121,505
Transfers to Other Funds	\$ 4,101

(b) Excludes Combined Utility Funds' deferred costs recovered in future years of (\$2,695) for twelve months ended September 30, 2009.

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

(d) Excludes capital contributions of \$51,021 for twelve months ended September 30, 2009.

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

	Fiscal Year Ended September 30				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	\$ 402,892	\$ 408,827	\$ 351,207	\$ 379,728	\$ 345,623
Commercial General	594,636	613,858	537,180	531,440	479,816
City Utility Departments	17,316	17,839	15,280	17,168	15,214
Public Street Lighting	6,343	6,365	6,056	6,023	5,556
City General Government Departments	8,670	8,647	7,691	8,363	8,694
Sales to Other Utilities	16,878	45,511	19,314	23,041	21,655
Transmission	57,002	56,004	57,237	46,864	40,063
Rent from Electric Property	2,722	2,485	2,405	2,472	1,656
Customers' Forfeited Discounts and Penalties	5,141	5,114	4,771	4,951	4,161
Miscellaneous	<u>50,685</u>	<u>53,084</u>	<u>55,347</u>	<u>50,556</u>	<u>50,408</u>
Total Electric Utility	<u>\$1,162,285</u>	<u>\$1,217,734</u>	<u>\$1,056,488</u>	<u>\$ 1,070,606</u>	<u>\$ 972,846</u>
WATER UTILITY					
Urban	\$ 170,889	\$ 158,603	\$ 120,766	\$ 141,267	\$ 120,864
Rural	9,753	8,853	6,967	9,854	8,606
Sales to Other Water Utilities	10,491	10,381	7,755	10,387	8,202
Water Connections	471	463	474	493	458
Customers' Forfeited Discounts and Penalties	906	818	752	787	611
Miscellaneous	<u>2,971</u>	<u>2,396</u>	<u>1,636</u>	<u>1,773</u>	<u>1,615</u>
Total Water Utility	<u>\$ 195,481</u>	<u>\$ 181,514</u>	<u>\$ 138,350</u>	<u>\$ 164,561</u>	<u>\$ 140,356</u>
WASTEWATER UTILITY					
Urban	\$ 175,898	\$ 164,987	\$ 137,243	\$ 125,349	\$ 114,764
Rural	6,125	5,890	4,723	4,549	4,058
Service to Other Utilities	6,244	5,123	4,582	3,831	3,172
Wastewater Connections	471	452	435	452	420
Customers' Forfeited Discounts and Penalties	1,054	990	867	787	649
Industrial Waste Surcharge	3,866	3,801	3,662	3,728	3,657
Miscellaneous	<u>2,758</u>	<u>2,366</u>	<u>2,606</u>	<u>2,980</u>	<u>2,594</u>
Total Wastewater Utility	<u>\$ 196,416</u>	<u>\$ 183,609</u>	<u>\$ 154,118</u>	<u>\$ 141,676</u>	<u>\$ 129,314</u>
Interest	<u>\$ 19,277</u>	<u>\$ 45,404</u>	<u>\$ 44,388</u>	<u>\$ 36,010</u>	<u>\$ 17,885</u>
TOTAL REVENUE	<u>\$1,573,459</u>	<u>\$1,628,261</u>	<u>\$1,393,344</u>	<u>\$1,412,853</u>	<u>\$1,260,401</u>

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

EXPENSE	Fiscal Year Ended September 30				
	2009	2008	2007	2006	2005
ELECTRIC UTILITY					
Production	\$ 353,057	\$ 391,628	\$316,182	\$340,316	\$297,727
Joint Facility Production	187,374	180,674	142,194	133,493	119,462
System Control	12,852	12,121	11,628	9,912	8,177
Transmission and Distribution	105,552	92,559	84,713	75,798	69,090
Jobbing and Contract Work	751	(675)	56	594	(761)
Customer Accounting and Collection	15,189	15,813	15,988	14,506	14,744
Customer Services	22,408	18,300	19,214	17,134	15,543
Administrative and General	<u>172,064</u>	<u>147,896</u>	<u>121,206</u>	<u>103,518</u>	<u>90,237</u>
Total Electric Utility	<u>\$ 869,247</u>	<u>\$ 858,316</u>	<u>\$711,181</u>	<u>\$695,271</u>	<u>\$614,219</u>
WATER UTILITY					
Purification	\$ 23,288	\$ 21,806	\$ 20,951	\$ 26,463	\$ 18,257
Distribution	26,699	24,946	23,971	23,607	19,859
Customers' Accounting and Collection	8,212	6,922	6,272	6,315	6,096
Jobbing and Contract Work	2	5	3	24	21
Design Engineering	2,431	1,759	1,764	1,671	1,137
Administrative and General	<u>35,176</u>	<u>28,454</u>	<u>20,594</u>	<u>17,425</u>	<u>17,204</u>
Total Water Utility	<u>\$ 95,808</u>	<u>\$ 83,892</u>	<u>\$ 73,555</u>	<u>\$ 75,505</u>	<u>\$ 62,574</u>
WASTEWATER UTILITY					
Wastewater Lines	\$ 8,975	\$ 8,342	\$ 8,436	\$ 7,484	\$ 5,788
Sewage Treatment Plant	30,565	27,759	26,041	23,902	22,787
Customers' Accounting and Collection	4,050	3,465	3,074	3,160	3,236
Jobbing and Contract Work	0	0	0	8	1
Design Engineering	12,918	11,746	10,312	9,674	8,434
Administrative and General	<u>20,122</u>	<u>19,012</u>	<u>13,406</u>	<u>9,866</u>	<u>13,658</u>
Total Wastewater Utility	<u>\$ 76,630</u>	<u>\$ 70,324</u>	<u>\$ 61,269</u>	<u>\$ 54,094</u>	<u>\$ 53,904</u>
TOTAL EXPENSE (1)	<u>\$1,041,685</u>	<u>\$1,012,532</u>	<u>\$846,005</u>	<u>\$824,870</u>	<u>\$730,697</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE	<u>\$ 531,774</u>	<u>\$ 615,729</u>	<u>\$547,339</u>	<u>\$587,983</u>	<u>\$529,704</u>
Electric Customers	407,926	392,167	392,143	380,698	372,735
Water Customers	209,994	202,533	199,671	197,511	192,511
Wastewater Customers	196,842	188,958	186,675	184,022	178,574

(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, 2005 through September 30, 2009 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 FY05 through FY09, were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY05 through FY09 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 FY05 through FY09 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

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

	Fiscal Year Ended September 30				
	2009	2008	2007	2006	2005
Plant Cost					
Utility Systems					
Electric	\$4,302,379	\$4,084,559	\$3,843,739	\$3,730,305	\$3,618,416
Water	1,757,958	1,746,414	1,529,445	1,468,913	1,419,403
Wastewater	<u>1,932,709</u>	<u>1,822,136</u>	<u>1,673,671</u>	<u>1,573,490</u>	<u>1,463,061</u>
Total Cost	<u>\$7,993,046</u>	<u>\$7,653,109</u>	<u>\$7,046,855</u>	<u>\$6,772,708</u>	<u>\$6,550,880</u>
Allowance for Depreciation:					
Electric	\$1,797,981	\$1,705,518	\$1,614,321	\$1,553,865	\$1,444,715
Water	483,312	472,469	415,920	381,364	350,376
Wastewater	<u>557,608</u>	<u>514,634</u>	<u>473,751</u>	<u>437,373</u>	<u>413,175</u>
Total Depreciation	<u>2,838,901</u>	<u>2,692,621</u>	<u>2,503,992</u>	<u>2,372,602</u>	<u>2,208,266</u>
Cost after Depreciation	<u>\$5,154,145</u>	<u>\$4,960,488</u>	<u>\$4,542,863</u>	<u>\$4,400,106</u>	<u>\$4,292,614</u>
Equity in Utility Systems					
Utility Systems	\$7,993,046	\$7,653,109	\$7,046,855	\$6,772,708	\$6,550,880
Plus: Inventories, Materials and Supplies (1)	45,557	45,849	44,409	41,358	38,298
Net Construction Assets and Unamortized Bond Issue Cost	<u>86,610</u>	<u>36,622</u>	<u>43,015</u>	<u>62,412</u>	<u>16,913</u>
	<u>\$8,125,213</u>	<u>\$7,735,580</u>	<u>\$7,134,279</u>	<u>\$6,876,478</u>	<u>\$6,556,091</u>
Less:					
Allowance for Depreciation	\$2,838,901	\$2,692,621	\$2,503,992	\$2,372,602	\$2,208,266
Construction Contract Payable	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$2,838,901</u>	<u>\$2,692,621</u>	<u>\$2,503,992</u>	<u>\$2,372,602</u>	<u>\$2,208,266</u>
Utility Systems, Net	5,286,312	5,042,959	4,630,287	4,503,876	4,347,825
Revenue Bonds and Other Debt Outstanding (2)	\$3,284,335	\$3,107,434	\$2,976,746	\$2,912,616	\$2,853,419
Less: Bond Retirement and Reserve Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Debt	<u>\$3,284,335</u>	<u>\$3,107,434</u>	<u>\$2,976,746</u>	<u>\$2,912,616</u>	<u>\$2,853,419</u>
Equity in Utility Systems	<u>\$2,001,977</u>	<u>\$1,935,525</u>	<u>\$1,643,541</u>	<u>\$1,591,260</u>	<u>\$1,494,406</u>
Percentage of Equity in Utility Systems	37.87%	38.38%	35.50%	35.33%	34.37%

- (1) Does not include fuel oil or coal inventories of approximately \$44.93 million at September 30, 2009. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.
- (2) Includes Revenue Bonds and Tax and Revenue Bonds of \$2.92 billion (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of \$914 thousand (net of discounts); Capital Lease Obligations of \$1.16 million; Commercial Paper of \$340 million (net of discounts); General Obligation Bonds of \$1.74 million; and Contractual Obligations of \$15.54 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 and under the caption "OTHER RELEVANT INFORMATION – Miscellaneous Information") 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 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 in the consolidated proceeding found against the City on the condemnee's affirmative defenses, resulting in a judgment awarding title of the property to the condemnee. The City appealed, and the Third Court of Appeals upheld the trial court judgment on February 18, 2010 (Case No. 03-07-00729-CV). The City is now contemplating an appeal to the Texas Supreme Court and is unable to predict the outcome of that potential appeal.

Water Utility System Litigation

The City was in litigation with Archer Western Contractors, Ltd., the contractor for the expansion of the Ullrich Water Treatment Plant from 100 million gallons per day to 167 million gallons per day. The water treatment plant is one of the two primary plants currently providing treated water to the City.

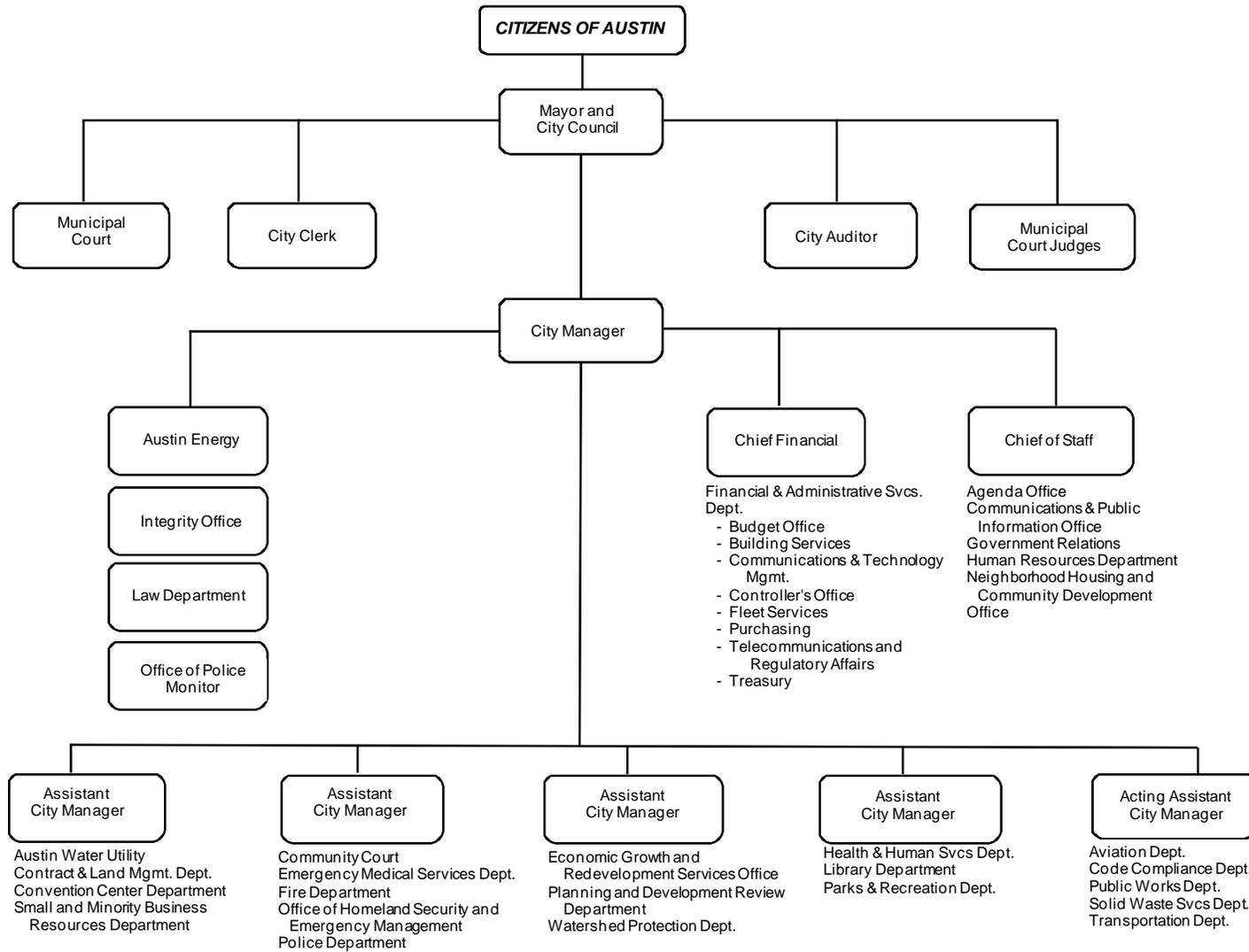
On June 14, 2007, Archer Western filed suit against the City in the 201st Judicial District Court of Travis County Texas, under Cause No. D-1-GN-07-001790 Archer Western Contractors Ltd. v. City of Austin, Texas, for \$19,666,890.00. Archer alleged the City breached the construction contract for the project. The City's position was that it had 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 was remediated.

The parties settled effective October 1, 2009. The City paid Archer Western \$6,300,000.00 on November 30, 2009. Archer Western released the City from all claims and executed a consent to surety company of final payment.

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CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. The City Council is comprised of a Mayor and six council members elected at-large for three year staggered terms.

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Marc Ott was appointed City Manager in January 2008.

City Manager – Marc A. Ott

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

Chief Financial Officer – Leslie Browder, CPA

Ms. Leslie Browder received her B.B.A. in Accounting from The University of Texas at Austin. Her career with the City spans more than 17 years. Ms Browder assumed the position of Chief Financial Officer in September 2007. Prior to her appointment as Chief Financial Officer, she served as the City's Deputy Chief Financial Officer. During her tenure at the City of Austin, she has also served in other financial capacities, including the Chief Financial Officer for the airport. Ms. Browder has also been employed in Chief Financial Officer roles for Austin's Public Transportation Authority, San Diego County's Public Pension System and the City of Encinitas, California.

Services Provided by the City

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

Employees

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

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

Annexation Program

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

obligated to provide a uniform level of service to all areas of the city where differing characteristics of population, topography, and land use provide a sufficient basis for different service levels.

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

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

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

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

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

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

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
1999	90	588
2000	4,057	4,184
2001	3,908	15
2002	2,019	1,957
2003	3,253	0
2004	1,114	7,030
2005	1,914	1,234
2006	351	621
2007	2,466	1,266
2008	2,262	14
2009	295	984

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

Recent Annexation

In accordance with the terms of a Strategic Partnership Agreement (“SPA”) between the City and the River Place Municipal Utility District (“MUD”), all of the territory in the MUD not previously annexed by the City was annexed for limited purposes of planning and zoning in 2009. In addition, the 2009 annual program included full purpose annexation of three small developed residential areas, a commercial and industrial area, and city owned property. Austin surpassed 300 square miles in incorporated area this year and the city’s estimated population grew to 782,967 people. Austin remains the 15th largest city in the United States.

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

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

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

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

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

Future Annexation

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

- Whisper Valley and Indian Hills – proposed new Public Improvement Districts tentatively scheduled for limited purpose annexation in 2010 with full purpose annexation deferred for up to 45 years per the terms of the development agreement; includes over 2,400 acres north of FM 969 on either side of State Highway 130.
- Springwoods MUD – full purpose annexation will take place in December 2010 per terms of the amended SPA; includes assumption of debt for drainage improvements and completion/maintenance of drainage projects.
- Springwoods Non-MUD area – northwest Austin area adjacent to Springwoods MUD added to the MAP in 2007 with full purpose annexation scheduled for December 2010.
- Lost Creek MUD – commercial area was annexed in 2008 while annexation of the remaining residential property will take place in 2015 under the terms of the SPA.
- River Place MUD – full purpose annexation will take place in December 2017 in accordance with the terms of the SPA.

Pension Plans

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

The Police Officers contribute 13.0% and the City contributes 18.63% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 15.7% of payroll, and the City contributes 18.05%.

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

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

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

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

Other Post-Employment Benefits

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees. Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these benefits. Post retirement benefits include health, dental, vision, and \$1,000 of life insurance. The City pays a portion of

the retiree's medical insurance premiums and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection and years of service. The City pays the entire cost of the premium for life insurance for the retiree.

The City recognizes the cost of providing these benefits as payroll expenses/expenditures in an operating fund with corresponding revenue in the Employee Benefits Fund and are funded on a pay-as-you-go basis. The estimated cost of providing these benefits for 3,115 retirees was \$19.6 million in 2009, \$21 million in 2008 for 2,956 retirees and \$16.9 million in 2007 for 2,800 retirees.

As of September 30, 2009, the City's unfunded actuarial accrued liability is approximately \$1 billion; the net OPEB obligation is \$175.2 million. The City has worked with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to assess the effect these would have on reducing retiree benefits or developing other cost-sharing strategies. Cost reduction strategies have also been implemented.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to fifth party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$7.0 million for claims and damages at the end of fiscal year 2009. 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 Code 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 March 31, 2010, the City’s investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U.S. Treasuries	5%
U.S. Agencies	45%
Money Market Funds	4%
Local Government Investment Pools	46%

The dollar weighted average maturity for the combined City investment portfolios is .96 years. The City prices the portfolios weekly utilizing a market pricing service.

TAX MATTERS – SERIES 2010A BONDS

Tax Exemption

The delivery of the Series 2010A Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Series 2010A Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. Forms of Bond Counsel’s opinions are attached hereto as APPENDIX E.

Interest on the Series 2010A Bonds owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit or a financial asset securitization investment trust (FASIT). A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Series 2010A Bonds pertaining to the use, expenditure, and investment of the proceeds of the Series 2010A Bonds and will assume continuing compliance by the City with the provisions of the Tenth Supplement subsequent to the issuance of the Series 2010A Bonds. The Tenth Supplement contains covenants by the City with respect to, among other matters, the use of the proceeds of the Series 2010A Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Series 2010A Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Series 2010A Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Series 2010A Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the IRS with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Series 2010A Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Series 2010A Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2010A Bonds, the City may have different or conflicting interests from the owners of the Series 2010A Bonds. Public awareness of any future audit of the Series 2010A Bonds could adversely affect the value and liquidity of the Series 2010A 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 Series 2010A Bonds. Prospective purchasers of the Series 2010A Bonds should be aware that the ownership of tax-exempt obligations such as the Series 2010A Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount and Premium Bonds on Certain Series 2010A Bonds

The initial public offering price of certain Series 2010A Bonds (the "Series 2010A Discount Bonds") may be less than the amount payable on such Series 2010A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Series 2010A Discount Bond (assuming that a substantial amount of the Series 2010A Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Series 2010A Discount Bond. A portion of such original issue discount allocable to the holding period of such Series 2010A Discount Bond by the initial purchaser will, upon the disposition of such Series 2010A Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Series 2010A Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Series 2010A Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Series 2010A Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Series 2010A Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Series 2010A Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Series 2010A Discount Bond was held) is includable in gross income.

Owners of Series 2010A Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Series 2010A Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Series 2010A Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Series 2010A

Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Series 2010A Bonds (the “Series 2010A Premium Bonds”) may be greater than the amount payable on such Series 2010A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Series 2010A Premium Bond (assuming that a substantial amount of the Series 2010A Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Series 2010A Premium Bonds. The basis for federal income tax purposes of a Series 2010A Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Series 2010A Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

Purchasers of the Series 2010A Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Series 2010A Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Series 2010A Premium Bonds.

TAX MATTERS - SERIES 2010B BONDS

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Series 2010B Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Series 2010B Bonds in light of the investor’s particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, brokers-dealers, and persons who have hedged the risk of owning the Series 2010B Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the Series 2010B Bonds as “capital assets” within the meaning of section 1221 of the Code, and acquire such Series 2010B Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2010B BONDS.

Internal Revenue Service Circular 230 Notice...You should be aware that:

- (i) the discussion with respect to United States federal tax matters in this Official Statement was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;
- (ii) such discussion was written to support the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and
- (iii) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230.

Payments of Stated Interest on the Series 2010B Bonds

The stated interest paid on the Series 2010B Bonds will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Original Issue Discount

If a substantial amount of the Series 2010B Bonds of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the Series 2010B Bonds of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Series 2010B Bonds at maturity over its Issue Price, and the amount of the original issue discount on the Series 2010B Bonds will be amortized over the life of the Series 2010B Bonds using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the Series 2010B Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Series 2010B Bonds that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on the Series 2010B Bonds each taxable year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner's gross income while the beneficial owner holds the Series 2010B Bonds will increase the adjusted tax basis of the Series 2010B Bonds in the hands of such beneficial owner.

Disposition of Series 2010B Bonds and Market Discount

A beneficial owner of Series 2010B Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Series 2010B Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Series 2010B Bonds. Generally, the beneficial owner's adjusted tax basis in the Series 2010B Bonds will be the beneficial owner's initial cost, increased by the original issue discount previously included in the beneficial owner's income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Series 2010B Bonds.

Under current law, a purchaser of a Series 2010B Bonds who did not purchase the Series 2010B Bonds in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the Series 2010B Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount." Market discount is the amount by which the price paid for the Series 2010B Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Series 2010B Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Series 2010B Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Series 2010B Bonds could have a material effect on the market value of the Series 2010B Bonds.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Series 2010B Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Series 2010B Bonds. This withholding applies if such beneficial owner of Series 2010B Bonds: (i) fails to furnish to payor such beneficial owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Series 2010B Bonds. Beneficial owners of the Series 2010B Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the beneficial owners of the Series 2010B Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner's United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Series 2010B Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Series 2010B Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Series 2010B Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no backup withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Series 2010B Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Series 2010B Bond for U.S. federal income tax purposes.

CONTINUING DISCLOSURE OF INFORMATION

In the Tenth Supplement, the City has made the following agreement for the benefit of the Holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement within the various tables and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to the MSRB through its Electronic Municipal Markets Access ("EMMA") information system.

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

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

Material Event Notices

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2010A Bonds; (7) modifications to rights of Holders of the Bonds; (8) redemptions; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the MSRB.

Availability of Information

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

Limitations and Amendments

The City has agreed to update information and to provide notices of 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 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 from time to time 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 (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions 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 so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. On October 24, 2007, the City filed its audited financial statements for the fiscal year ended September 30, 2006, in accordance with the Rule. Prior to October 24, 2007, the City had filed unaudited financial statements, in accordance with the Rule, pursuant to its continuing disclosure agreements, and will continue to file the audited financial statements promptly upon the receipt thereof.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received unenhanced ratings of “A1” by Moody’s, “A+” by S&P and “AA-” by Fitch. The Insured Bonds will be rated “Aa3” (“negative outlook”) by Moody’s and “AAA” (“negative outlook”) by S&P as a result of the municipal bond insurance policy issued by AGM (see “BOND INSURANCE”). An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the City nor PFM (hereinafter defined) will undertake any responsibility to notify bondholders of any such revisions or withdrawals of rating. For a more detailed discussion of the ratings assigned to or, in the case of Fitch, withdrawn from AGM, see “BOND INSURANCE”).

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Previously Issued Electric Utility Obligations and Prior Subordinate Lien Obligations (identified and defined in the Tenth Supplement) equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Tenth Supplement and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Series 2010A Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under “TAX MATTERS – SERIES 2010A BONDS”, including the alternative minimum tax on corporations. The forms of Bond Counsel’s opinions are attached hereto as APPENDIX E. Certain matters will be passed on for the Underwriters by their counsel, Andrews Kurth LLP.

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”, “REDEMPTION”, “TAX MATTERS – SERIES 2010A BONDS”, “TAX MATTERS – SERIES 2010B BONDS”, “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the subheading “Compliance with Prior Undertakings”), “OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds,” “OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas” and “OTHER RELEVANT INFORMATION – Legal Opinions,” and in “APPENDIX C” and “APPENDIX D” to verify that the information relating to the Bonds, the Master Ordinance and the Tenth Supplement contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds occurring. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System.

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

Financial Advisor

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

Underwriters

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Series 2010A Bonds from the City at a price equal to the initial offering prices shown on the inside front cover of this Official Statement, less an underwriting discount of \$623,655.38. The Underwriters will be obligated to purchase all of the Series 2010A Bonds if any Series 2010A Bonds are purchased. The Series 2010A Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Series 2010B Bonds from the City at a price equal to the initial offering prices shown on the inside front cover of this Official Statement, less an underwriting discount of \$630,093.38. The Underwriters will be obligated to purchase all of the Series 2010B Bonds if any Series 2010B Bonds are purchased. The Series 2010B Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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

Forward - Looking Statements

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Miscellaneous Information

The Financial Management Service ("FMS"), a bureau of the Department of the Treasury, administers the Treasury Offset Program to collect delinquent debts owed to federal agencies. Creditor agencies of the federal government submit delinquent debts to FMS for collection and inclusion in the Treasury Offset Program and certify that such debts qualify for collection by offset. Before an eligible federal payment is disbursed to a payee, disbursing officials compare the payment information with debtor information, which has been supplied by the creditor agency, in FMS's delinquent debtor database. If the payee's name and taxpayer identification number match the name and taxpayer identification number of a debtor, the disbursing official offsets the payment, in whole or in part, to satisfy the debt, to the extent legally allowed. Subsidy payments may be withheld from issuers of Build America Bonds, such as the City, in the administration of the Treasury Offset Program.

The City has received a notice of the withholding of a subsidy payment of approximately \$617,000 on a \$78.5 million transaction which is wholly separate from the Bonds. The City disputes and is challenging the alleged liability on which the withholding was based. The subsidy payment in said transaction is independent from the Subsidy Payments related to the Series 2010B Bonds. The City has not pledged the Subsidy Payments related to the Series 2010B Bonds and any possible future offset of Subsidy Payments will not affect the City's obligation to establish rates and charges sufficient to pay the principal and interest on the Bonds and to fund the funds and accounts established in the Ordinances. See "SECURITY FOR THE BONDS – Designation of the Series 2010B Bonds as Qualified Build America Bonds."

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

/s/ Lee Leffingwell
Mayor
City of Austin, Texas

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

SCHEDULE I

SUMMARY OF REFUNDED BONDS

	<u>Maturity Date</u>		<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
Combined Utility System Revenue Refunding Bonds, Series 1993	5/15/2014 (1)		5.250%	\$ 5,190,000	8/9/2010	100%
Electric Utility System Revenue Refunding Bonds, Series 2001	11/15/2022 (2)		5.000%	\$ 6,100,000	11/15/2010	100%
	11/15/2023 (2)		5.000%	6,400,000	11/15/2010	100%
	11/15/2024 (3)		5.000%	6,800,000	11/15/2010	100%
	11/15/2025 (3)		5.000%	7,200,000	11/15/2010	100%
	11/15/2026 (3)		5.000%	7,600,000	11/15/2010	100%
	11/15/2027 (3)		5.000%	8,100,000	11/15/2010	100%
	11/15/2028 (3)		5.000%	8,500,000	11/15/2010	100%
	11/15/2029 (3)		5.000%	9,000,000	11/15/2010	100%
	11/15/2030 (3)		5.000%	9,500,000	11/15/2010	100%
				<u>\$ 69,200,000</u>		
Total Refunded Bonds				<u>\$ 74,390,000</u>		

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- (1) Represents the outstanding portion of a mandatory sinking fund installment in respect of term bonds scheduled to mature on May 15, 2018.
 - (2) Represents mandatory sinking fund installment and final maturity amounts in respect of term bonds scheduled to mature on November 15, 2023.
 - (3) Represents mandatory sinking fund installment and final maturity amounts in respect of term bonds scheduled to mature on November 15, 2030.

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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 770,000 in 2009. Over the past ten years, Austin's population has increased by approximately 140,000 residents, or 22.5 percent. Geographically, Austin consists of approximately 302 square miles. The current estimated median household income and per capita income for the City is \$47,520 and \$38,518, respectively.

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

US News and World Report looked for affordable communities with strong economies and plenty of fun things to do and included Austin as one of the top 10 Best Places to Live in 2009 in America. Children's Health Magazine ranked Austin as the 11th best place to raise a family based on its criteria of a community that is safe, nurturing, stimulating and economically sound. Also in 2009, Forbes magazine ranked Austin as the least stressful city of the 40 largest metropolitan statistical areas examined. MSN City Guides included Austin in its list of The 10 Greenest Cities in America, citing Austin's Climate Protection Plan and goal to make Austin the leading city in the nation in the fight against climate change. The Green Guide also included Austin in its list of Top 25 Green Cities in the U.S., citing Austin's green builder program, smart growth initiative and commitment to solar power.

In April 2009, the City of Austin received the Large Employer of the Year award from the Disabled American Veterans, Department of Texas, in recognition of the City's programs supporting our nation's service men and women. The City subsequently received the National Outstanding Large Employer of the Year Award this past November; Austin was the only municipality to receive this award. During 2009, the City of Austin also earned designation as one of the nation's "Preserve America Communities", a prestigious and significant national designation recognizing communities that protect and celebrate their heritage; use their historic assets for economic development and community revitalization; and encourage people to experience and appreciate local historic resources through education and heritage tourism programs.

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

The City of Austin is fortunate to offer a broad range of educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with approximately 43 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 128,000 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin ("UT"), the fifth largest public university in the nation, is known as a world-class center of education and research and was nationally ranked 15th among public universities in 2009 by US News and World Report. As of 2010, US News and World Report ranked 43 UT graduate programs and specialties in the top 10 nationally, and 53 others ranked in the top 25.

Recent Economic Performance

Austin's economy began showing improvement in 2009 and outperformed many other areas of the country in creating and sustaining jobs and economic growth. Austin ranked first on the Milken Institute and Greenstreet Real Estate Partners' 2009 Best Performing Cities list; the first metropolitan area to ever be ranked number one twice on the index, the last time being in 2000. Four of the top five metropolitan areas on the list were located in the State of Texas. Forbes.com also recognized the Austin metropolitan area as the Best City for Recession Recovery in its list of the 10 U.S. cities poised for a rebound from the economic slump. Since 2000, employment in Austin actually increased by more than 115,000 jobs. The Bureau of Labor Statistics reports the 2009 Austin MSA employment base at 758,200, a loss of approximately 17,600 from 2008, or a 2.3% decline; unemployment rose from 4.9 percent in 2008 to 6.9 percent at the end of 2009, which is below both the state and national levels of 8 and 10 percent respectively.

The Texas economy outperformed the U.S. economy during 2009. According to the *Monthly Review of the Texas Economy* report for December 2009 published by The Real Estate Center at Texas A&M University, the U.S. economy lost more than 4.65 million jobs or 3.4 percent of its total nonfarm jobs between November 2008 and November 2009, while Texas experienced a 2.5 percent job loss, or 272,000 jobs, during the same period. The same report indicates the annual employment growth rate for the Austin-Round Rock metropolitan area from November 2008 to November 2009 as second in the State of Texas at -0.6 percent. According to the Bureau of Labor Statistics, Texas experienced an increase in the unemployment rate during the same time period, from 5.4 to 8 percent, while the U.S. rate rose from 6.8 percent to 10 percent. The *Southwest Economy*, published by the Federal Reserve Bank of Dallas, attributes the performance of the Texas economy compared to the rest of the nation to Texas' business friendly environment which helped keep alive firms that might have succumbed to the recession elsewhere, a slower than the national average in state spending, high energy prices and Texas' reliance on sales taxes rather than income taxes. *Southwest Economy* states that income is impacted greater than consumption during economic downturns because people try to maintain their living standards while enduring temporary wage cuts or unemployment spells. So income tax revenue tends to fall further than sales tax revenue during recessions, leaving income-tax-reliant states facing deeper shortfalls.

As predicted, the national economy began a very slow recovery process this year from the recession that began in December 2007. The recession was caused by a combination of the housing market collapse, credit crunch and financial turmoil. The Bureau of Labor Statistics reports that the national unemployment rate fluctuated between 7.7 and 10.1 percent during the year, ending the year at 10.0 percent. The Texas Consumer Price Index ("CPI-U"), as reported by the Texas Comptroller, shows a slight decrease of 0.3 percent from October 2008 to 2009, which compares to the decrease of 0.1 percent for the same period at the national level, as reported by the U.S. Department of Labor. For the year ending December 31, 2009, the national economy experienced a 0.1 percent increase, with a sharp rise in the index for used cars and trucks being the largest contributor to this increase.

Home sales are an important indicator of the local and national economy. Although annual home sales declined overall in the Austin market during 2009, signs of improvement were evident. The Austin Business Journal reported dramatic increases in sales volume during October and November 2009, which were presumably related to the original deadline for the first-time home buyer tax credit. But increases in sales volume beyond November seem to indicate a sustainable recovery is underway in Austin's real estate market. Data compiled by the Real Estate Research Center at Texas A&M shows Austin Home sales declined 7 percent in 2009 with an ending inventory of 5.4 months compared to a 20 percent decline in 2008, also with ending inventory of 5.4 months. Texas sales also showed improvement during 2009. Annual home sales declined 7 percent in 2009 with an ending inventory of 6.3 months compared to a 20 percent decline in 2008 with an ending inventory of 6.2 months. National sales of existing homes experienced a 4.9 percent annual sales gain during 2009, the first since 2005 according to the National Association of Realtors. Sales during 2008 experienced the lowest sales volume since 1997 with a decline of 13.1 percent from 2007 sales volume. The total nationwide housing inventory at the end of 2009 was a 7.2 month supply compared to a 9.3 month supply in 2008.

Economic Outlook

The U.S. economy suffered significant job losses in 2009, bringing unemployment to 10.1 percent, a 26-year high. The

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

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

Long-term Financial Planning

A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a planning tool in developing the following year's operating budget. The City's budget approach emphasizes fiscal responsibility by limiting spending in a given year to projected revenue collections. Standard and Poor's recognized Austin's sound financial management when the rating agency upgraded the City's general obligation bond rating to "AAA" status in January 2008 and reaffirmed Austin's "AAA" long-term rating for the City's 2009 public improvement bonds offered to sale this past August. Standard and Poor's upgraded the Austin Water Utility's bond rating two levels from "A+" to "AA" in December 2008.

The Fiscal Year 2009-2010 Approved General Fund budget eliminated a projected \$31 million budget shortfall while maintaining key services for Austin residents. Citizen input received during the preparation of the 2009-2010 Budget was unprecedented. Five community input forums were held to discuss budget reduction options and citizens participated in a budget reduction exercise. Over 750 citizens participated in these events and over 600 participants completed the online version of the exercise as well. Budget savings include the elimination of 105 vacant City positions, as well as no pay increases for City employees. Uniformed employees under contract during the development of the budget, Police and Emergency Medical Services, agreed to defer their pay increases in Fiscal Year 2010. The savings generated from the sacrifice of the City's employees, along with deferred pay increases for Police and EMS, allowed for a balanced budget and avoidance of significant reductions to the high quality of City services that Austin residents have come to expect. The FY 2009-2010 budget also authorizes approximately \$6.5 million of the budget stabilization reserves to address capital replacement and other critical needs. The Approved Budget projects budget reserves of \$67 million at the end of FY 2009-2010.

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 Fiscal Year 2009-2010 approved budget includes \$1.25 million in annual revenues. Austin Energy serves over 390,000 customers with a service territory of approximately 437 square miles. The utility has a diverse generation mix that includes nuclear, coal, natural gas and renewable energy sources. Austin Energy's capital improvements program of \$306 million funds various projects for power production and delivery of reliable energy services, including additional generation peaking capacity at the Sand Hills Energy Center, Fayette Power Plant scrubbers and other power plant improvements.

The City enterprise activities also include the Austin Water Utility, which provides water and wastewater services. The FY 2009-2010 budget projects revenues from the sale of water and wastewater service along with miscellaneous other revenue to be \$422.8 million. This budget includes a 4.5 percent combined water and wastewater rate increase which was included in the Utility's 5-year rate plan to fund system capital improvements, including new service extensions and rehabilitation of aging infrastructure.

Other enterprise funds and their FY 2009-2010 expense budgets include Aviation (\$92.6 million), Convention Center (\$55.4 million) and Solid Waste Services (\$66.1 million).

Major Initiatives

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

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

2009, the Council established the following priorities:

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

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

Waller Creek Tunnel Project. This project began as an underground storm water bypass tunnel to alleviate risk of severe flooding along a stretch of Waller Creek from Waterloo Park to Lady Bird Lake. After an intense design process that included survey and geotechnical work, computer model analysis, public input and presentations to City Council, the project has been divided into 12 smaller projects, including the tunnel itself, a boathouse, inlet, outlet and the creek side inlets. The designs of the tunnel proper and the boathouse were both 60% complete at year-end. A multi-departmental review team, including staff from Austin Energy, Planning and Development Review and Parks and Recreation, to name a few, was put together to examine the plans and ensure they met technical and safety requirements and adhered to the intended scope of the project. Construction of the first project, the boathouse, is expected to begin in 2010 and the entire tunnel project should be complete in 2014. The tunnel project is funded through the Waller Creek Tax Increment Financing Zone.

Zero Waste Initiative. Following the guiding principles for the delivery of solid waste services, first adopted by the City Council in 2006, a Zero Waste Strategic Plan was presented to and approved by the City Council on January 15, 2009. The plan development process began with hiring an independent consultant to develop the plan and, working with City staff, included obtaining public input, performing extensive research and visiting peer sites. The goal of the Zero Waste Plan is to reduce the amount of waste Austinites send to the landfill by 90% by the year 2040.

Austin Climate Protection Plan. Austin City Council passed the Austin Climate Protection Plan in February 2007. The overarching goal of the Austin Climate Protection Program is to make Austin the leading city in the nation in the fight against climate change. The main objective of the plan is to reduce the amount of energy we use as a city and the greenhouse gas emissions associated with that energy use with the goal to make Austin a carbon neutral community by the year 2020. The five main components that make up the City's innovative plan include:

- Municipal Plan – Make all City of Austin facilities, vehicles and operations carbon neutral by 2020;
- Utility Plan – Expand conservation, energy efficiency and renewable programs to reduce Austin Energy's carbon footprint; cap carbon dioxide emission from existing power plants and make any new electricity generation carbon neutral;
- Homes and Building Plan – Update building codes for new buildings to be the most energy-efficient in the nation, pursue energy efficiency upgrades and enhance Austin Energy's Green Building Program;
- Community Plan – Engage Austin citizens, community groups and businesses to reduce greenhouse gas emissions throughout the community; and
- "Go Neutral" Plan – Provide tools and resources for citizens, businesses, organizations and visitors to measure and reduce their carbon footprint.

Progress made during FY 2008-2009 included the following:

- The City of Austin completed a greenhouse gas inventory for all City departments. This inventory measures the City's carbon footprint and will allow assessment of the relative impact of various reduction measures. Tracking greenhouse gas emissions will allow the City to quantitatively monitor progress on achieving our greenhouse gas reductions goals.
- The City of Austin has put all General Fund departments on the GreenChoice® renewable energy program. Now more than 75% of the City departments are powered by clean energy.
- The City Council passed the Energy Conservation Audit and Disclosure Ordinance. This ordinance is based on the Energy Efficiency Upgrades Task Force recommendations and went into effect June 1, 2009.
- An Austin specific carbon footprint calculator has been created which allows citizens to calculate their footprint and discover ways the City is working with citizens to make Austin a more livable city.

Affordable Housing. The City manages multiple housing gap financing programs and direct housing services programs under the framework of the Housing Continuum. The S.M.A.R.T Housing™ program provides incentives for developers to provide affordable housing throughout the City. These programs operate through multiple federal, state, local and City funding sources.

The Affordable Housing Incentives Task Force recommended a priority of “geographic dispersion” to the Austin City Council for all affordable housing funded by the City of Austin. In fiscal year 2006-07, Austin Housing Finance Corporation (“AFHC”) began a housing counseling program, Housing Smarts, that provides homebuyer counseling, foreclosure prevention education and education regarding predatory lending. This program actively markets to local lenders and real estate professionals to raise awareness about the program. In fiscal year 2008-09, \$14,974,441 was leveraged through federal funding sources CDBG and HOME, and \$6,875,202 was leveraged using non-federal funding sources to provide affordable housing opportunities to Austin residents.

The Rental Housing Development Assistance (“RHDA”) program provides funding for non-profit and for-profit developers to acquire, rehabilitate or construct affordable rental housing for low-income households. On November 7, 2006, Austin voters approved \$55 million in general obligation bonds to be issued for the development and retention of affordable housing, \$33 million of which is expected to be used in the RHDA Program. Of the 177 rental units completed during fiscal year 2008-09, federal funds produced 58 units (33 percent) and nonfederal Housing Trust Funds produced 55 units (31 percent). Non-federal general obligation bond funding produced 64 units (37 percent) of affordable housing. During fiscal year 2008-09, RHDA committed a total of \$16.4 million in general obligation bond funding and deployed over \$6.4 million for acquisition, new construction and rehabilitation.

Comprehensive Plan. In the budget for Fiscal Year 2008-09, the Austin City Council approved funds to hire a consultant to work with staff and the community to create a new Comprehensive Plan for the City, which will provide broad-level guidance on how Austin will grow and develop in the future. According to the City Charter, the Comprehensive Plan contains “the council’s policies for growth, development and beautification of the land within the corporate limits and the extraterritorial jurisdiction of the city”. The new plan is needed to chart Austin’s near-, intermediate- and long-term future so as to preserve and enhance the community’s quality of life. The plan will address key themes currently at the center of civic debate such as growth and development, sustainability and climate change, environmental protection, neighborhood preservation, affordable housing, economic development and local and regional mobility. Additional key themes may also emerge through the public participation process.

CityWorks Academy. During the summer of 2009, the City launched another forum for citizen involvement by seeking applications from residents interested in an inside look into City operations. CityWorks is a 10 week program created with the idea of providing Austin residents a unique opportunity to learn about the City’s governmental processes, its procedures, the services it provides and the people who deliver those services. The program is designed to teach participants about the A to Z of City operations, from aviation to zoning, to help them to be informed about City issues, and to join others who help keep our community strong by actively participating in City affairs. Twenty-eight Austin residents were honored in December for graduating with the inaugural class which began on September 8, 2009.

OTHER

American Recovery and Reinvestment Act

During 2009, the City established a Recovery Office to coordinate its efforts in applying for and reporting on funding received through the American Recovery and Reinvestment Act (“ARRA”). As of March 2010, the City has been awarded nearly \$72 million in stimulus funds across eleven federal government programs.

In February of 2010, Austin Water broke ground on green infrastructure improvements at the Hornsby Bend Biosolids Management Plant with \$31.8 million of ARRA funding. The project will create approximately 560 local jobs and reduce the environmental impact of the plant, contributing significantly towards improving the sustainability of Austin’s wastewater operations.

The City was also able to take advantage of ARRA funding during its August 2009 bond sale; the ARRA includes the Build America Bond program, which helps governments pursue capital projects at lower borrowing costs. Other approved ARRA funded projects include road, traffic signal and sidewalk improvements, financial assistance for new homeowners and homeless prevention.

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. The system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The annual operating budget is proposed by the City Manager and approved by the City Council after public discussion. Annual updates to the Capital Improvements Program budgets follow a similar process. Primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. As demonstrated by the statements and schedules included in the City's 2009 CAFR, the City continues to meet its responsibility for sound financial management.

Cash Management

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

Risk Management

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

Pensions

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

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

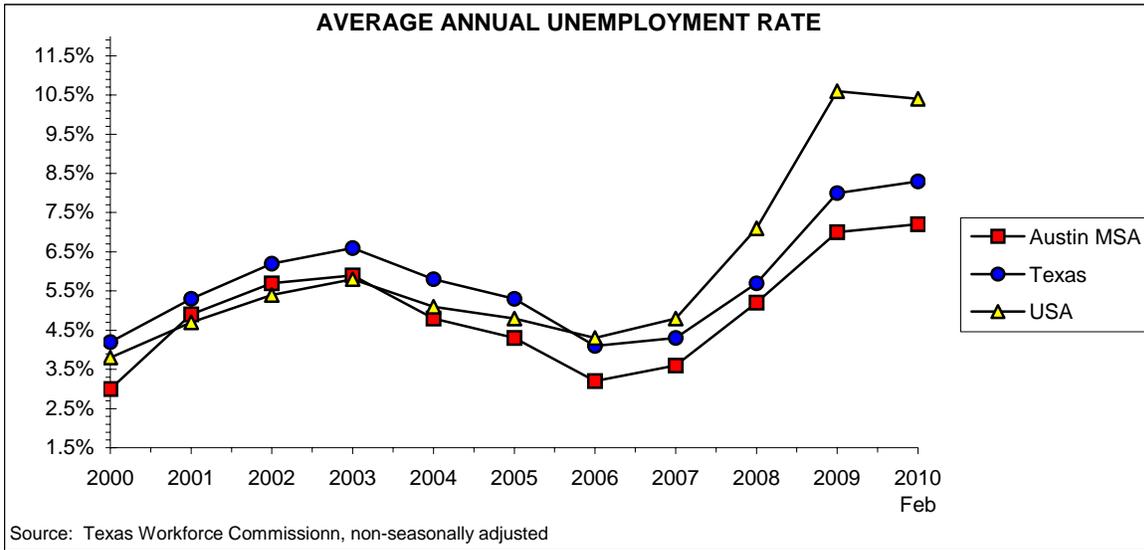
<u>Industrial Classification</u>	<u>2006</u>		<u>2007</u>		<u>2008</u>		<u>2009</u>		<u>February 2010</u>	
		<u>% of Total</u>		<u>% of Total</u>						
Manufacturing	57,400	7.9%	60,600	7.9%	55,000	7.0%	49,500	6.5%	46,600	6.2%
Government	156,600	21.5%	158,400	20.8%	163,700	21.0%	167,900	22.1%	169,600	22.4%
Trade, transportation & utilities	151,400	20.8%	159,800	21.0%	163,700	21.0%	152,500	20.1%	148,300	19.6%
Services and miscellaneous	275,800	37.9%	290,100	38.0%	300,500	38.5%	304,000	40.0%	308,900	40.8%
Finance, insurance and real estate	42,500	5.8%	45,200	5.9%	47,200	6.0%	43,900	5.8%	43,600	5.8%
Natural resources, mining & construction	<u>44,600</u>	<u>6.1%</u>	<u>49,200</u>	<u>6.4%</u>	<u>50,800</u>	<u>6.5%</u>	<u>42,000</u>	<u>5.5%</u>	<u>39,400</u>	<u>5.2%</u>
Total	<u>728,300</u>	<u>100.0%</u>	<u>763,300</u>	<u>100.0%</u>	<u>780,900</u>	<u>100.0%</u>	<u>759,800</u>	<u>100.0%</u>	<u>756,400</u>	<u>100.0%</u>

(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 2010, Texas Workforce Commission.

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Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
2000	3.0%	4.2%	3.8%
2001	4.9%	5.3%	4.7%
2002	5.7%	6.2%	5.4%
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008	5.2%	5.7%	7.1%
2009	7.0%	8.0%	10.6%
2010 February	7.2%	8.2%	10.4%

Note: Information is updated periodically, data contained herein is latest provided.
 Source: Texas Labor Market Review, March 2010, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

<u>Period</u>	<u>Amount</u>								
1-1-06	\$10.334	1-1-07	\$11.422	1-1-08	\$11.639	1-1-09	\$10.864	1-1-10	\$10.215
2-1-06	14.818	2-1-07	16.371	2-1-08	16.569	2-1-09	14.289	2-1-10	15.921*
3-1-06	10.051	3-1-07	11.080	3-1-08	12.109	3-1-09	10.528	3-1-10	10.736
4-1-06	9.930	4-1-07	11.414	4-1-08	11.355	4-1-09	9.724	4-1-10	10.290
5-1-06	12.950	5-1-07	14.611	5-1-08	13.882	5-1-09	12.612		
6-1-06	10.725	6-1-07	11.748	6-1-08	12.185	6-1-09	11.213		
7-1-06	11.981	7-1-07	12.011	7-1-08	12.129	7-1-09	10.752		
8-1-06	11.880	8-1-07	14.101	8-1-08	14.486	8-1-09	13.495		
9-1-06	11.152	9-1-07	11.883	9-1-08	12.349	9-1-09	10.673		
10-1-06	11.535	10-1-07	12.257	10-1-08	11.781	10-1-09	11.037		
11-1-06	13.401	11-1-07	14.774	11-1-08	13.595	11-1-09	12.419		
12-1-06	11.525	12-1-07	12.365	12-1-08	12.190	12-1-09	11.165		

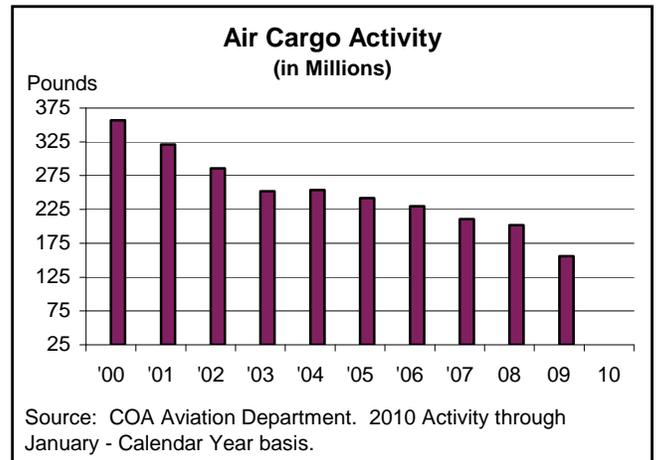
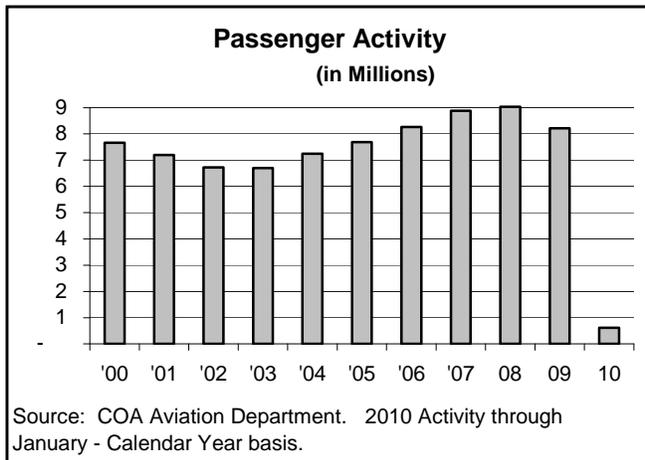
*Includes a \$1.5 million one-time sales tax correction.
 Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2009)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	State Government	37,754
The University of Texas at Austin	Education	25,313
Dell Computer Corporation	Computers	16,000
City of Austin	City Government	12,406
Federal Government	Government	11,991
Austin Independent School District	Education	11,322
HEB Grocery	Grocery/Retail	10,904
Seton Healthcare Network	Healthcare	9,793
IBM Corporation	Computers	6,200
St. David's Healthcare Partnership	Healthcare	6,043

Source: 2009 Comprehensive Annual Financial Report.

Transportation



Austin-Bergstrom International Airport

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

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

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

Wealth Indicators

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

Demographic and Economic Statistics -Last Ten Years

<u>Year</u>	<u>City of Austin Population (1)</u>	<u>Area of Incorporation (Square Miles) (1)</u>	<u>Population MSA (2) (3)</u>	<u>Income (MSA) (thousands of dollars) (2)</u>	<u>Median Household Income MSA (3)</u>	<u>Capital Personal Income MSA (2)</u>	<u>Unemployment Rate (MSA) (4)</u>
2000	628,667	265	1,265,846	\$41,157,290	36,321	\$32,514	3.0%
2001	661,639	266	1,325,305	42,489,015	39,811	32,060	4.3%
2002	671,044	273	1,355,241	41,908,425	47,089	30,923	5.9%
2003	674,719	276	1,385,723	43,104,097	41,909	31,106	6.0%
2004	683,551	291	1,423,161	46,134,871	39,227	32,417	5.1%
2005	695,881	294	1,464,563	51,058,588	40,335	34,863	4.5%
2006	714,237	296	1,527,040	55,636,235	40,888	36,434	4.2%
2007	732,381	297	1,592,590	59,305,518	42,263	37,238	3.7%
2008	746,105	298	1,652,602	62,486,683	46,340	37,811	4.4%
2009	770,296	302	1,659,847	66,217,138 (5)	47,520	38,518 (5)	6.7%
2000-2009 Change	22.53%	14.08%	31.13%	60.89%	30.83%	18.47%	

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

- (1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
- (2) Source: Bureau of Economic Analysis.
- (3) Source: Claritas, a Nielson Company.
- (4) Source: Bureau of Labor Statistics; United State Department of Labor.
- (5) Data not available for 2009. Figures are estimated.

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Connections and Permits

Year	Utility Connections			Building Permits		
	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1999	348,721	173,038	173,150	\$1,501,435,229	\$54,399,189	\$1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361
2001	349,671	178,608	172,177	1,625,508,854	71,189,116	1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786
2007	388,626	199,671	188,101	2,529,648,915	14,272,851	2,543,921,766
2008	396,791	206,695	198,718	1,468,699,801	4,099,000	1,472,798,801
2009	407,926	209,994	208,232	834,498,480	6,988,999	841,487,479

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

Housing Units

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

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
2000	18,621	\$3,561,039,919	\$191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,567	4,487,464,528	198,851
2005	26,905	5,660,934,916	210,405
2006	30,278	6,960,536,304	229,888
2007	28,047	6,910,684,916	246,397
2008	22,438	5,469,870,991	243,777
2009 May	7,148	1,670,018,393	233,634

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

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

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
2000	96.0%
2001	81.2%
2002	77.1%
2003	76.5%
2004	76.7%
2005	83.1%
2006	87.5%
2007	85.6%
2008	84.3%
2009 (4th qtr.)	80.6%

Source: Oxford Commercial

Education

The Austin Independent School District has an enrollment of 84,035 for the 2009/2010 fourth six weeks. This reflects an increase in enrollment from the end of the 2008 school year. The District includes 110 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,145	76,821
2007/08	81,332	76,096
2008/09	82,027	77,193
2009/10 (1)	84,035	79,280

(1) 2009/2010 Data is for the fourth six weeks, as of February 22, 2010. Data for the final six weeks of the 2009/2010 school year is not yet available.

Source: Austin Independent School District.

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

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

Tourism

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

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

APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the 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. 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the City restated the beginning net assets of Austin Energy Fund and the Business type Activities to correct the regulatory assets.

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

Deloitte & Touche LLP

March 30, 2010

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, 2009.

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. 50, No. 52, No. 55 and No. 56.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The assets of the City exceeded its liabilities at the end of the fiscal year 2009, resulting in \$4.5 billion of net assets. Net assets associated with governmental activities are approximately \$1.6 billion, or 36% of the total net assets of the City. Net assets associated with business-type activities are approximately \$2.9 billion, or 64% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is \$3.4 billion, or 76% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are \$438.3 million, or 10% of the City's total net assets. Unrestricted net assets for governmental activities are a deficit of \$56.9 million, while unrestricted net assets for business-type activities are approximately \$495.3 million, or 17% of total business-type net assets. The deficit in governmental unrestricted net assets is largely due to the recognition of \$54.9 million in other post employment benefit expense for governmental activities in accordance with GASB Statement No. 45.

During fiscal year 2009, total net assets for the City of Austin increased \$62.2 million or 1.4% before a restatement of Electric Fund deferred costs and expenses (see Note 2). Of this amount, governmental activities decreased \$20.6 million, or 1.3% from the previous year and business-type activities increased \$82.9 million, or 2.9% from the previous year.

Total revenues for the City decreased \$57.3 million; revenues for governmental activities decreased \$9.3 million; revenues for business-type activities decreased \$48.0 million. Total expenses for the City increased \$34.9 million; expenses for governmental activities decreased \$2.8 million; expenses for business-type activities increased \$37.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

a -- Government-wide financial statements

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

b -- Fund financial statements

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

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

c -- Notes to the financial statements

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

d -- Other information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net assets

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

	Condensed Statement of Net Assets					
	as of September 30					
	(in thousands)					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Current assets	\$ 674,926	544,656	1,463,251	1,395,559	2,138,177	1,940,215
Capital assets	2,303,263	2,258,850	6,339,459	6,038,226	8,642,722	8,297,076
Other noncurrent assets	5,669	3,993	507,636	553,101	513,305	557,094
Total assets	<u>2,983,858</u>	<u>2,807,499</u>	<u>8,310,346</u>	<u>7,986,886</u>	<u>11,294,204</u>	<u>10,794,385</u>
Current liabilities	272,454	251,312	479,524	482,405	751,978	733,717
Noncurrent liabilities	1,127,518	951,675	4,944,693	4,622,330	6,072,211	5,574,005
Total liabilities	<u>1,399,972</u>	<u>1,202,987</u>	<u>5,424,217</u>	<u>5,104,735</u>	<u>6,824,189</u>	<u>6,307,722</u>
Net assets:						
Invested in capital assets, net of related debt	1,545,216	1,526,481	1,902,398	1,825,599	3,447,614	3,352,080
Restricted	95,641	76,478	488,413	497,927	584,054	574,405
Unrestricted (deficit)	(56,971)	1,553	495,318	558,625	438,347	560,178
Total net assets	<u>\$ 1,583,886</u>	<u>1,604,512</u>	<u>2,886,129</u>	<u>2,882,151</u>	<u>4,470,015</u>	<u>4,486,663</u>

In the current fiscal year, total assets of the City increased by \$500 million before restatement (see Note 2). Total liabilities increased by \$516 million. Governmental-type total assets increased by \$176 million and business-type increased \$402 million, while governmental-type liabilities increased by \$197 million and business-type increased \$319 million.

Significant factors in the increase of governmental total assets include an increase in pooled investments and cash of \$146.4 million and an increase in capital assets of \$44.4 million. Factors in the increase of governmental-type liabilities include an increase in current liabilities of \$21.1 million, consisting of increases to the current portion of general obligation bonds payable of \$12.1 million, and to claims payable of \$4.0 million. Noncurrent liabilities increased \$176 million, consisting primarily of an increase to general obligation bonds payable of \$110.6 million, pension obligation payable of \$6.2 million, accrued compensated absences of \$5.6 million and other post employment benefits of \$54.9 million.

Significant factors in the increase of business-type total assets include an increase in capital assets of \$301.2 million and an increase in pooled investments and cash of \$47.5 million. Total liabilities increased by \$319.5 million; significant increases include commercial paper notes payable of \$126.8 million, deferred credits and other liabilities of \$131.1 million, other post employment benefits payable of \$32.7 million, and pension obligation of \$9.3 million. Significant decreases include capital appreciation bond interest payable of \$31.2 million, accounts payable of \$26.4 million, and revenue bonds payable from restricted assets of \$13.5 million.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$4.5 billion at the end of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets, net of related debt (e.g. land, building, and equipment), which are \$3.4 billion, or 76% 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, \$584.1 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, \$438.3 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased \$42.9 million in the current fiscal year. A significant portion of the decrease in unrestricted net assets is due to the recognition of \$87.6 million in other post employment benefit expense in accordance with GASB Statement No. 45.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for business-type activities; however unrestricted net assets for governmental activities are a deficit of \$56.9 million.

b -- Changes in net assets

Total net assets of the City increased by \$62.2 million in the current fiscal year. Governmental net assets decreased \$20.6 million. The decrease is attributable to expenses exceeding revenues by \$103.3 million net of transfers from other funds of \$82.7 million. Business-type net assets increased by \$82.9 million due to revenues exceeding expenses by \$165.6 million, net of transfers to other funds of \$82.7 million.

	Changes in Net Assets					
	September 30					
	(in thousands)					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Program revenues:						
Charges for services	\$ 140,989	149,694	1,833,856	1,845,678	1,974,845	1,995,372
Operating grants and contributions	54,022	65,782	--	--	54,022	65,782
Capital grants and contributions	85,085	3,652	71,819	76,881	156,904	80,533
General revenues:						
Property tax	309,888	268,802	--	--	309,888	268,802
Sales tax	139,795	154,445	--	--	139,795	154,445
Franchise fees and gross receipts tax	85,183	93,236	--	--	85,183	93,236
Grants and contributions not restricted to specific programs	--	80,178	--	--	--	80,178
Interest and other	20,827	29,287	27,938	59,028	48,765	88,315
Total revenues	835,789	845,076	1,933,613	1,981,587	2,769,402	2,826,663
Program expenses:						
General government	80,819	97,945	--	--	80,819	97,945
Public safety	442,690	440,345	--	--	442,690	440,345
Transportation, planning and sustainability	79,840	49,426	--	--	79,840	49,426
Public health	81,773	102,188	--	--	81,773	102,188
Public recreation and culture	90,307	87,975	--	--	90,307	87,975
Urban growth management	121,237	123,115	--	--	121,237	123,115
Interest on debt	42,435	40,954	--	--	42,435	40,954
Electric	--	--	1,089,632	1,070,999	1,089,632	1,070,999
Water	--	--	200,162	202,900	200,162	202,900
Wastewater	--	--	160,962	147,059	160,962	147,059
Airport	--	--	98,403	91,557	98,403	91,557
Convention	--	--	52,219	52,911	52,219	52,911
Environmental and health services	--	--	67,097	69,805	67,097	69,805
Public recreation	--	--	10,274	10,169	10,274	10,169
Urban growth management	--	--	89,306	84,886	89,306	84,886
Total expenses	939,101	941,948	1,768,055	1,730,286	2,707,156	2,672,234
Excess (deficiency) before transfers	(103,312)	(96,872)	165,558	251,301	62,246	154,429
Transfers	82,686	73,163	(82,686)	(73,163)	--	--
Increase (decrease) in net assets	(20,626)	(23,709)	82,872	178,138	62,246	154,429
Beginning net assets, as previously reported	1,604,512	1,628,221	2,882,151	2,704,013	4,486,663	4,332,234
Restatement adjustment	--	--	(78,894)	--	(78,894)	--
Beginning net assets, as restated	1,604,512	1,628,221	2,803,257	2,704,013	4,407,769	4,332,234
Ending net assets	\$1,583,886	1,604,512	2,886,129	2,882,151	4,470,015	4,486,663

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

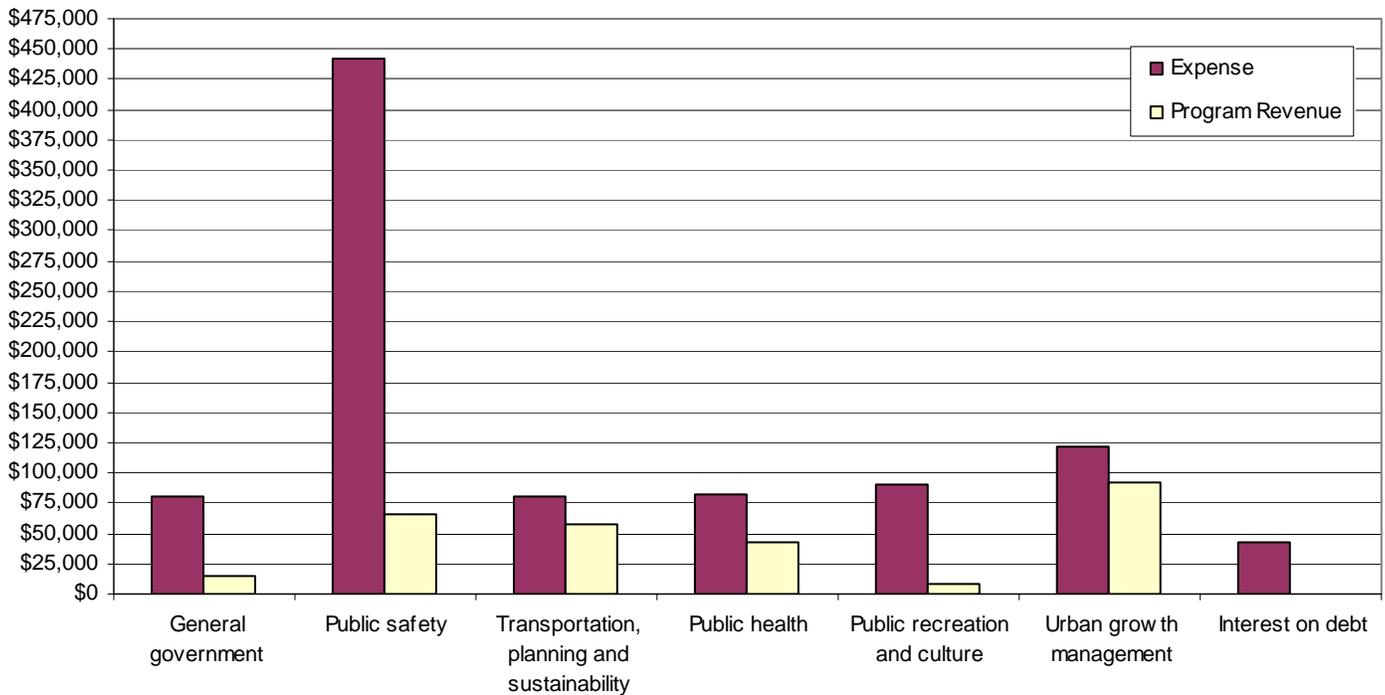
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City's net assets by \$20.6 million in fiscal year 2009, a 1.3% decrease of governmental net assets from the previous year. Key factors for the change from fiscal year 2008 to 2009 are as follows:

- The City's property tax revenue increased by \$41.1 million from the previous year, despite a decrease in the City's tax rate from 40.3 cents to 40.1 per \$100 valuation, as a result of an increase in assessed property values.
- Franchise fees and gross receipts taxes decreased \$8.1 million, largely due to a \$5.2 million decrease in hotel occupancy tax collections and a \$2.2 million decrease in gas and cable franchise fees. Sales tax collections for fiscal year 2009 were \$14.7 million less than fiscal year 2008.
- General government expenses decreased \$17.1 million due to reduced support services charges while public health expenses decreased \$20.4 million due to the transfer of hospital district activities to Travis County. Transportation, planning and sustainability expenses increased \$30.4 million largely due to an increase in right of way acquisition costs for the benefit of other governments.

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

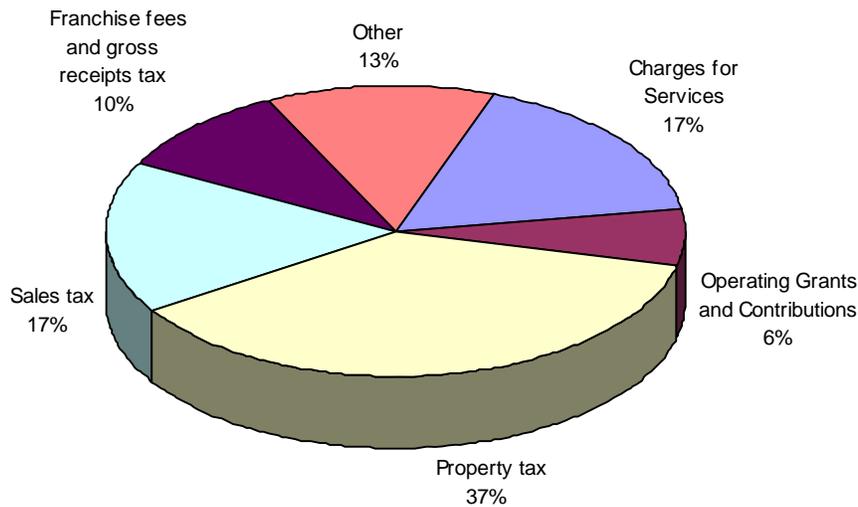
**Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)**



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



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

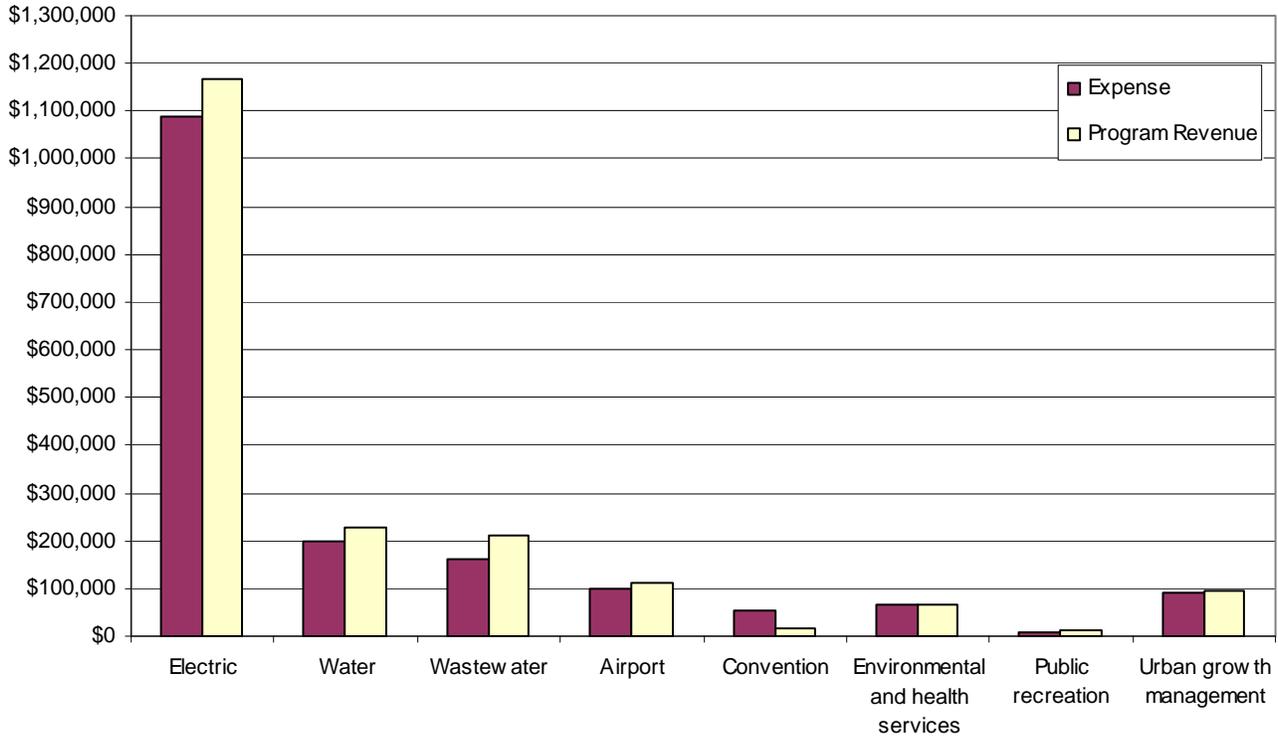
Business-type activities increased the City's net assets by approximately \$82.9 million, accounting for a 1.9% increase in the City's total net assets. Key factors include:

- Electric net assets increased approximately \$1 million. Revenues decreased 4.6% largely due to lower fuel costs, which are passed through as fuel revenue. Expenses increased 1.3% as lower fuel costs were offset by an increase in other operating expenses.
- Water and Wastewater net assets increased approximately \$47.1 million. This increase is due primarily to increased rates and water consumption due to weather conditions. Water revenue for 2009 increased by approximately 7.7% and Wastewater revenue increased 7% from the prior year.
- Airport net assets increased approximately \$18.6 million. Although revenues decreased 4.6% due to reduced air travel and expenses increased due to an increase in operations and maintenance costs, net assets showed positive growth due to capital contributions.
- Convention net assets increased approximately \$2.1 million. Revenues and transfers from the Hotel Occupancy Tax Fund decreased 7.6% due primarily to lower Hotel Occupancy Tax collections. Expenses increased due to increases in operations and maintenance costs.
- Environmental and health services activities are comprised of nonmajor enterprise funds that include the Solid Waste Services Fund, Primary Care Fund, and Hospital Fund. Net assets decreased by approximately \$0.7 million. This decrease is primarily attributed to inadequate revenues to cover expenses in solid waste services operations.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Recreation Program Fund. Net assets increased by \$1.2 million. Golf Fund operating revenues increased 6% primarily due to increased fees. Golf Fund operating expenses increased by 8.9% primarily due to increases in operations and maintenance costs.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately \$13.6 million. Drainage revenues increased 3.6% primarily due to an increase in the customer base, while Drainage expenses increased 4.6% due to increased operating costs.

As shown in the following chart, the electric utility, with expenses of \$1.09 billion, is the City's largest business-type activity, followed by water (\$200 million), wastewater (\$161 million), airport (\$98 million), urban growth management (\$89 million), environmental and health services (\$67 million), convention (\$52 million), and public recreation (\$10 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities except convention and environmental and health services.

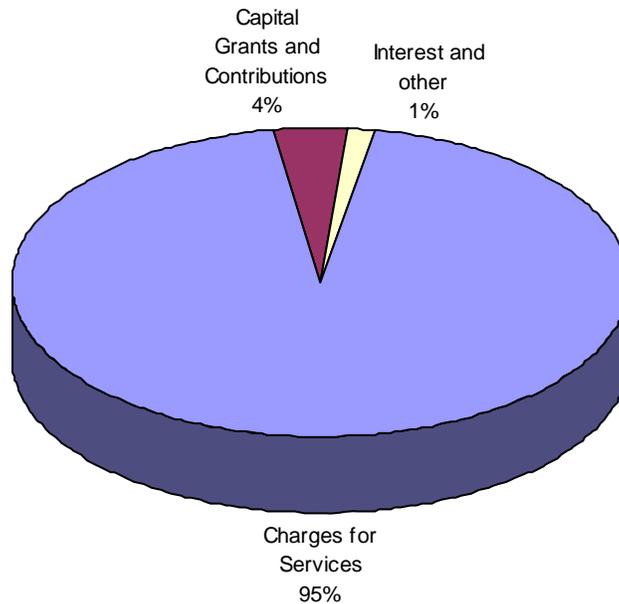
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

**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 (95%), followed by capital grants and contributions (4%) and interest and other revenues (1%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

The City reports the following types of governmental funds: the General Fund, special revenue funds, debt service funds, capital 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 \$451.9 million, an increase of \$122.5 million from the previous year. Approximately \$313.2 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 \$28.7 million in comparison to the prior year, primarily due to an increase in the reservation for encumbrances of \$33.9 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 \$87.7 million, while total fund balance was \$92.2 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 15.4% of total General Fund expenditures of \$570.8 million, and total fund balance represents 16.1% 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 \$40.8 million. The balance designated for budget stabilization may be appropriated to fund capital or other one-time expenditures in the subsequent fiscal year, but such appropriation will not normally exceed one-third of the total designated amount, with the other two-thirds designated for budget stabilization in future years.

The General Fund fund balance increased \$3.5 million during the fiscal year, while unreserved fund balance increased \$2.5 million. Significant differences from the previous year include:

- Property tax revenues increased \$22.6 million due to an increase in assessed property values. The City's property tax rate decreased from 40.3 cents to 40.1 cents per \$100 valuation.
- Sales tax revenues decreased \$14.7 million, while licenses, permits and inspections decreased \$3.7 million.
- General fund expenditures decreased \$4.7 million, due primarily to an increase in public safety expenditures of \$9.7 million, and a decrease in general government expenditures of \$15.3 million.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the business-type activities of the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds increased by \$83.3 million before consolidation of the internal service funds activities.

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

OTHER INFORMATION

a -- General Fund budgetary highlights

The original expenditure budget of the General Fund was amended during fiscal year 2009 to reallocate public safety costs due to the elimination of the Public Safety and Emergency Management department. Total General Fund budgeted requirements were unchanged as a result of the elimination of the Public Safety and Emergency Management department.

During the year, revenues were \$26.6 million less than budgeted. Sales tax collections were \$21.1 million less than budgeted, while licenses, permits and inspections revenue was \$3.9 million less than budgeted.

Actual General Fund budget-basis expenditures were \$27.6 million less than budgeted. Transportation, planning and sustainability expenditures exceeded budget by \$40 thousand; while all other General Fund departments were under budget. The total budget-basis fund balance at year-end was \$84.6 million.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2009, total \$8.6 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, nuclear fuel, plant held for future use, and intangible assets. The total increase in the City's capital assets for the current fiscal year was \$346 million (4.2%), with an increase of 2.0% for governmental activities and an increase of 5.0% 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	
	2009	2008	2009	2008	2009	2008
Land and improvements	\$ 324	302	449	442	773	744
Other assets not depreciated	20	19	1	1	21	20
Building and improvements	450	426	1,393	1,419	1,843	1,845
Equipment	73	79	3,555	3,367	3,628	3,446
Vehicles	36	36	58	58	94	94
Infrastructure	1,255	1,194	--	--	1,255	1,194
Construction in progress	145	203	747	612	892	815
Nuclear fuel, net of amortization	--	--	33	33	33	33
Plant held for future use	--	--	28	28	28	28
Intangible assets, net of amortization	--	--	75	78	75	78
Total net capital assets	<u>\$ 2,303</u>	<u>2,259</u>	<u>6,339</u>	<u>6,038</u>	<u>8,642</u>	<u>8,297</u>

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

- Governmental capital assets increased \$44 million primarily due to infrastructure additions, land acquisitions, and facility and system improvements.
- Business-type activities purchased or completed construction on capital assets of \$302 million. The increase was largely due to Water and Wastewater Fund facility improvements, and wastewater projects associated with the Austin Clean Water Program, Electric Fund expenditures for general infrastructure improvements, Airport, Drainage, and Transportation land acquisitions, and Convention, Drainage, and Transportation machinery and equipment.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported \$4.9 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	
	2009	2008	2009	2008	2009	2008
General obligation bonds and other tax supported debt, net	\$ 953	830	131	96	1,084	926
Commercial paper notes, net	--	--	340	213	340	213
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,443	3,409	3,443	3,409
Capital lease obligations	--	--	2	2	2	2
Total	<u>\$ 953</u>	<u>830</u>	<u>3,944</u>	<u>3,748</u>	<u>4,897</u>	<u>4,578</u>

During fiscal year 2009, the City's total outstanding debt increased by \$319 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased \$123 million. Issuance of new debt will be used primarily for street improvements, public safety facilities, cultural facilities, parks and recreation facilities and affordable housing projects.
- Outstanding debt for business-type functions increased \$196 million. The City issued Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper and existing debt.

During the current year the City's prior lien and subordinate lien utility revenue bonds and the Water and Wastewater Utility revenue bonds received favorable bond rating upgrades from Standard & Poor's; the Convention Center revenue bonds, that previously had no underlying rating from Moody's Investors Service, Inc., received an A2 rating from that agency; and, all other bond ratings were unchanged. Ratings at September 30, 2009 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2009	2008	2009	2008	2009	2008
General obligation bonds and other tax supported debt	Aa1	Aa1	AAA	AAA	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	AA	A+	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa3	Aa3	AA	A+	AA-	AA-
Airport system revenue bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Airport variable rate bonds	NUR(1)	NUR(1)	A-	A-	NUR(1)	NUR(1)
Convention Center revenue bonds	A2	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 remained resilient in 2009 despite sales tax revenues decreasing by 9.5% and a declining real estate market. Job loss in the Austin area was minimal in 2009 with year-end unemployment rates less than that of both the state and the nation. Austin's diverse economic base and national reputation as a great place to live continues to attract talented individuals and new employment opportunities. Job growth in the area is increasing, with mild growth forecasted in 2010.

The City's 2010 budget was prepared with emphasis on closing a \$31 million revenue shortfall while maintaining key services for Austin's residents. Citizen input played a major role in identifying budget reductions and providing input to the City Manager for presenting a balanced budget for the City Council's review. The Austin City Council has adopted a comprehensive set of financial policies to provide the foundation for long-range financial sustainability. These financial policies are directly aligned with the City Council's priority of budget stability while at the same time maintaining affordability, investment in future economic development, infrastructure needs, and quality of life. These policies are also crucial in maintaining the City's favorable bond ratings. City management will continue to monitor the economy and take corrective actions to help mitigate any unfavorable economic events.

The assessed taxable property values within the City increased by 6.23% for 2009. The property tax rate for fiscal year 2010 is 42.09 cents per \$100 valuation. The tax rate consists of 29.50 cents for the General Fund and 12.59 cents for debt service. Each 1 cent of the property tax rate is equivalent to \$8,153,320 of tax levy, as compared to \$7,675,201 in the previous year. Rate increases for the Water and Wastewater Fund are: 5.7% for Water and 3.3% for Wastewater for a combined increase of 4.5%.

e -- Requests for Information

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



Statement of Net Assets
September 30, 2009
(In thousands)

City of Austin, Texas
Exhibit A-1

	Governmental Activities	Business-type Activities	2009 Total (†)
ASSETS			
Current assets:			
Cash	\$ 89	63	152
Pooled investments and cash	537,949	386,037	923,986
Pooled investments and cash - restricted	--	356,662	356,662
Total pooled investments and cash	537,949	742,699	1,280,648
Investments, at fair value	18,734	6,481	25,215
Investments, at fair value - restricted	--	340,474	340,474
Cash held by trustee - restricted	2,366	42,818	45,184
Working capital advances	--	3,393	3,393
Property taxes receivable	12,849	--	12,849
Less allowance for uncollectible taxes	(4,001)	--	(4,001)
Net property taxes receivable	8,848	--	8,848
Accounts and other receivables	161,639	206,250	367,889
Less allowance for doubtful accounts	(87,510)	(3,748)	(91,258)
Net accounts receivable	74,129	202,502	276,631
Receivables from other governments	13,522	--	13,522
Notes receivable, net of allowance of \$18,968	10,699	--	10,699
Internal balances	(2,177)	2,177	--
Internal balances - restricted	(259)	259	--
Inventories, at cost	2,988	92,528	95,516
Real property held for resale	5,671	--	5,671
Prepaid items	1,061	3,898	4,959
Other assets	1,306	6,046	7,352
Other receivables	--	3,404	3,404
Deferred costs and expenses, net of amortization	--	16,509	16,509
Total current assets	674,926	1,463,251	2,138,177
Noncurrent assets:			
Investments held by trustee - restricted	--	113,831	113,831
Interest receivable - restricted	--	1,328	1,328
Capital assets			
Land and other nondepreciable assets	344,339	450,087	794,426
Property, plant, and equipment in service	2,810,615	8,175,113	10,985,728
Less accumulated depreciation	(996,297)	(3,168,939)	(4,165,236)
Net property, plant, and equipment in service	1,814,318	5,006,174	6,820,492
Construction in progress	144,606	747,298	891,904
Nuclear fuel, net of amortization	--	33,117	33,117
Plant held for future use	--	27,783	27,783
Intangible assets, net of amortization	--	75,000	75,000
Total capital assets	2,303,263	6,339,459	8,642,722
Other long-term assets	--	66	66
Deferred costs and expenses, net of amortization	5,669	392,411	398,080
Total noncurrent assets	2,308,932	6,847,095	9,156,027
Total assets	\$ 2,983,858	8,310,346	11,294,204

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

(Continued)

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

Statement of Net Assets
September 30, 2009
(In thousands)

City of Austin, Texas
Exhibit A-1
(Continued)

	Governmental Activities	Business-type Activities	2009 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 32,122	67,972	100,094
Accounts and retainage payable from restricted assets	--	39,023	39,023
Accrued payroll	28,311	16,078	44,389
Accrued compensated absences	46,111	21,883	67,994
Claims payable	17,570	--	17,570
Accrued interest payable from restricted assets	--	90,952	90,952
Interest payable on other debt	3,443	687	4,130
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	69,444	10,690	80,134
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	4,282	4,282
Revenue bonds payable	--	914	914
Revenue bonds payable payable from restricted assets	--	141,361	141,361
Capital lease obligations payable	152	523	675
Customer and escrow deposits payable from restricted assets	--	34,442	34,442
Accrued landfill closure and postclosure costs	--	10,494	10,494
Deferred credits and other liabilities	75,301	40,223	115,524
Total current liabilities	272,454	479,524	751,978
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	63,349	2,845	66,194
Claims payable	12,707	--	12,707
Capital appreciation bond interest payable	--	194,448	194,448
Commercial paper notes payable, net of discount	--	339,999	339,999
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	883,278	116,260	999,538
Revenue bonds payable, net of discount and inclusive of premium	--	3,300,981	3,300,981
Pension obligation payable	43,052	39,958	83,010
Other post employment benefits payable	109,851	65,300	175,151
Capital lease obligations payable	316	1,458	1,774
Accrued landfill closure and postclosure costs	--	7,718	7,718
Decommissioning liability payable from restricted assets	--	167,001	167,001
Deferred credits and other liabilities	14,965	680,292	695,257
Other liabilities payable from restricted assets	--	433	433
Total noncurrent liabilities	1,127,518	4,944,693	6,072,211
Total liabilities	1,399,972	5,424,217	6,824,189
NET ASSETS			
Invested in capital assets, net of related debt	1,545,216	1,902,398	3,447,614
Restricted for:			
Debt service	14,946	90,456	105,402
Strategic reserve	--	161,446	161,446
Capital projects	61,205	190,565	251,770
Renewal and replacement	--	12,836	12,836
Passenger facility charges	--	21,956	21,956
Operating reserve	--	11,154	11,154
Perpetual Care:			
Expendable	819	--	819
Nonexpendable	1,040	--	1,040
Other purposes	17,631	--	17,631
Unrestricted (deficit)	(56,971)	495,318	438,347
Total net assets	\$ 1,583,886	2,886,129	4,470,015

(†) 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, 2009
(In thousands)

City of Austin, Texas
Exhibit A-2

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	2009 Total
Governmental activities							
General government	\$ 80,819	11,319	194	4,011	(65,295)	--	(65,295)
Public safety	442,690	51,710	10,765	2,522	(377,693)	--	(377,693)
Transportation, planning, and sustainability	79,840	3,960	--	53,218	(22,662)	--	(22,662)
Public health	81,773	25,181	17,460	109	(39,023)	--	(39,023)
Public recreation and culture	90,307	3,819	1,290	2,737	(82,461)	--	(82,461)
Urban growth management	121,237	45,000	24,313	22,488	(29,436)	--	(29,436)
Interest on debt	42,435	--	--	--	(42,435)	--	(42,435)
Total governmental activities	939,101	140,989	54,022	85,085	(659,005)	--	(659,005)
Business-type activities							
Electric	1,089,632	1,162,286	--	5,956	--	78,610	78,610
Water	200,162	195,480	--	30,401	--	25,719	25,719
Wastewater	160,962	196,416	--	14,664	--	50,118	50,118
Airport	98,403	96,618	--	16,186	--	14,401	14,401
Convention	52,219	16,258	--	--	--	(35,961)	(35,961)
Environmental and health services	67,097	65,940	--	652	--	(505)	(505)
Public recreation	10,274	10,119	--	1,149	--	994	994
Urban growth management	89,306	90,739	--	2,811	--	4,244	4,244
Total business-type activities	1,768,055	1,833,856	--	71,819	--	137,620	137,620
Total	\$ 2,707,156	1,974,845	54,022	156,904	(659,005)	137,620	(521,385)
General revenues:							
Property tax					309,888	--	309,888
Sales tax					139,795	--	139,795
Franchise fees and gross receipts tax					85,183	--	85,183
Interest and other					20,827	27,938	48,765
Transfers-internal activities					82,686	(82,686)	--
Total general revenues and transfers					638,379	(54,748)	583,631
Change in net assets					(20,626)	82,872	62,246
Beginning net assets, as restated (see Note 2)					1,604,512	2,803,257	4,407,769
Ending net assets					\$ 1,583,886	2,886,129	4,470,015

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



**Governmental Funds
Balance Sheet
September 30, 2009
(In thousands)**

**City of Austin, Texas
Exhibit B-1**

	2009		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 69	5	74
Pooled investments and cash	80,608	365,758	446,366
Investments, at fair value	--	18,734	18,734
Cash held by trustee-restricted	--	1,767	1,767
Property taxes receivable	7,992	4,857	12,849
Less allowance for uncollectible taxes	(2,565)	(1,436)	(4,001)
Net property taxes receivable	5,427	3,421	8,848
Accounts and other receivables	132,850	21,997	154,847
Less allowance for doubtful accounts	(81,033)	(6,255)	(87,288)
Net accounts receivable	51,817	15,742	67,559
Receivables from other governments	--	13,522	13,522
Notes receivable, net of allowance	--	10,699	10,699
Due from other funds	217	20,571	20,788
Advances to other funds	--	5,561	5,561
Inventories, at cost	1,774	--	1,774
Real property held for resale	--	5,671	5,671
Prepaid items	85	438	523
Other assets	60	1,246	1,306
Total assets	<u>140,057</u>	<u>463,135</u>	<u>603,192</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	3,830	21,605	25,435
Accrued payroll	23,056	145	23,201
Accrued compensated absences	739	--	739
Due to other funds	--	20,799	20,799
Deferred revenue	17,570	9,156	26,726
Advances from other funds	--	411	411
Deposits and other liabilities	2,701	51,293	53,994
Total liabilities	<u>47,896</u>	<u>103,409</u>	<u>151,305</u>
Fund balances			
Reserved:			
Encumbrances	2,651	92,396	95,047
Inventories and prepaid items	1,859	438	2,297
Notes receivable	--	10,699	10,699
Advances receivable	--	5,561	5,561
Real property held for resale	--	5,671	5,671
Debt service	--	18,389	18,389
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	40,000	--	40,000
Contingencies	5,958	--	5,958
Future use	845	--	845
Budget stabilization	40,848	--	40,848
Unreserved, undesignated:			
Special revenue	--	56,385	56,385
Capital projects	--	168,328	168,328
Permanent funds	--	819	819
Total fund balances	<u>92,161</u>	<u>359,726</u>	<u>451,887</u>
Total liabilities and fund balances	<u>\$ 140,057</u>	<u>463,135</u>	<u>603,192</u>

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, 2009
(In thousands)

City of Austin, Texas
Exhibit B-1.1

Total fund balances - Governmental funds		\$ 451,887
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	3,225,704	
Less: accumulated depreciation	<u>(964,322)</u>	
		2,261,382
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	16,698	
Deferred revenue - property taxes and interest	4,797	
Deferred costs and expenses	<u>5,665</u>	
		27,160
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	(947,220)	
Pension obligation payable	(43,052)	
Other post employment benefits payable	(109,851)	
Capital lease obligations payable	(468)	
Compensated absences	(101,362)	
Interest payable	(3,421)	
Deferred credits and other liabilities	<u>(21,851)</u>	
		(1,227,225)
Internal service funds are used by management to charge the costs of capital project management, combined emergency communication center, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds.		
Certain assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		
		70,682
Total net assets - Governmental activities		<u><u>\$1,583,886</u></u>

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

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended September 30, 2009
(In thousands)

City of Austin, Texas
Exhibit B-2

	2009		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 210,618	97,674	308,292
Sales taxes	139,795	--	139,795
Franchise fees and other taxes	38,927	46,256	85,183
Fines, forfeitures and penalties	19,100	6,280	25,380
Licenses, permits and inspections	20,531	--	20,531
Charges for services/goods	33,655	51,250	84,905
Intergovernmental	--	62,802	62,802
Property owners' participation and contributions	--	12,161	12,161
Interest and other	10,456	20,731	31,187
Total revenues	473,082	297,154	770,236
EXPENDITURES			
Current:			
General government	46,618	6,382	53,000
Public safety	404,016	5,563	409,579
Transportation, planning and sustainability	894	6,781	7,675
Public health	37,498	33,264	70,762
Public recreation and culture	60,961	13,516	74,477
Urban growth management	20,862	85,287	106,149
Debt service:			
Principal	--	69,809	69,809
Interest	--	42,170	42,170
Fees and commissions	--	8	8
Capital outlay-capital project funds	--	96,342	96,342
Total expenditures	570,849	359,122	929,971
Excess (deficiency) of revenues over expenditures	(97,767)	(61,968)	(159,735)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	191,310	191,310
Bond premiums	--	1,897	1,897
Transfers in	121,936	53,314	175,250
Transfers out	(20,698)	(65,547)	(86,245)
Total other financing sources (uses)	101,238	180,974	282,212
Net change in fund balances	3,471	119,006	122,477
Fund balances at beginning of year	88,690	240,720	329,410
Fund balances at end of year	\$ 92,161	359,726	451,887

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

Governmental Funds
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, 2009
(In thousands)

City of Austin, Texas
Exhibit B-2.1

Net change in fund balances - Governmental funds \$ 122,477

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	105,211	
Depreciation expense	(91,766)	
Loss on disposal of capital assets	<u>(33,226)</u>	(19,781)

Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.

Property taxes	1,596	
Charges for services	4,530	
Interest and other	(1,439)	
Capital assets contribution	<u>67,282</u>	71,969

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of long-term debt	(193,207)	
Principal repayment on long-term debt	<u>69,809</u>	(123,398)

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	(6,597)	
Pension obligation	(6,240)	
Other post employment benefits	(54,968)	
Interest and other	<u>2,427</u>	(65,378)

Internal services. A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities. (6,515)

Change in net assets - Governmental activities \$ (20,626)

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

Proprietary Funds
Statement of Net Assets
September 30, 2009
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	\$ 18	10	8
Pooled investments and cash	211,298	42,980	452
Pooled investments and cash - restricted	127,368	23,199	153,210
Total pooled investments and cash	<u>338,666</u>	<u>66,179</u>	<u>153,662</u>
Investments, at fair value	--	--	--
Investments, at fair value - restricted	235,286	80,022	14,567
Cash held by trustee - restricted	42,501	317	--
Working capital advances	3,393	--	--
Accounts receivable	134,006	52,814	5,375
Less allowance for doubtful accounts	(2,215)	(715)	(527)
Net accounts receivable	<u>131,791</u>	<u>52,099</u>	<u>4,848</u>
Due from other funds	430	--	--
Due from other funds - restricted	--	27	--
Inventories, at cost	88,704	1,784	1,610
Prepaid expenses	3,710	13	28
Other assets	6,046	--	--
Other receivables - restricted	2,055	439	907
Deferred costs and expenses, net of amortization	<u>--</u>	<u>16,509</u>	<u>--</u>
Total current assets	<u>852,600</u>	<u>217,399</u>	<u>175,630</u>
Noncurrent assets:			
Advances to other funds	2,672	--	--
Advances to other funds - restricted	--	27	117
Investments held by trustee - restricted	113,831	--	--
Interest receivable - restricted	1,328	--	--
Capital assets			
Land and other nondepreciable assets	64,007	205,569	94,977
Property, plant, and equipment in service	3,791,872	3,196,404	678,669
Less accumulated depreciation	(1,797,981)	(1,040,921)	(173,988)
Net property, plant, and equipment in service	<u>1,993,891</u>	<u>2,155,483</u>	<u>504,681</u>
Construction in progress	385,600	288,694	27,054
Nuclear fuel, net of amortization	33,117	--	--
Plant held for future use	27,783	--	--
Intangible assets, net of amortization	<u>--</u>	<u>75,000</u>	<u>--</u>
Total capital assets	<u>2,504,398</u>	<u>2,724,746</u>	<u>626,712</u>
Other long-term assets	66	--	--
Deferred costs and expenses, net of amortization	<u>189,621</u>	<u>195,082</u>	<u>3,158</u>
Total noncurrent assets	<u>2,811,916</u>	<u>2,919,855</u>	<u>629,987</u>
Total assets	\$ 3,664,516	3,137,254	805,617

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	2009 Total	
ASSETS			
Current assets:			
Cash	27	63	15
Pooled investments and cash	131,307	386,037	91,583
Pooled investments and cash - restricted	52,885	356,662	--
Total pooled investments and cash	184,192	742,699	91,583
Investments, at fair value	6,481	6,481	--
Investments, at fair value - restricted	10,599	340,474	--
Cash held by trustee - restricted	--	42,818	599
Working capital advances	--	3,393	--
Accounts receivable	14,055	206,250	2,147
Less allowance for doubtful accounts	(291)	(3,748)	(222)
Net accounts receivable	13,764	202,502	1,925
Due from other funds	794	1,224	11
Due from other funds - restricted	--	27	--
Inventories, at cost	430	92,528	1,214
Prepaid expenses	147	3,898	538
Other assets	--	6,046	--
Other receivables - restricted	3	3,404	--
Deferred costs and expenses, net of amortization	--	16,509	--
Total current assets	216,437	1,462,066	95,885
Noncurrent assets:			
Advances to other funds	23	2,695	45
Advances to other funds - restricted	88	232	--
Investments held by trustee - restricted	--	113,831	--
Interest receivable - restricted	--	1,328	--
Capital assets			
Land and other nondepreciable assets	85,534	450,087	761
Property, plant, and equipment in service	508,168	8,175,113	72,035
Less accumulated depreciation	(156,049)	(3,168,939)	(31,975)
Net property, plant, and equipment in service	352,119	5,006,174	40,060
Construction in progress	45,950	747,298	1,060
Nuclear fuel, net of amortization	--	33,117	--
Plant held for future use	--	27,783	--
Intangible assets, net of amortization	--	75,000	--
Total capital assets	483,603	6,339,459	41,881
Other long-term assets	--	66	--
Deferred costs and expenses, net of amortization	4,550	392,411	4
Total noncurrent assets	488,264	6,850,022	41,930
Total assets	704,701	8,312,088	137,815

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

(Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2009
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 58,011	3,079	2,138
Accounts and retainage payable from restricted assets	12,898	20,438	1,799
Accrued payroll	7,227	3,633	1,032
Accrued compensated absences	9,905	5,056	1,386
Claims payable	--	--	--
Due to other funds	--	--	--
Accrued interest payable from restricted assets	46,912	39,925	1,912
Interest payable on other debt	21	86	1
General obligation bonds payable and other tax supported debt	--	--	25
General obligation bonds payable and other tax supported debt payable from restricted assets	214	4,068	--
Revenue bonds payable	--	914	--
Revenue bonds payable from restricted assets	65,823	54,413	12,910
Capital lease obligations payable	37	--	486
Customer and escrow deposits payable from restricted assets	21,646	9,232	439
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	32,439	7,224	225
Total current liabilities	255,133	148,068	22,353
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,739	645	186
Claims payable	--	--	--
Advances from other funds	--	3,885	--
Capital appreciation bond interest payable	78,452	115,996	--
Commercial paper notes payable, net of discount	140,707	199,292	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	1,203	19,576	264
Revenue bonds payable, net of discount and inclusive of premium	1,170,317	1,627,769	294,455
Pension obligation payable	17,824	8,980	2,736
Other post employment benefits payable	26,633	16,459	4,848
Capital lease obligations payable	1,127	--	331
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	167,001	--	--
Deferred credits and other liabilities	177,484	498,586	--
Other liabilities payable from restricted assets	--	351	82
Total noncurrent liabilities	1,782,487	2,491,539	330,902
Total liabilities	2,037,620	2,639,607	353,255
NET ASSETS			
Invested in capital assets, net of related debt	1,059,709	357,159	293,395
Restricted for:			
Debt service	46,199	27,665	14,491
Strategic reserve	142,191	12,431	--
Capital projects	75,835	--	102,317
Renewal and replacement	2,066	--	10,000
Passenger facility charges	--	--	21,956
Operating reserve	--	--	8,991
Unrestricted	300,896	100,392	1,212
Total net assets	\$ 1,626,896	497,647	452,362
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	3,166	1,424	769
Total net assets - Business-type activities	\$ 1,630,062	499,071	453,131

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

(Continued)

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	2009 Total	
LIABILITIES			
Current liabilities:			
Accounts payable	4,744	67,972	6,687
Accounts and retainage payable from restricted assets	3,888	39,023	--
Accrued payroll	4,186	16,078	5,110
Accrued compensated absences	5,536	21,883	6,945
Claims payable	--	--	17,570
Due to other funds	1,093	1,093	158
Accrued interest payable from restricted assets	2,203	90,952	--
Interest payable on other debt	579	687	22
General obligation bonds payable and other tax supported debt	10,665	10,690	428
General obligation bonds payable and other tax supported debt payable from restricted assets	--	4,282	--
Revenue bonds payable	--	914	--
Revenue bonds payable from restricted assets	8,215	141,361	--
Capital lease obligations payable	--	523	--
Customer and escrow deposits payable from restricted assets	3,125	34,442	--
Accrued landfill closure and postclosure costs	10,494	10,494	--
Deferred credits and other liabilities	335	40,223	4,545
Total current liabilities	55,063	480,617	41,465
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	275	2,845	414
Claims payable	--	--	12,707
Advances from other funds	3,493	7,378	744
Capital appreciation bond interest payable	--	194,448	--
Commercial paper notes payable, net of discount	--	339,999	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	95,217	116,260	5,074
Revenue bonds payable, net of discount and inclusive of premium	208,440	3,300,981	--
Pension obligation payable	10,418	39,958	--
Other post employment benefits payable	17,360	65,300	--
Capital lease obligations payable	--	1,458	--
Accrued landfill closure and postclosure costs	7,718	7,718	--
Decommissioning liability payable from restricted assets	--	167,001	--
Deferred credits and other liabilities	4,222	680,292	--
Other liabilities payable from restricted assets	--	433	--
Total noncurrent liabilities	347,143	4,952,071	18,939
Total liabilities	402,206	5,432,688	60,404
NET ASSETS			
Invested in capital assets, net of related debt	192,135	1,902,398	36,383
Restricted for:			
Debt service	2,101	90,456	--
Strategic reserve	6,824	161,446	--
Capital projects	12,413	190,565	2,232
Renewal and replacement	770	12,836	--
Passenger facility charges	--	21,956	--
Operating reserve	2,163	11,154	--
Unrestricted	86,089	488,589	38,796
Total net assets	302,495	2,879,400	77,411
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	1,370	6,729	
Total net assets - Business-type activities	303,865	2,886,129	

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, 2009
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	\$ 1,162,286	391,896	--
User fees and rentals	--	--	80,890
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	1,162,286	391,896	80,890
OPERATING EXPENSES			
Operating expenses before depreciation	869,247	172,438	57,296
Depreciation and amortization	114,172	81,031	18,708
Total operating expenses	983,419	253,469	76,004
Operating income (loss)	178,867	138,427	4,886
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	17,402	1,875	4,180
Interest on revenue bonds and other debt	(86,530)	(95,369)	(22,878)
Interest capitalized during construction	--	--	1,196
Passenger facility charges	--	--	15,728
Amortization of bond issue cost	(700)	(717)	(229)
Cost (recovered) to be recovered in future years	(9,973)	7,278	--
Other nonoperating expense	(8,126)	(18,506)	(287)
Total nonoperating revenues (expenses)	(87,927)	(105,439)	(2,290)
Income (loss) before contributions and transfers	90,940	32,988	2,596
Capital contributions	5,956	45,065	16,186
Transfers in	--	--	--
Transfers out	(95,000)	(30,606)	--
Change in net assets	1,896	47,447	18,782
Total net assets - beginning, as restated (See Note 2)	1,625,000	450,200	433,580
Total net assets - ending	\$ 1,626,896	497,647	452,362
Reconciliation to government-wide Statement of Activities			
Change in net assets	1,896	47,447	18,782
Adjustment to consolidate internal service activities	(884)	(341)	(201)
Change in net assets - Business-type activities	\$ 1,012	47,106	18,581

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2009 Total	Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,554,182	--
User fees and rentals	183,056	263,946	--
Billings to departments	--	--	275,191
Employee contributions	--	--	36,057
Operating revenues from other governments	--	--	3,488
Other operating revenues	--	--	4,623
Total operating revenues	183,056	1,818,128	319,359
OPERATING EXPENSES			
Operating expenses before depreciation	185,186	1,284,167	301,259
Depreciation and amortization	20,816	234,727	9,380
Total operating expenses	206,002	1,518,894	310,639
Operating income (loss)	(22,946)	299,234	8,720
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	4,481	27,938	734
Interest on revenue bonds and other debt	(15,327)	(220,104)	(290)
Interest capitalized during construction	2,114	3,310	--
Passenger facility charges	--	15,728	--
Amortization of bond issue cost	(258)	(1,904)	4
Cost (recovered) to be recovered in future years	--	(2,695)	--
Other nonoperating expense	(461)	(27,380)	(7,528)
Total nonoperating revenues (expenses)	(9,451)	(205,107)	(7,080)
Income (loss) before contributions and transfers	(32,397)	94,127	1,640
Capital contributions	4,612	71,819	(2,223)
Transfers in	45,621	45,621	--
Transfers out	(2,701)	(128,307)	(6,319)
Change in net assets	15,135	83,260	(6,902)
Total net assets - beginning, as restated (See Note 2)	287,360	2,796,140	84,313
Total net assets - ending	302,495	2,879,400	77,411
Reconciliation to government-wide Statement of Activities			
Change in net assets	15,135	83,260	
Adjustment to consolidate internal service activities	1,038	(388)	
Change in net assets - Business-type activities	16,173	82,872	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2009
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,227,397	395,415	79,706
Cash payments to suppliers for goods and services	(655,952)	(90,613)	(34,253)
Cash payments to employees for services	(146,662)	(74,072)	(20,354)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(35,575)	--	--
Net cash provided (used) by operating activities	389,208	230,730	25,099
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(95,000)	(30,606)	--
Interest paid on revenue notes and other debt	(17)	--	--
Increase in deferred assets	1,119	--	--
Loans to other funds	(230)	--	--
Loan repayments to other funds	--	(448)	--
Loan repayments from other funds	429	27	6
Net cash provided (used) by noncapital financing activities	(93,699)	(31,027)	6
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	105,774	193,850	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	6,317	--
Principal paid on long-term debt	(78,964)	(62,919)	(12,835)
Purchased interest received	--	437	--
Interest paid on revenue bonds and other debt	(93,993)	(90,872)	(22,552)
Passenger facility charges	--	--	15,728
Acquisition and construction of capital assets	(249,906)	(202,872)	(26,655)
Contributions from municipality	--	--	--
Contributions from state and federal governments	--	--	1,345
Contributions in aid of construction	5,956	9,737	16,186
Bond issuance costs	--	(524)	--
Bond discounts	--	(995)	--
Bond premiums	--	6,150	--
Bonds issued for advanced refundings of debt	--	175,000	--
Cash paid for bond refunding escrow	--	(179,536)	--
Cash paid for nuclear fuel inventory	(13,907)	--	--
Net cash provided (used) by capital and related financing activities	\$ (325,040)	(146,227)	(28,783)

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

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2009 Total	Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	180,680	1,883,198	319,400
Cash payments to suppliers for goods and services	(83,035)	(863,853)	(107,807)
Cash payments to employees for services	(90,755)	(331,843)	(109,192)
Cash payments to claimants/beneficiaries	--	--	(85,078)
Taxes collected and remitted to other governments	--	(35,575)	--
Net cash provided (used) by operating activities	6,890	651,927	17,323
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	45,621	45,621	--
Transfers out	(2,701)	(128,307)	(6,319)
Interest paid on revenue notes and other debt	--	(17)	--
Increase in deferred assets	--	1,119	--
Loans to other funds	--	(230)	--
Loan repayments to other funds	(756)	(1,204)	(213)
Loan repayments from other funds	177	639	--
Net cash provided (used) by noncapital financing activities	42,341	(82,379)	(6,532)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	299,624	--
Proceeds from the sale of general obligation bonds and other tax supported debt	41,498	47,815	--
Principal paid on long-term debt	(13,134)	(167,852)	(412)
Purchased interest received	101	538	--
Interest paid on revenue bonds and other debt	(15,175)	(222,592)	(328)
Passenger facility charges	--	15,728	--
Acquisition and construction of capital assets	(43,991)	(523,424)	(7,598)
Contributions from municipality	(103)	(103)	(8,469)
Contributions from state and federal governments	--	1,345	--
Contributions in aid of construction	5,406	37,285	--
Bond issuance costs	(300)	(824)	--
Bond discounts	--	(995)	--
Bond premiums	710	6,860	--
Bonds issued for advanced refundings of debt	--	175,000	--
Cash paid for bond refunding escrow	--	(179,536)	--
Cash paid for nuclear fuel inventory	--	(13,907)	--
Net cash provided (used) by capital and related financing activities	(24,988)	(525,038)	(16,807)

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2009
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	\$ (350,765)	(262,235)	(37,539)
Proceeds from sale and maturities of investment securities	355,044	251,872	37,129
Interest on investments	12,990	1,787	4,180
Net cash provided (used) by investing activities	17,269	(8,576)	3,770
Net increase (decrease) in cash and cash equivalents	(12,262)	44,900	92
Cash and cash equivalents, October 1	393,447	21,606	153,578
Cash and cash equivalents, September 30	381,185	66,506	153,670
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	178,867	138,427	4,886
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	114,172	78,531	18,708
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	4,318	--	--
(Increase) decrease in accounts receivable	3,567	2,944	(1,075)
Increase (decrease) in allowance for doubtful accounts	73	95	(146)
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	(5,520)	(518)	(45)
Decrease in prepaid expenses and other assets	15,857	440	(17)
(Increase) decrease in deferred costs and other expenses	41,021	(956)	--
(Increase) decrease in other long-term assets	5	--	--
Increase (decrease) in accounts payable	(15,979)	(1,195)	(238)
Increase in accrued payroll and compensated absences	1,420	615	148
Decrease in claims payable	--	--	--
Increase in advances from other funds	--	--	--
Increase in pension obligations payable	4,184	2,085	615
Increase in other post employment benefits payable	13,327	8,236	2,426
Increase (decrease) in deferred credits and other liabilities	32,815	(954)	(53)
Increase (decrease) in customer deposits	1,081	480	(110)
Total adjustments	210,341	92,303	20,213
Net cash provided (used) by operating activities	\$ 389,208	230,730	25,099

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

(Continued)

	<u>Business-Type Activities</u>		<u>Governmental Activities- Internal Service Funds</u>
	<u>Nonmajor Enterprise Funds</u>	<u>2009 Total</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(19,676)	(670,215)	--
Proceeds from sale and maturities of investment securities	17,121	661,166	--
Interest on investments	4,370	23,327	734
Net cash provided (used) by investing activities	<u>1,815</u>	<u>14,278</u>	<u>734</u>
Net increase (decrease) in cash and cash equivalents	26,058	58,788	(5,282)
Cash and cash equivalents, October 1	158,161	726,792	97,479
Cash and cash equivalents, September 30	<u>184,219</u>	<u>785,580</u>	<u>92,197</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(22,946)	299,234	8,720
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	20,816	232,227	9,380
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	4,318	--
(Increase) decrease in accounts receivable	(2,633)	2,803	138
Increase (decrease) in allowance for doubtful accounts	65	87	--
Decrease in due from other funds	--	--	11
(Increase) decrease in inventory	(66)	(6,149)	232
Decrease in prepaid expenses and other assets	(69)	16,211	(510)
(Increase) decrease in deferred costs and other expenses	--	40,065	(3)
(Increase) decrease in other long-term assets	--	5	1
Increase (decrease) in accounts payable	(1,000)	(18,412)	(4,809)
Increase in accrued payroll and compensated absences	(843)	1,340	380
Decrease in claims payable	--	--	3,815
Increase in advances from other funds	(11)	(11)	--
Increase in pension obligations payable	2,437	9,321	--
Increase in other post employment benefits payable	8,686	32,675	--
Increase (decrease) in deferred credits and other liabilities	2,246	34,054	(32)
Increase (decrease) in customer deposits	208	1,659	--
Total adjustments	<u>29,836</u>	<u>352,693</u>	<u>8,603</u>
Net cash provided (used) by operating activities	<u>6,890</u>	<u>651,927</u>	<u>17,323</u>

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2009
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	(20,059)	30,243	--
Increase (decrease) in capital appreciation bond interest payable	(23,996)	(7,171)	--
Capital assets contributed from (to) other funds	--	--	(63)
Increase in contributed facilities	--	36,454	--
Increase in the fair value of investments	6,427	596	566
Amortization of bond issue costs	(659)	(717)	(229)
Amortization of bond discounts and premiums	(3,667)	(3,518)	(267)
Amortization of deferred loss on refundings	9,883	5,884	1,085
Loss on disposal of assets	(8,126)	(18,506)	(287)
Deferred costs (recovered) to be recovered	(9,973)	7,278	--
Increase in deferred credits and other liabilities	87,413	22,983	--
Capital lease obligations	--	--	817
Debt obligations transferred to other funds	--	--	--

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

(Continued)

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2009 Total	Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	(373)	9,811	--
Increase (decrease) in capital appreciation bond interest payable	--	(31,167)	--
Capital assets contributed from (to) other funds	97	34	14,544
Increase in contributed facilities	--	36,454	--
Increase in the fair value of investments	645	8,234	--
Amortization of bond issue costs	(242)	(1,847)	4
Amortization of bond discounts and premiums	(710)	(8,162)	--
Amortization of deferred loss on refundings	808	17,660	--
Loss on disposal of assets	(445)	(27,364)	(1,225)
Deferred costs (recovered) to be recovered	--	(2,695)	--
Increase in deferred credits and other liabilities	--	110,396	(94)
Capital lease obligations	--	817	--
Debt obligations transferred to other funds	--	--	(10,065)

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

Fiduciary Funds
Statement of Fiduciary Net Assets
September 30, 2009
(In thousands)

City of Austin, Texas
Exhibit D-1

	<u>Private-purpose</u> <u>Trust</u>	<u>Agency</u>
ASSETS		
Pooled investments and cash	\$ 1,340	3,685
Other assets	121	--
Total assets	<u>1,461</u>	<u>3,685</u>
LIABILITIES		
Accounts payable	--	92
Due to other governments	--	2,722
Deposits and other liabilities	647	871
Total liabilities	<u>647</u>	<u>3,685</u>
NET ASSETS		
Held in trust	814	
Total net assets	<u>\$ 814</u>	

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

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended September 30, 2009
(In thousands)

City of Austin, Texas
Exhibit D-2

	<u>Private-purpose Trust</u>
ADDITIONS	
Contributions	\$ 449
Interest and other	28
Total additions	<u>477</u>
DEDUCTIONS	
Benefit payments	<u>402</u>
Total deductions	<u>402</u>
Net additions (deductions) before transfers	<u>75</u>
Total net assets - beginning	739
Total net assets - ending	<u>\$ 814</u>

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. 50, No. 52, No. 55 and No. 56. In fiscal year 2009, the City implemented GASB Statement No. 49 entitled "Accounting and Financial Reporting for Pollution Control Obligations", GASB Statement No. 52 entitled "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55 entitled "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" and GASB Statement No. 56 entitled "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards". Implementation of these standards did not have a significant impact on the City's financial statements. The more significant accounting and reporting policies and practices used by the City are described below.

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

a -- Reporting Entity

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

a -- Reporting Entity, continued

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

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

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

b -- Government-wide and Fund Financial Statements

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

The City reports the following major governmental fund:

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

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

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

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

Capital Projects Funds: Account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds 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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

Convention: Accounts for convention center and public events activities.

Environmental and health services: Accounts for hospital, primary care, and solid waste services activities.

Public recreation: Accounts for golf and parks and recreation activities.

Urban growth: Accounts for drainage and transportation activities.

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

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

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

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

d -- Budget

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

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

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

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

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

e -- Financial Statement Elements

Pooled Investments and Cash -- Cash balances of all city funds (except for certain funds shown in Note 5 as having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that 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, 2009. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2009 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern- ments	Other	Total
Governmental activities						
General Fund	\$ 79,908	25,081	32,506	--	--	137,495
Nonmajor governmental funds	844	16	10,616	9,627	894	21,997
Internal service funds	2,147	--	--	--	--	2,147
Allowance for doubtful accounts	<u>(70,782)</u>	<u>(10,473)</u>	<u>--</u>	<u>(6,255)</u>	<u>--</u>	<u>(87,510)</u>
Total	<u>\$ 12,117</u>	<u>14,624</u>	<u>43,122</u>	<u>3,372</u>	<u>894</u>	<u>74,129</u>

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

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

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

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

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

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

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

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

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

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

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Strategic reserve	\$ 142,191	--	--	--	142,191
Capital projects	88,735	12,230	112,017	42,587	255,569
Customer and escrow deposits	21,646	11,476	439	3,125	36,686
Debt service	93,111	80,022	14,491	10,686	198,310
Federal grants	--	303	907	--	1,210
Plant decommissioning	174,620	--	--	--	174,620
Operating reserve account	--	--	8,991	5,985	14,976
Passenger facility charge account	--	--	21,956	--	21,956
Renewal and replacement account	2,066	--	10,000	1,192	13,258
	<u>\$ 522,369</u>	<u>104,031</u>	<u>168,801</u>	<u>63,575</u>	<u>858,776</u>

Capital assets -- Capital assets, which primarily include land and improvements, buildings and improvements, plant and 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 in the government-wide and proprietary statement of net assets and expended in governmental funds.

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

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

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

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

Assets	Governmental Activities (1)	Business-type Activities			
		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 Electric Fund and Water and Wastewater Fund, where the gain or loss is deferred in accordance with accounting for regulated operations).

Intangible assets include the amortized cost of a \$100 million contract, net of accumulated amortization of \$25 million between the City and the Lower Colorado River Authority (LCRA) for a fifty-year assured water supply agreement, with an option to extend another fifty years. The City and LCRA entered into the contract in 1999. The asset amortization period is 40 years.

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

In addition to items related to accounting for regulated operations above, deferred expenses include debt issuance costs net of amortization.

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

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

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

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

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

Other Post Employment Benefits -- The City provides certain health care benefits for its retired employees and their families as more fully described in Note 15. The City implemented GASB Statement No. 45 and reports the actuarially determined cost of these post-employment benefits, other than pensions. At September 30, 2009, the City's total actuarial accrued liability for these retiree benefits was approximately \$1.0 billion. The City funds the costs of these benefits on a pay-as-you-go basis.

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

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

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

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

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 statement of net assets. The Electric Fund and Water and Wastewater Fund recognize gains or losses on debt defeasance in accordance with accounting for regulated operations.

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

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

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

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

Electric	\$	3,649
Water and Wastewater		1,215
Airport		146
Nonmajor Enterprise		1,217

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 2009 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, 2009. The amount of unbilled revenue recorded, as of September 30, 2009, for the Electric Fund was \$41.4 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, 2009. The amount of unbilled revenue recorded as of September 30, 2009 was \$10.1 million for water and \$11.5 million for wastewater.

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

e -- Financial Statement Elements, continued

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

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

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

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

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

f -- Comparative Data

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

g -- Use of Estimates

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

2 – RESTATEMENT

After the issuance of the September 30, 2008 basic financial statements, the City became aware of an error in the calculation methodology of the amount to be recovered related to the calculation of deferred depreciation made in accordance with accounting for regulated operations (previously FASB 71). This error was a result of incorrect methodology applied since 1989, the year the City implemented FASB 71. In addition, the City had not previously deferred the net pension obligation. The City has restated the beginning net assets in 2009 for the Electric Fund and Business-type activities to correct these errors as follows:

	<u>Exhibit A-2</u>	<u>Exhibit C-2</u>	
	<u>Business-Type</u>		<u>Business-Type</u>
	<u>Activities</u>	<u>Electric</u>	<u>Activities</u>
Net assets at September 30, 2008, as previously reported	\$ 2,882,151	1,703,894	2,875,034
Adjustments to properly record:			
Amounts to be recovered related to deferred depreciation	(100,538)	(100,538)	(100,538)
Deferral of net pension obligation	21,644	21,644	21,644
Net assets at September 30, 2008, as restated	<u>\$ 2,803,257</u>	<u>1,625,000</u>	<u>2,796,140</u>

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2009, the following funds reported deficits in fund balances (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

<u>Nonmajor Governmental</u>	<u>Deficit</u>
Special Revenue Funds:	
Austin Transportation Study	\$ 3
CCSD Operations-Travis County Hospital District	1,626
Medicaid Administrative Claims	696
Senior Nutrition	10
Performance Contracting Fund	154
City Hall Fund	123
Mueller Tax Increment Financing	213
RMMA Reimbursement	18
Rutherford Lane Facility Fund	642
Tourism and Promotion	333
Capital Projects Funds:	
Street & traffic signals	1
Parks and recreation facilities	288
Libraries	17
Radio Trunking	24
Build Austin	281
COMTA Mobility	642
Capital reserve	30
Watershed Protection	663
City Hall, plaza, parking garage	7,090
Conservation Land	15

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

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2009 (in thousands):

	<u>Pooled Investments and Cash</u>	
	<u>Unrestricted</u>	<u>Restricted</u>
General Fund	\$ 80,608	--
Nonmajor governmental funds	365,758	--
Electric	211,298	127,368
Water and Wastewater	42,980	23,199
Airport	452	153,210
Nonmajor enterprise funds	131,307	52,885
Internal service funds	91,583	--
Fiduciary funds	5,025	--
Subtotal pooled investments and cash	<u>929,011</u>	<u>356,662</u>
Total pooled investments and cash	<u>\$ 1,285,673</u>	

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

5 – INVESTMENTS AND DEPOSITS, continued

a -- Investments, continued

The City invests in TexPool, TexasDAILY, and TexStar to provide its liquidity needs. TexPool, TexasDAILY, and TexStar are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool, TexasDAILY, and TexStar are 2(a)7-like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. TexPool, TexasDAILY, and TexStar are rated AAAM and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2009, TexPool, TexasDAILY, and TexStar had a weighted average maturity of 44 days, 57 days and 46 days, respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2009.

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

The following table includes the portfolio balances of all non-pooled and pooled investments of the City at September 30, 2009 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Non-pooled investments:				
Local Government Investment Pools	\$ 18,734	211,975	--	230,709
Money Market Funds	--	42,501	--	42,501
US Treasury Notes	--	121,386	--	121,386
US Agency Bonds	--	127,424	--	127,424
Total non-pooled investments	<u>18,734</u>	<u>503,286</u>	<u>--</u>	<u>522,020</u>
Pooled investments:				
Local Government Investment Pools	198,085	273,512	1,831	473,428
US Treasury Notes	8,510	11,749	79	20,338
US Agency Bonds	333,396	460,291	3,115	796,802
Total pooled investments (1)	<u>539,991</u>	<u>745,552</u>	<u>5,025</u>	<u>1,290,568</u>
Total investments	<u>\$ 558,725</u>	<u>1,248,838</u>	<u>5,025</u>	<u>1,812,588</u>

(1) A difference of \$4.9 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

At September 30, 2009, the City of Austin was exposed to concentration of credit risk since it held investments with more than five percent of the total investment portfolio balances of the City in securities of the following issuers (in millions): Federal Farm Credit Bank (\$168.3 or 9%), Federal Home Loan Bank (\$390.2 or 22%), Federal Home Loan Mortgage Corporation (\$209.0 or 12%), and Federal National Mortgage Association (\$156.7 or 9%).

b -- Investment categories

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

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

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

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.

Operating Funds

As of September 30, 2009, the City operating funds had the following investments:

Investment Type	Fair Value (in thousands)				Weighted Average Maturity (days)
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Local Government Investment Pools	\$ 198,085	273,512	1,831	473,428	1
US Treasury Notes	8,510	11,749	79	20,338	204
US Agency Bonds	333,396	460,291	3,115	796,802	552
Total	\$ 539,991	745,552	5,025	1,290,568	343

Credit Risk

Approximately 2% of the portfolio consists of direct obligations of the US government. As of September 30, 2009, Standard and Poor's issued the following ratings for other investments:

Local Government Investment Pools	36%	AAAm
US Agencies	62%	AAA

At September 30, 2009, the operating funds held investments with more than 5 percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank (\$133.3 or 10%), Federal Home Loan Bank (\$356.2 or 28%), Federal National Mortgage Association (\$146.6 or 11%), Federal Home Loan Mortgage Corporation (\$160.6 or 12%).

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, 2009, slightly more than a third of the Investment Pool was invested in AAAm rated local government investment pools (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 343 days, which was less than the threshold of 365 days.

Debt Service Funds

As of September 30, 2009, the City's debt service funds had the following investments:

Investment Type	Fair Value (in thousands)		Final Maturity
	Governmental Activities	Business-type Activities	
General Obligation Debt Service			
Local Government Investment Pools	\$ 18,734	--	N/A
Enterprise-Utility (1)			
Local Government Investment Pools	--	173,133	N/A
Enterprise-Airport			
Local Government Investment Pools	--	14,491	N/A
Nonmajor Enterprise-Convention Center			
Local Government Investment Pools	--	17,080	N/A
Total	\$ 18,734	204,704	

(1) Includes combined pledge debt service

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

Credit Risk

As of September 30, 2009, Standard and Poor's rated TexPool AAAm.

Interest Rate Risk

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

At September 30, 2009, portfolios in this category held investments in overnight securities (local government investment pools).

Special Project Fund

As of September 30, 2009, the City's special project fund had the following investments:

<u>Investment Type</u>	<u>Fair Value</u> <u>(in thousands)</u>	
	<u>Business-type</u> <u>Activities</u>	<u>Final</u> <u>Maturity</u>
Airport Construction		
Local Government Investment Pools	\$ 76	N/A
Total	\$ 76	

Credit Risk

As of September 30, 2009, 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, 2009, the portfolio in this category held investments in overnight securities (local government investment pools).

Special Purpose Funds

Austin Energy Strategic Reserve Fund

As of September 30, 2009, the City's Special Purpose Fund (Austin Energy Strategic Reserve Fund) had the following investments:

<u>Investment Type</u>	<u>Fair Value</u> <u>(in thousands)</u>	<u>Weighted Average</u> <u>Maturity (days)</u>
Local Government Investment Pools	\$ 7,195	1
US Treasury Notes	52,672	855
US Agency Bonds	82,307	1,240
Total	\$ 142,174	1,036

Credit Risk

At September 30, 2009, the Austin Energy Strategic Reserve Fund held an investment in TexPool, an LGIP rated AAAm by Standard and Poor's, with the remainder invested in short-to-medium term US Agency and Treasury obligations. Standard and Poor's rated the US Agency Bonds AAA. The remaining securities are direct obligations of the US government.

At September 30, 2009, the Austin Energy Strategic Reserve Fund held investments with more than 5 percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank (\$16.5 or 12%), and Federal National Mortgage Association (\$10.0 or 7%), Federal Home Loan Mortgage Corporation (\$40.4 or 28%), and Federal Farm Credit Bank (\$15.5 or 11%).

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.

5 – INVESTMENTS AND DEPOSITS, continued

b -- Investment categories, continued

At September 30, 2009, 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 1,036 days (2.84 years).

Austin Energy Nuclear Decommissioning Trust Funds

As of September 30, 2009, the City's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

<u>Investment Type</u>	<u>Fair Value (in thousands)</u>	<u>Weighted Average Maturity (years)</u>
US Treasury Notes	\$ 68,714	3.39
US Agency Bonds	45,117	3.72
Money Market Funds	42,501	1 day
Total	<u>\$ 156,332</u>	<u>2.52</u>

Credit Risk

As of September 30, 2009, Standard and Poor's rated the US Agency Bonds AAA and the Money Market Fund AAAm. The remaining securities are direct obligations of the US government.

At September 30, 2009, the NDTF held investments with more than 5 percent of the total in securities of the following issuers (in millions): Federal Home Loan Bank (\$17.5 or 11%), Federal Home Loan Mortgage Corporation (\$8.1 or 5%), and Federal Farm Credit Bank (\$19.5 or 13%).

Interest Rate Risk

As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Nuclear Decommissioning Trust Funds portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2009, the dollar weighted average maturity was 2.52 years.

c -- Investments and Deposits

Investments and deposits portfolio balances at September 30, 2009, are as follows (in thousands):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Non-pooled investments and cash	\$ 21,189	503,666	--	524,855
Pooled investments and cash	544,442	751,696	5,025	1,301,163
Total investments and cash	<u>565,631</u>	<u>1,255,362</u>	<u>5,025</u>	<u>1,826,018</u>
Unrestricted cash	2,455	63	--	2,518
Restricted cash	--	42,818	--	42,818
Pooled investments and cash	544,442	751,696	5,025	1,301,163
Investments	18,734	460,785	--	479,519
Total investments and cash	<u>\$ 565,631</u>	<u>1,255,362</u>	<u>5,025</u>	<u>1,826,018</u>

A difference of \$15.5 million exists between portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

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

Deposits

The September 30, 2009, carrying amount of deposits is as follows (in thousands):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash			
Unrestricted	\$ 89	63	152
Cash held by trustee			
Unrestricted	2,366	--	2,366
Restricted	--	42,818	42,818
Pooled cash	4,451	6,144	10,595
Total deposits	<u>\$ 6,906</u>	<u>49,025</u>	<u>55,931</u>

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, 2009.

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, 2008, upon which the 2009 levy was based, was \$76,752,007,737.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2009, 99.03% of the current tax levy (October 1, 2008) 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, 2009, was \$.2749 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$.7251 per \$100 assessed valuation, and could levy approximately \$556,528,808 in additional taxes from the assessed valuation of \$76,752,007,737 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 2009 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

<u>Enterprise Funds</u>	
Major fund:	
Airport	\$ 1,196
Nonmajor enterprise funds:	
Convention Center	933
Drainage	834
Golf	3
Solid Waste Services	295
Transportation	49

Interest is not capitalized on governmental capital assets. In accordance with accounting for regulated operations, interest is also not capitalized on electric and water and wastewater capital assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2009, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 302,462	22,676	(592)	324,546
Arts and treasures	5,362	362	--	5,724
Library collections	13,813	256	--	14,069
Total	<u>321,637</u>	<u>23,294</u>	<u>(592)</u>	<u>344,339</u>
Depreciable property, plant, and equipment in service				
Building and improvements	588,894	46,370	(2,117)	633,147
Plant and equipment	164,461	18,872	(29,992)	153,341
Vehicles	91,112	8,468	(5,563)	94,017
Infrastructure	1,813,499	116,611	--	1,930,110
Total	<u>2,657,966</u>	<u>190,321</u>	<u>(37,672)</u>	<u>2,810,615</u>
Less accumulated depreciation for				
Building and improvements	(162,808)	(20,909)	73	(183,644)
Plant and equipment	(85,729)	(18,126)	23,562	(80,293)
Vehicles	(55,010)	(7,807)	5,295	(57,522)
Infrastructure	(620,534)	(54,304)	--	(674,838)
Total	<u>(924,081)</u>	<u>(101,146) (2)</u>	<u>28,930</u>	<u>(996,297)</u>
Net property, plant, and equipment in service	<u>1,733,885</u>	<u>89,175</u>	<u>(8,742)</u>	<u>1,814,318</u>
Other capital assets not depreciated				
Construction in progress	203,328	101,416	(160,138)	144,606
Total capital assets	<u>\$ 2,258,850</u>	<u>213,885</u>	<u>(169,472)</u>	<u>2,303,263</u>

(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	\$ 6,505
Public safety	12,424
Transportation, planning, and sustainability	46,646
Public health	1,545
Public recreation and culture	9,336
Urban growth management	15,310
Internal service funds	9,380
Total increases in accumulated depreciation	<u>\$ 101,146</u>

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2009, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 62,395	3,135	(1,523)	64,007
Total	<u>62,395</u>	<u>3,135</u>	<u>(1,523)</u>	<u>64,007</u>
Depreciable property, plant, and equipment in service				
Building and improvements	653,904	112	(1,622)	652,394
Plant and equipment	3,005,263	138,402	(32,377)	3,111,288
Vehicles	27,341	3,735	(2,886)	28,190
Total	<u>3,686,508</u>	<u>142,249</u>	<u>(36,885)</u>	<u>3,791,872</u>
Less accumulated depreciation for				
Building and improvements	(327,827)	(16,362)	901	(343,288)
Plant and equipment	(1,360,589)	(95,694)	17,975	(1,438,308)
Vehicles	(17,102)	(2,116)	2,833	(16,385)
Total	<u>(1,705,518)</u>	<u>(114,172) (1)</u>	<u>21,709</u>	<u>(1,797,981)</u>
Net property, plant, and equipment in service	<u>1,980,990</u>	<u>28,077</u>	<u>(15,176)</u>	<u>1,993,891</u>
Other capital assets not depreciated				
Construction in progress	275,143	254,243	(143,786)	385,600
Nuclear fuel, net of amortization	32,730	13,907	(13,520)	33,117
Plant held for future use	27,783	--	--	27,783
Total capital assets	<u>\$ 2,379,041</u>	<u>299,362</u>	<u>(174,005)</u>	<u>2,504,398</u>
(1) Components of accumulated depreciation increases:				
Current year depreciation	<u>\$ 114,172</u>			

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2009, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 204,908	710	(49)	205,569
Total	<u>204,908</u>	<u>710</u>	<u>(49)</u>	<u>205,569</u>
Depreciable property, plant, and equipment in service				
Building and improvements	526,727	9,701	--	536,428
Plant and equipment	2,427,224	202,501	(672)	2,629,053
Vehicles	30,054	3,236	(2,367)	30,923
Total	<u>2,984,005</u>	<u>215,438</u>	<u>(3,039)</u>	<u>3,196,404</u>
Less accumulated depreciation for				
Building and improvements	(162,914)	(11,790)	--	(174,704)
Plant and equipment	(784,669)	(64,120)	451	(848,338)
Vehicles	(17,020)	(2,621)	1,762	(17,879)
Total	<u>(964,603)</u>	<u>(78,531) (2)</u>	<u>2,213</u>	<u>(1,040,921)</u>
Net property, plant, and equipment in service	<u>2,019,402</u>	<u>136,907</u>	<u>(826)</u>	<u>2,155,483</u>
Other capital assets not depreciated				
Construction in progress	279,536	206,284	(197,126)	288,694
Intangible assets, net of amortization	77,602	--	(2,602)	75,000
Total capital assets	<u>\$ 2,581,448</u>	<u>343,901</u>	<u>(200,603)</u>	<u>2,724,746</u>

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	\$ 33,992
Wastewater	44,539
Total increases in accumulated depreciation	<u>\$ 78,531</u>

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2009, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 91,948	2,207	--	94,155
Arts and treasures	822	--	--	822
Total	<u>92,770</u>	<u>2,207</u>	<u>--</u>	<u>94,977</u>
Depreciable property, plant, and equipment in service				
Building and improvements	651,569	11,671	(13,590)	649,650
Plant and equipment	21,729	2,743	(1,131)	23,341
Vehicles	5,747	180	(249)	5,678
Total	<u>679,045</u>	<u>14,594</u>	<u>(14,970)</u>	<u>678,669</u>
Less accumulated depreciation for				
Building and improvements	(157,495)	(16,815)	13,590	(160,720)
Plant and equipment	(8,713)	(1,497)	50	(10,160)
Vehicles	(2,938)	(396)	226	(3,108)
Total	<u>(169,146)</u>	<u>(18,708) (1)</u>	<u>13,866</u>	<u>(173,988)</u>
Net property, plant, and equipment in service	<u>509,899</u>	<u>(4,114)</u>	<u>(1,104)</u>	<u>504,681</u>
Other capital assets not depreciated				
Construction in progress	15,008	26,235	(14,189)	27,054
Total capital assets	<u>\$ 617,677</u>	<u>24,328</u>	<u>(15,293)</u>	<u>626,712</u>
(1) Components of accumulated depreciation increases:				
Current year depreciation	<u>\$ 18,708</u>			

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2009, was as follows (in thousands):

	Beginning Balance	Increases	(1) Decreases	(1) Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 82,763	2,160	(1)	84,922
Arts and treasures	612	--	--	612
Total	<u>83,375</u>	<u>2,160</u>	<u>(1)</u>	<u>85,534</u>
Depreciable property, plant, and equipment in service				
Building and improvements	314,012	6,795	(30)	320,777
Plant and equipment	95,775	26,371	(437)	121,709
Vehicles	61,724	5,211	(1,253)	65,682
Total	<u>471,511</u>	<u>38,377</u>	<u>(1,720)</u>	<u>508,168</u>
Less accumulated depreciation for				
Building and improvements	(78,776)	(9,282)	--	(88,058)
Plant and equipment	(28,575)	(4,870)	294	(33,151)
Vehicles	(29,435)	(6,664)	1,259	(34,840)
Total	<u>(136,786)</u>	<u>(20,816)</u>	<u>(2) 1,553</u>	<u>(156,049)</u>
Net property, plant, and equipment in service	<u>334,725</u>	<u>17,561</u>	<u>(167)</u>	<u>352,119</u>
Other capital assets not depreciated				
Construction in progress	41,960	41,479	(37,489)	45,950
Total capital assets	<u>\$ 460,060</u>	<u>61,200</u>	<u>(37,657)</u>	<u>483,603</u>

(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	\$ 8,227
Environmental and health services	5,884
Public recreation	648
Urban growth management	6,057
Total increases in accumulated depreciation	<u>\$ 20,816</u>

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2009, was as follows (in thousands):

	Beginning Balance	Increases	(1) Decreases	(1) Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 442,014	8,212	(1,573)	448,653
Arts and treasures	1,434	--	--	1,434
Total	<u>443,448</u>	<u>8,212</u>	<u>(1,573)</u>	<u>450,087</u>
Depreciable property, plant, and equipment in service				
Building and improvements	2,146,212	28,279	(15,242)	2,159,249
Plant and equipment	5,549,991	370,010	(34,610)	5,885,391
Vehicles	124,866	12,219	(6,612)	130,473
Total	<u>7,821,069</u>	<u>410,508</u>	<u>(56,464)</u>	<u>8,175,113</u>
Less accumulated depreciation for				
Building and improvements	(727,012)	(54,249)	14,491	(766,770)
Plant and equipment	(2,182,546)	(166,181)	18,770	(2,329,957)
Vehicles	(66,495)	(11,797)	6,080	(72,212)
Total	<u>(2,976,053)</u>	<u>(232,227) (2)</u>	<u>39,341</u>	<u>(3,168,939)</u>
Net property, plant, and equipment in service	<u>4,845,016</u>	<u>178,281</u>	<u>(17,123)</u>	<u>5,006,174</u>
Other capital assets not depreciated				
Construction in progress	611,647	528,241	(392,590)	747,298
Nuclear fuel, net of amortization	32,730	13,907	(13,520)	33,117
Plant held for future use	27,783	--	--	27,783
Intangible assets, net of amortization	77,602	--	(2,602)	75,000
Total capital assets	<u>\$6,038,226</u>	<u>728,641</u>	<u>(427,408)</u>	<u>6,339,459</u>

(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	\$ 114,172
Water	33,992
Wastewater	44,539
Airport	18,708
Convention Center	8,227
Environmental and health services	5,884
Public recreation	648
Urban growth management	6,057
Total increases in accumulated depreciation	<u>\$ 232,227</u>

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, 2008. Membership in the plans at December 31, 2008, is as follows:

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	4,705	488	482	5,675
Current employees	8,643	1,629	1,029	11,301
Total	<u>13,348</u>	<u>2,117</u>	<u>1,511</u>	<u>16,976</u>

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

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

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

8 – RETIREMENT PLANS, continued
b -- Funding Policy

	City of Austin Employees' Retirement and Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	13.0%	15.7%
City's contribution (percent of earnings)	9.25% (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. Contributions for fiscal year ended September 30, 2009, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	\$ 43,319	21,422	13,615	78,356
Employees	34,427	15,318	11,842	61,587
Total contributions	\$ 77,746	36,740	25,457	139,943

c -- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of \$89,078,000 for fiscal year ended September 30, 2009, was \$10,722,000 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):				
2007	\$ 49,818	18,047	11,737	79,602
2008	56,848	19,872	14,835	91,555
2009	59,067	19,909	10,102	89,078
Percentage of APC contributed:				
2007	63%	100%	106%	N/A
2008	65%	100%	87%	N/A
2009	69%	97%	135%	N/A
Net Pension Obligation:				
2007	\$ 43,334	--	1,737	45,071
2008	63,740	--	3,709	67,449
2009	82,146	646	218	83,010

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, the Police Officers' Retirement and Pension Fund, and the Fire Fighters' Relief and Retirement Fund is as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
Annual required contribution	\$ 57,937	19,889	10,031	87,857
Interest in net pension obligation	4,940	64	288	5,292
Adjustment to annual required contribution	(3,810)	(44)	(217)	(4,071)
Annual pension cost	59,067	19,909	10,102	89,078
Employer contributions	(40,661)	(19,263)	(13,593)	(73,517)
Change in net pension obligation	18,406	646	(3,491)	15,561
Beginning net pension obligation	63,740	--	3,709	67,449
Net pension obligation	<u>\$ 82,146</u>	<u>646</u>	<u>218</u>	<u>83,010</u>

The latest actuarial valuations for the City Employees' Retirement and Pension Fund and the Police Officers' Retirement and Pension Fund were completed as of December 31, 2008, while the Austin Fire Fighters' Relief and Retirement Fund was completed as of December 31, 2007. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Normal	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	20% of market value plus 80% of expected actuarial value
Inflation Rate	3.25%	4%	3.5%
Projected Annual Salary Increases	5% to 6%	6.8% average	4.5 % to 16.6%
Post retirement benefit increase	None	None	None
Assumed Rate of Return on Investments	7.75%	8%	7.75%
Amortization method	Level percent of projected pay, open	Level percent of projected payroll, open	Level percent of projected pay, open
Remaining Amortization Period	30 years	35.4 years (1)	30 years

(1) The City's annual required contributions to the plans for the year ended September 30, 2009 were based on the actuarial valuations completed as of December 31, 2007. The remaining amortization period for Police Officers plan in the December 31, 2007 actuarial valuation was 23.8 years.

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

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

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees 2008	\$ 1,481,377	2,246,903	765,526	65.9%	448,740	170.6%
Police Officers 2008	464,230	693,202	228,972	67.0%	122,735	186.6%
Fire Fighters (2) 2007	584,420	586,802	2,382	99.6%	76,556	3.1%

(1) UAAL – Unfunded Actuarial Accrued Liability

(2) The actuarial study for the Fire Fighters’ plan is performed biannually.

The schedule of funding progress, presented as RSI, presents multiyear trend information regarding the ratio of the actuarial value of assets and actuarial accrued liabilities.

As of December 31, 2008, the City's three pension funds incurred significant decreases in total net plan assets primarily as a result of the financial market turmoil during the year. The City Employees incurred a reduction of \$463.7 million, Police Officers incurred a reduction of \$127.9 million, and the Fire Fighters incurred a reduction of \$139.6 million. Management expects a portion of the reductions to be offset in 2009 due to the recovery of the financial markets. In addition, the Police Officers and Fire Fighters have entered into labor bargaining agreements that will increase the City's contributions in the future.

9 – SELECTED REVENUES
a -- Major enterprise funds

Electric and Water and Wastewater

The Texas Public Utility Commission (PUC) has jurisdiction over electric utility wholesale transmission rates. On June 9, 2006, the PUC approved the City’s most recent wholesale transmission rate of \$1.002466/kW. Transmission revenues totaled approximately \$57 million in 2009. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations and a debt service coverage approach.

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

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

Airport

The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2009, the Airport Fund revenues included minimum concession guarantees of \$8,333,631.

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

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to thirty years for the Airport Fund as of September 30, 2009 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Receipts
2010	\$ 10,567
2011	10,016
2012	9,684
2013	9,057
2014	5,602
2015-2019	442
2020-2024	287
Totals	<u>\$ 45,655</u>

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period May 1, 2009, through April 30, 2014. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index – Urban Wage Earners and Clerical Workers, U.S. Owner Average, (CPI) published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

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

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

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

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

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

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2009 (in thousands):

Description	September 30, 2008	Increases	Decreases	September 30, 2009	Amounts Due Within One Year
Governmental activities					
General obligation bonds, net	\$ 726,678	178,166	(59,103)	845,741	56,717
Certificates of obligation, net	71,925	13,314	(6,714)	78,525	7,314
Contractual obligations, net	31,413	2,745	(5,702)	28,456	5,413
General obligation bonds and other tax supported debt total	830,016	194,225	(71,519)	952,722	69,444
Capital lease obligations	482	--	(14)	468	152
Debt service requirements total	830,498	194,225	(71,533)	953,190	69,596
Other long-term obligations					
Accrued compensated absences	102,555	53,365	(46,460)	109,460	46,111
Claims payable	26,462	15,982	(12,167)	30,277	17,570
Pension obligation payable	36,812	6,240	--	43,052	--
Other post employment benefits	54,882	54,969	--	109,851	--
Other liabilities	91,842	14,532	(16,108)	90,266	75,301
Governmental activities total	1,143,051	339,313	(146,268)	1,336,096	208,578
Business-type activities:					
Electric activities					
General obligation bonds, net	1,210	--	(24)	1,186	62
Contractual obligations	377	--	(146)	231	152
General obligation bonds and other tax supported debt total	1,587	--	(170)	1,417	214
Commercial paper notes, net	35,148	105,559	--	140,707	--
Revenue bonds, net	1,308,142	6,771	(78,773)	1,236,140	65,823
Capital lease obligations	1,212	--	(48)	1,164	37
Debt service requirements total	1,346,089	112,330	(78,991)	1,379,428	66,074
Other long-term obligations					
Accrued compensated absences	11,103	541	--	11,644	9,905
Decommissioning expense payable	158,996	8,005	--	167,001	--
Pension obligation payable	13,640	4,184	--	17,824	--
Other post employment benefits	13,306	13,327	--	26,633	--
Deferred credits and other liabilities	120,260	112,051	(742)	231,569	54,085
Electric activities total	1,663,394	250,438	(79,733)	1,834,099	130,064
Water and Wastewater activities					
General obligation bonds, net	2,065	86	(469)	1,682	594
Contractual obligations, net	11,279	6,453	(2,420)	15,312	2,910
Other tax supported debt, net	7,178	5	(533)	6,650	564
General obligation bonds and other tax supported debt total	20,522	6,544	(3,422)	23,644	4,068
Commercial paper notes, net	178,052	193,850	(172,610)	199,292	--
Revenue bonds, net	1,558,869	182,332	(59,019)	1,682,182	54,413
Contract revenue bonds, net	1,683	12	(781)	914	914
Capital lease obligations	4	--	(4)	--	--
Debt service requirements total	1,759,130	382,738	(235,836)	1,906,032	59,395
Other long-term obligations					
Accrued compensated absences	5,505	380	(184)	5,701	5,056
Pension obligation payable	6,895	2,085	--	8,980	--
Other post employment benefits	8,223	8,236	--	16,459	--
Deferred credits and other liabilities	493,199	23,491	(1,297)	515,393	16,456
Water and Wastewater activities total	2,272,952	416,930	(237,317)	2,452,565	80,907

10 – DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued
Business-type activities (continued):

Description	September 30, 2008	Increases	Decreases	September 30, 2009	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	307	--	(18)	289	25
General obligation bonds and other tax supported debt total	307	--	(18)	289	25
Revenue notes	28,000	--	--	28,000	-
Revenue bonds, net	318,869	821	(12,325)	307,365	12,910
Capital lease obligations	1,562	--	(745)	817	486
Debt service requirements total	348,738	821	(13,088)	336,471	13,421
Other long-term obligations					
Accrued compensated absences	1,497	125	(50)	1,572	1,386
Pension obligation payable	2,121	615	--	2,736	-
Other post employment benefits	2,422	2,426	--	4,848	-
Deferred credits and other liabilities	909	--	(163)	746	664
Airport activities total	355,687	3,987	(13,301)	346,373	15,471
Nonmajor activities					
General obligation bonds, net	20,788	--	(2,435)	18,353	1,602
Certificates of obligation, net	34,971	10,030	(2,124)	42,877	2,249
Contractual obligations	17,555	32,134	(5,037)	44,652	6,814
General obligation bonds and other tax supported debt total	73,314	42,164	(9,596)	105,882	10,665
Revenue bonds, net	221,017	358	(4,720)	216,655	8,215
Capital lease obligations	4	--	(4)	--	-
Debt service requirements total	294,335	42,522	(14,320)	322,537	18,880
Other long-term obligations					
Accrued compensated absences	6,683	404	(1,276)	5,811	5,536
Accrued landfill closure and postclosure costs	15,788	2,424	--	18,212	10,494
Pension obligation payable	7,981	2,437	--	10,418	-
Other post employment benefits	8,674	8,686	--	17,360	-
Deferred credits and other liabilities	7,763	336	(417)	7,682	3,460
Nonmajor activities total	341,224	56,809	(16,013)	382,020	38,370
Total business-type activities					
General obligation bonds, net	24,370	86	(2,946)	21,510	2,283
Certificates of obligation, net	34,971	10,030	(2,124)	42,877	2,249
Contractual obligations, net	29,211	38,587	(7,603)	60,195	9,876
Other tax supported debt, net	7,178	5	(533)	6,650	564
General obligation bonds and other tax supported debt total	95,730	48,708	(13,206)	131,232	14,972
Commercial paper notes, net	213,200	299,409	(172,610)	339,999	-
Revenue notes	28,000	--	--	28,000	-
Revenue bonds, net	3,406,897	190,282	(154,837)	3,442,342	141,361
Contract revenue bonds, net	1,683	12	(781)	914	914
Capital lease obligations	2,782	--	(801)	1,981	523
Debt service requirements total	3,748,292	538,411	(342,235)	3,944,468	157,770
Other long-term obligations					
Accrued compensated absences	24,788	1,450	(1,510)	24,728	21,883
Accrued landfill closure and postclosure costs	15,788	2,424	--	18,212	10,494
Decommissioning expense payable	158,996	8,005	--	167,001	-
Pension obligation payable	30,637	9,321	--	39,958	-
Other post employment benefits	32,625	32,675	--	65,300	-
Deferred credits and other liabilities	622,131	135,878	(2,619)	755,390	74,665
Business-type activities total	4,633,257	728,164	(346,364)	5,015,057	264,812
Total liabilities (1)	\$ 5,776,308	1,067,477	(492,632)	6,351,153	473,390

(1) This schedule excludes select short-term liabilities of \$63,877 for governmental activities and \$225,598 for business-type activities and capital appreciation bond interest payable of \$194,448 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, 2009, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original	Principal Outstanding	Aggregate Interest	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
		Amount Issue		Requirements Outstanding		
Assumed MUD Debt	December 1997	\$ 14,040	7,395	2,011 (3)(4)	4.45 - 5.85%	9/01/2010-2018
Series 2000	September 2000	52,930	1,800	108 (1)	6.00%	9/1/2010
Series 2000	September 2000	6,060	570	43 (1)	5.00%	9/1/2010-2011
Series 2001	June 2001	123,445	22,970	4,459 (1)	4.75 - 5.50%	9/1/2010-2022
Series 2001	August 2001	79,650	12,290	1,243 (1)	4.00 - 5.25%	9/1/2010-2012
Series 2001	August 2001	65,335	23,480	5,556 (1)	4.38 - 5.00%	9/1/2010-2021
Series 2002	June 2002	12,190	10,910	2,022 (1)	4.00 - 5.00%	9/1/2010-2017
Series 2002	August 2002	99,615	66,300	22,840 (1)	3.50 - 5.00%	9/1/2010-2022
Series 2002	August 2002	34,095	18,950	5,747 (1)	3.50 - 5.38%	9/1/2010-2022
Series 2002	August 2002	8,690	730	12 (1)	3.40%	11/1/2009
Series 2003	May 2003	62,585	17,255	1,743 (1)	5.00%	9/1/2010-2013
Series 2003	September 2003	68,855	59,125	23,344 (1)	3.75 - 5.00%	9/1/2010-2023
Series 2003A	September 2003	2,530	1,290	163 (1)	4.50 - 5.00%	9/1/2010-2013
Series 2003	September 2003	4,450	3,515	1,313 (1)	4.00 - 4.80%	9/1/2010-2023
Series 2003	September 2003	8,610	2,070	69 (2)	3.00 - 3.38%	11/1/2009-2010
Series 2004	September 2004	67,835	59,885	23,554 (1)	3.25 - 5.00%	9/1/2010-2024
Series 2004A	September 2004	2,430	1,560	243 (1)	4.13 - 4.75%	9/1/2010-2014
Series 2004	September 2004	25,000	19,380	8,517 (1)	3.00 - 5.00%	9/1/2010-2024
Series 2004	September 2004	21,830	8,860	443 (2)	2.90 - 3.35%	11/1/2009-2011
Series 2005	March 2005	145,345	145,345	45,094 (1)	5.00%	9/1/2010-2020
Series 2005	September 2005	19,535	14,340	7,482 (1)	4.00 - 4.25%	9/1/2010-2025
Series 2005	September 2005	7,185	6,270	2,474 (1)	3.50 - 6.50%	9/1/2010-2025
Series 2005	September 2005	14,940	7,720	563 (2)	3.25 - 3.75%	11/1/2009-2012
Series 2006	September 2006	31,585	31,485	18,057 (1)	4.00 - 5.38%	9/1/2010-2026
Series 2006	September 2006	24,150	21,849	9,562 (1)	4.00 - 5.00%	9/1/2010-2026
Series 2006	September 2006	14,120	9,615	1,013 (2)	4.00 - 4.25%	11/1/2009-2013
Series 2006	August 2006	12,000	11,550	5,198 (1)(5)	4.00 - 6.00%	9/1/2010-2026
Series 2007	September 2007	97,525	93,525	63,141 (1)	4.64%	9/1/2010-2027
Series 2007	September 2007	3,820	3,585	1,892 (1)	4.88%	9/1/2010-2027
Series 2007	September 2007	9,755	8,214	1,145 (2)	3.66%	11/1/2009-2017
Series 2008	February 2008	172,505	150,575	44,696 (1)	5.00%	9/1/2010-2021
Series 2008	September 2008	76,045	65,044	42,995 (1)	3.50 - 5.00%	9/1/2011-2028
Series 2008	September 2008	10,700	10,395	5,373 (1)	3.00 - 5.00%	9/1/2010-2028
Series 2008	September 2008	26,715	25,229	3,097 (2)	3.00% - 4.00%	11/1/2009-2015
Series 2009A	September 2009	20,905	20,905	2,641 (1)	2.50 - 5.00%	9/1/2010-2016
Series 2009B	September 2009	78,460	78,460	56,233 (1)	4.15 - 5.31%	9/1/2017-2029
Series 2009	September 2009	12,500	12,500	7,240 (1)	2.50 - 4.75%	9/1/2010-2039
Series 2009	September 2009	13,800	13,800	1,885 (2)	2.00% - 3.25%	5/1/2010-2019
			<u>\$ 1,068,741</u>			

(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 \$6,681 and interest of \$1,832.

(5) Included with contractual obligations are Mueller Local Government Corporation contract revenue bonds.

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

In October 2008, the City delivered \$76,045,000 of Public Improvement Bonds, Series 2008. The proceeds from the issue will be used as follows: streets and signals (\$30,200,000), watershed protection improvements (\$26,000,000), parks and recreation (\$11,345,000), and affordable housing (\$8,500,000). These bonds will be amortized serially on September 1 of each year from 2009 to 2028. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2009. Total interest requirements for these bonds, at rates ranging from 3.5% to 5%, are \$46,511,759.

In October 2008, the City delivered \$10,700,000 of Certificates of Obligation, Series 2008. The proceeds from the issue will be used as follows: Avery Ranch Fire Station (\$4,500,000) and Barton Springs Pool (\$6,200,000). These certificates of obligation will be amortized serially on September 1 of each year from 2009 to 2028. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2009. Total interest requirements for these bonds, at rates ranging from 3% to 5%, are \$5,849,868.

In October 2008, the City delivered \$26,715,000 of Public Property Finance Contractual Obligations, Series 2008. The proceeds from the issue will be used as follows: public works transportation equipment (\$3,288,000), water utility capital equipment (\$1,814,000), wastewater utility capital equipment (\$1,503,000), communications and technology management capital equipment (\$2,700,000), golf carts (\$440,000), and solid waste services capital equipment (\$16,970,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2009 to 2015. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2009. Total interest requirements for these obligations, at rates ranging from 3% to 4%, are \$3,737,119.

In September 2009, the City delivered \$20,905,000 of Public Improvement Bonds, Series 2009A. The proceeds from the issue will be used as follows: community and cultural facilities (\$11,000,000) and watershed protection improvements (\$9,905,000). These bonds will be amortized serially on September 1 of each year from 2010 to 2016. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2010. Total interest requirements for these bonds, at rates ranging from 2.50% to 5.00%, are \$2,641,549.

In September 2009, the City delivered \$78,460,000 of Public Improvement Bonds, Taxable Series 2009B. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. BABs are taxable bonds that allow government access to the conventional corporate debt markets. Upon the City's request each year, the U.S. Treasury Department will make a direct payment to the City in the amount equal to 35% of the interest payment on the BABs, lowering the City's net borrowings. The proceeds from the issue will be used as follows: streets and signals (\$37,660,000), public safety facilities (\$19,000,000), parks and recreation (\$11,425,000), watershed protection improvements (\$9,875,000), and central library (\$500,000). These bonds will be amortized serially on September 1 of each year from 2017 to 2029. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2010. Total interest requirements for these bonds, at rates ranging from 4.146% to 5.31%, are \$56,232,954.

In September 2009, the City delivered \$12,500,000 of Certificates of Obligation, Series 2009. The proceeds from this issue will be used as follows: convention center improvements (\$6,000,000), solid waste services landfill closure (\$4,000,000), and parks and recreation improvements (\$2,500,000). These certificates of obligation will be amortized serially on September 1 of each year from 2010 to 2039. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2010. Total interest requirements for these certificates of obligation, at rates ranging from 2.50% to 4.75%, are \$7,239,841.

In September 2009, the City delivered \$13,800,000 of Public Property Finance Contractual Obligations, Series 2009. The proceeds from this issue will be used as follows: solid waste services capital equipment (\$5,800,000), parking meter pay stations (\$5,000,000), wastewater utility capital equipment (\$1,880,000), and water utility capital equipment (\$1,120,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2010 to 2019. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2010. Total interest requirements for these obligations, at rates ranging from 2.00% to 3.25%, are \$1,885,167.

General obligation bonds authorized and unissued amounted to \$369,180,000 at September 30, 2009. Bond ratings at September 30, 2009, were Aa1 (Moody's Investor Services, Inc.), AAA (Standard & Poor's), and AA+ (Fitch).

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.

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

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, 2009, exclusive of discounts, premiums, and loss on refundings consists of \$217,913,235 prior lien bonds and \$240,974,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$474,775,911 at September 30, 2009. Revenue bonds authorized and unissued amount to \$1,492,642,660 at that date. Bond ratings at September 30, 2009, for the prior lien and subordinate lien bonds were, respectively, A1 and A1 (Moody's Investor Services, Inc.), AA and AA (Standard & Poor's), and AA- and AA- (Fitch).

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

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

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

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2009 (in thousands):

<u>Series</u>	<u>Date Issued</u>	<u>Original Amount Issued</u>	<u>Principal Outstanding</u>	<u>Aggregate Interest Requirements Outstanding</u>	<u>Interest Rates of Debt Outstanding</u>	<u>Maturity Dates of Serial Debt</u>
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	34,920	84,024 (1)	6.70 - 12.50%	11/15/2009-2011
1993 Refunding	January 1993	203,166	45,878	17,342 (1)	6.20 - 6.30%	11/15/2009-2014 (3)
1993A Refunding	June 1993	263,410	5,392	9,073 (1)	5.60 - 5.95%	11/15/2009-2010
1994 Refunding	September 1994	142,559	26,894	96,961 (1)	6.60%	05/15/2017-2019
1998 Refunding	July 1996	180,000	71,045	9,995 (1)(2)	6.75%	11/15/2009-2012
1998 Refunding	October 1998	139,965	137,235	82,380 (1)	5.25%	5/15/2010-2025
1998A Refunding	October 1998	105,350	97,835	75,427 (1)	4.25 - 5.00%	5/15/2010-2028
1998B	August 1998	10,000	5,905	1,023 (1)	3.25 - 3.75%	11/15/2009-2017
			<u>\$ 458,888</u>			

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

(2) Series 1998 Refunding had a delayed delivery.

(3) Series matures on May 15th of the final year

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

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, 2009, 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, 2009, the Electric Fund had outstanding commercial paper notes of \$118,959,000 and the Water and Wastewater Fund had \$199,292,000 of commercial paper notes outstanding. Interest rates on the notes range from 0.3% to 5.5%, 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, 2009, 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, 2009, the Electric Fund had outstanding taxable notes of \$21,997,000 (net of discount of \$248,974), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 0.7% to 0.75%. 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. Bond ratings at September 30, 2009, 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, 2009 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001 Refunding	January 2001	\$ 126,700	75,200	62,277 (1)	5.00 - 7.25%	11/15/2009-2030
2002 Refunding	February 2002	74,750	56,905	10,943 (1)	4.00 - 5.50%	11/15/2009-2014
2002A Refunding	July 2002	172,880	91,315	26,399 (1)	4.00 - 5.50%	11/15/2009-2016
2003 Refunding	February 2003	182,100	149,300	86,950 (1)	5.00 - 5.25%	11/15/2009-2028
2006 Refunding	May 2006	150,000	147,100	117,947 (1)	5.00%	11/15/2009-2035
2006A Refunding	October 2006	137,800	137,800	41,908 (1)	5.00%	11/15/2009-2022
2007 Refunding	August 2007	146,635	143,320	40,015 (1)	5.00%	11/15/2010-2020
2008 Refunding	March 2008	50,000	50,000	44,835 (1)	3.08 - 6.26%	11/15/2009-2032
2008A Refunding	July 2008	175,000	175,000	186,964 (1)	4.00 - 6.00%	11/15/2010-2038
			<u>\$ 1,025,940</u>			

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

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

Electric Utility System Revenue Debt – Pledged Revenues - The net revenue of the Electric Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2009 (in thousands):

Gross Revenue (1)	Operating Expense (2)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
\$ 1,179,688	869,247	310,441	171,943	180.5%

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

(2) Excludes depreciation

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 January 2009, the City issued \$175,000,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2009. Proceeds from the bond refunding were used to refund \$172,610,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are \$288,270,693, with interest rates ranging from 3% to 5.125%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

Bond ratings at September 30, 2009, were Aa3 (Moody's Investor Services, Inc.), AA (Standard & Poor's), and AA- (Fitch).

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2009 (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	915	15 (1)	3.25%	11/15/2009
2000 Refunding	June 2000	100,000	2,200	143 (1)	6.50%	5/15/2010
2001A Refunding	April 2001	152,180	16,640	8,589 (1)	4.50 - 6.00%	11/15/2009-2031 (3)
2001B Refunding	April 2001	73,200	11,295	7,336 (1)	5.13 - 6.00%	5/15/2010-2031
2001C Refunding	November 2001	95,380	21,260	3,233 (1)	4.20 - 5.38%	11/15/2009-2015 (3)
2002A Refunding	July 2002	139,695	71,840	22,339 (1)	4.00 - 5.50%	11/15/2009-2016
2003 Refunding	February 2003	121,500	82,800	52,681 (1)	4.00 - 5.25%	11/15/2009-2028
2004 Refunding	August 2004	132,475	115,375	32,958 (2)	0.40% - 8.37%	5/16/2011-2024
2004A Refunding	September 2004	165,145	156,975	96,212 (1)	5.00%	11/15/2009-2029
2005 Refunding	May 2005	198,485	198,485	106,812 (1)	4.00 - 5.00%	5/15/2012-2030
2005A Refunding	October 2005	142,335	132,080	99,074 (1)	4.00 - 5.00%	11/15/2009-2035 (3)
2006 Refunding	August 2006	63,100	55,445	25,539 (1)	5.00%	11/15/2009-2025
2006A Refunding	November 2006	135,000	132,880	100,005 (1)	3.50 - 5.00%	11/15/2009-2036
2007 Refunding	November 2007	135,000	135,000	118,489 (1)	4.00-5.25%	11/15/2009-2037
2008 Refunding	May 2008	170,605	169,470	74,489 (2)	0.30% - 8.00%	11/15/2009-2031
2009 Refunding	January 2009	175,000	175,000	110,514 (1)	3.00-5.13%	11/15/2011-2029
			<u>\$ 1,477,660</u>			

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

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

(3) Series matures on May 15th of the final year

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

The Series 2004 and 2008 refunding bonds are variable rate demand bonds. The bonds have the following terms (in thousands):

Variable Rate Demand Bonds						
Bond Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding Variable Rate Demand Bonds	Expiration Date
2004	Landesbank Baden-Wurtemberg	0.75%	JP Morgan	0.075%	\$ 115,375	12/29/2015
2008	DEXIA	0.35%	Goldman Sachs	0.050%	169,470	5/15/2011
					\$ 284,845	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity providers and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

Water and Wastewater System Revenue Debt -- Pledged Revenues - The net revenue of the Water and Wastewater Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2009 (in thousands):

Gross Revenue (1)	Operating Expense (2)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
\$ 393,771	172,438	221,333	147,107	150.5%

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

(2) Excludes depreciation

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, 2009, the total airport system obligation for prior lien bonds is \$321,440,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are \$123,405,248 at September 30, 2009. Revenue bonds authorized and unissued amount to \$735,795,000.

The bond rating at September 30, 2009, for the prior lien bonds is A- (Standard & Poor's).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2009 (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	50,615	17,045 (1)	4.00 - 5.25%	11/15/2009-2018
2008 Remarketing	April 2008	281,300	270,825	106,360 (2)	0.40% - 12.00%	11/15/2009-2025
		\$ 321,440				

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

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

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

The Series 2008 remarketing bonds are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of \$270,825,000. The bonds have the following terms (in thousands):

Variable Rate Demand Bonds						
Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding Variable Rate Demand Bonds	Expiration Date
2005-1	DEXIA	0.70%	Morgan Stanley	0.10%	\$ 67,675	5/2/2011
2005-2	DEXIA	0.70%	Morgan Stanley	0.10%	67,700	5/2/2011
2005-3	DEXIA	0.70%	Morgan Stanley	0.10%	67,700	5/2/2011
2005-4	DEXIA	0.70%	Morgan Stanley	0.10%	67,750	5/2/2011
					<u>\$ 270,825</u>	

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

Airport Debt -- Variable Rate Revenue Notes - The City is authorized by ordinance to issue airport system variable rate revenue notes. At September 30, 2009, the airport system had outstanding variable rate revenue notes of \$28,000,000. The debt service fund required by the bond ordinance held assets of \$11,833,839 including accrued interest, at September 30, 2009, and was restricted within the airport system. During fiscal year 2009, interest rates on the notes ranged from 0.24% to 2.15%, adjusted weekly at market rates, with the exception of three weeks when rates were 5.89%, 7% and 8.5%; subsequent rate changes cannot exceed the maximum rate of 15%. Subsequent to year-end, the rates have ranged from 0.33% on October 1, 2009 to 0.24% on March 23, 2010. Principal and interest on the notes are payable from the net revenues of the airport system.

The Series 1998 revenue notes are variable rate demand notes. The notes have the following terms (in thousands):

Variable Rate Demand Notes						
Note Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding Variable Rate Demand Notes	Expiration Date
1998	State Street	1.75%	Citi	0.125%	\$ 28,000	2/18/2012
					<u>\$ 28,000</u>	

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

The bond rating at September 30, 2009, for the airport variable rate notes was A- (Standard & Poor's).

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

Airport Revenue Debt -- Pledged Revenues - The net revenue of the Airport Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding (including revenue bonds and revenue notes). The table below represents the pledged amounts at September 30, 2009 (in thousands):

	Gross Revenue (1)	Other available funds (2)	Operating Expense (3)	Net Revenue and Other Available Funds	Debt Service Requirement	Revenue Bond Coverage
\$	100,798	7,146	57,296	50,648	35,104	144.3%

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

(2) Pursuant to bond ordinance, in addition to gross revenue the Airport is authorized to use "other available funds" in the calculation of revenue bond coverage.

(3) Excludes depreciation

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, 2009, the total convention center obligation for prior and subordinate lien bonds is \$232,230,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are \$99,017,537 at September 30, 2009. Revenue bonds authorized and unissued amount to \$760,000 at September 30, 2009.

Bond ratings at September 30, 2009, for the revenue bonds were A2 (Moody's Investor Services, Inc.), and A- (Standard & Poor's).

The following table summarizes Convention Center original and refunding revenue bonds outstanding at September 30, 2009 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
1999A	June 1999	\$ 25,000	22,040	14,879 (1)	5.00 - 5.50%	11/15/2009-2029
1999	November 1999	40,000	900	30 (1)	6.75%	11/15/2009
2004 Refunding	February 2004	52,715	47,290	14,002 (1)	2.75 - 5.00%	11/15/2009-2019
2005 Refunding	May 2005	36,720	36,720	23,554 (1)	3.30 - 5.00%	11/15/2011-2029
2008AB Refunding	August 2008	125,280	125,280	46,552 (2)	0.33% - 8.50%	11/15/2009-2029
			<u>\$ 232,230</u>			

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

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

The Series 2008 A and B refunding bonds are variable rate demand bonds. The bonds have the following terms (in thousands):

Variable Rate Demand Bonds						
Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding Variable Rate Demand Bonds	Expiration Date
2008-A	DEXIA	0.70%	Morgan Keegan	0.060%	\$ 62,640	8/13/2011
2008-B	DEXIA	0.70%	BofA/Merrill Lynch	0.050%	62,640	8/13/2011
					<u>\$ 125,280</u>	

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

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by Dexia and become bank bonds with principal to be paid in equal semi-annual installments over a 5-year amortization period. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

d -- Debt Service Requirements

Fiscal Year Ended September 30	Governmental Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 56,717	38,717	7,314	3,444	5,413	1,043
2011	52,971	36,465	7,712	3,118	4,632	868
2012	48,154	34,022	7,799	2,770	3,125	716
2013	50,048	31,765	3,539	2,424	1,545	624
2014	48,393	29,382	5,066	2,289	1,531	573
2015-2019	255,875	112,201	17,895	8,867	6,334	1,909
2020-2024	192,275	55,036	20,938	4,415	3,965	982
2025-2029	126,620	16,288	8,140	718	1,865	122
	<u>831,053</u>	<u>353,876</u>	<u>78,403</u>	<u>28,045</u>	<u>28,410</u>	<u>6,837</u>
Less: Unamortized bond discounts	(1,083)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(13,247)	--	--	--	--	--
Add: Unamortized bond premiums	29,018	--	122	--	46	--
Net debt service requirements	<u>845,741</u>	<u>353,876</u>	<u>78,525</u>	<u>28,045</u>	<u>28,456</u>	<u>6,837</u>

Fiscal Year Ended September 30	Capital Lease Obligations		Total Governmental Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
	2010	152	--	69,596	43,204
2011	316	--	65,631	40,451	106,082
2012	--	--	59,078	37,508	96,586
2013	--	--	55,132	34,813	89,945
2014	--	--	54,990	32,244	87,234
2015-2019	--	--	280,104	122,977	403,081
2020-2024	--	--	217,178	60,433	277,611
2025-2029	--	--	136,625	17,128	153,753
	<u>468</u>	<u>--</u>	<u>938,334</u>	<u>388,758</u>	<u>1,327,092</u>
Less: Unamortized bond discounts	--	--	(1,083)	--	(1,083)
Unamortized gain(loss) on bond refundings	--	--	(13,247)	--	(13,247)
Add: Unamortized bond premiums	--	--	29,186	--	29,186
Net debt service requirements	<u>\$ 468</u>	<u>--</u>	<u>953,190</u>	<u>388,758</u>	<u>1,341,948</u>

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

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Commercial Paper Notes (1)	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 62	56	152	6	140,956	21
2011	74	53	79	1	--	--
2012	78	49	--	--	--	--
2013	125	46	--	--	--	--
2014	131	39	--	--	--	--
2015-2019	595	101	--	--	--	--
2020-2024	57	3	--	--	--	--
	<u>1,122</u>	<u>347</u>	<u>231</u>	<u>7</u>	<u>140,956</u>	<u>21</u>
Less: Unamortized bond discount	(3)	--	--	--	(249)	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	67	--	--	--	--	--
Net debt service requirements	<u>1,186</u>	<u>347</u>	<u>231</u>	<u>7</u>	<u>140,707</u>	<u>21</u>

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Electric Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2010	65,823	99,276	37	76	207,030	99,435	306,465
2011	75,084	91,679	38	75	75,275	91,808	167,083
2012	75,773	85,434	40	73	75,891	85,556	161,447
2013	100,286	61,516	42	71	100,453	61,633	162,086
2014	123,821	46,576	44	68	123,996	46,683	170,679
2015-2019	244,502	188,909	259	306	245,356	189,316	434,672
2020-2024	204,552	124,935	332	233	204,941	125,171	330,112
2025-2029	186,227	72,628	256	139	186,483	72,767	259,250
2030-2034	114,190	32,291	116	16	114,306	32,307	146,613
2035-2039	73,580	8,197	--	--	73,580	8,197	81,777
	<u>1,263,838</u>	<u>811,441</u>	<u>1,164</u>	<u>1,057</u>	<u>1,407,311</u>	<u>812,873</u>	<u>2,220,184</u>
Less: Unamortized bond discounts	(3,566)	--	--	--	(3,818)	--	(3,818)
Unamortized gain(loss) on bond refundings	(62,056)	--	--	--	(62,056)	--	(62,056)
Add: Unamortized bond premiums	37,924	--	--	--	37,991	--	37,991
Net debt service requirements	<u>\$ 1,236,140</u>	<u>811,441</u>	<u>1,164</u>	<u>1,057</u>	<u>1,379,428</u>	<u>812,873</u>	<u>2,192,301</u>

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

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

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
	2010	\$ 594	169	2,910	464	564
2011	569	138	3,189	393	595	319
2012	533	107	3,012	282	627	288
2013	593	79	2,627	182	674	256
2014	165	47	1,909	90	860	217
2015-2019	651	121	1,529	60	3,361	404
2020-2024	126	10	--	--	--	--
	<u>3,231</u>	<u>671</u>	<u>15,176</u>	<u>1,471</u>	<u>6,681</u>	<u>1,831</u>
Less: Unamortized bond discounts	(14)	--	--	--	(31)	--
Unamortized gain(loss) on bond refundings	(1,662)	--	--	--	--	--
Add: Unamortized bond premiums	127	--	136	--	--	--
Net debt service requirements	<u>1,682</u>	<u>671</u>	<u>15,312</u>	<u>1,471</u>	<u>6,650</u>	<u>1,831</u>

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds (2)		Municipal Utility District Contract Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
	2010	199,292	22	54,413	97,546	914
2011	--	--	50,659	93,118	--	--
2012	--	--	63,966	89,851	--	--
2013	--	--	76,916	80,583	--	--
2014	--	--	99,054	66,054	--	--
2015-2019	--	--	395,408	389,988	--	--
2020-2024	--	--	369,976	188,203	--	--
2025-2029	--	--	361,693	97,711	--	--
2030-2034	--	--	161,280	31,374	--	--
2035-2039	--	--	64,370	5,557	--	--
	<u>199,292</u>	<u>22</u>	<u>1,697,735</u>	<u>1,139,985</u>	<u>914</u>	<u>15</u>
Less: Unamortized bond discounts	--	--	(8,675)	--	(1)	--
Unamortized gain(loss) on bond refundings	--	--	(50,188)	--	--	--
Add: Unamortized bond premiums	--	--	43,310	--	1	--
Net debt service requirements	<u>\$ 199,292</u>	<u>22</u>	<u>1,682,182</u>	<u>1,139,985</u>	<u>914</u>	<u>15</u>

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

(2) Portions of these bonds are variable rate bonds with rates of 0.30% to 8.37%.

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

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Total Water and Wastewater Debt Service Requirements		
	Principal	Interest	Total
2010	258,687	98,563	357,250
2011	55,012	93,968	148,980
2012	68,138	90,528	158,666
2013	80,810	81,100	161,910
2014	101,988	66,408	168,396
2015-2019	400,949	390,573	791,522
2020-2024	370,102	188,213	558,315
2025-2029	361,693	97,711	459,404
2030-2034	161,280	31,374	192,654
2035-2039	64,370	5,557	69,927
	<u>1,923,029</u>	<u>1,143,995</u>	<u>3,067,024</u>
Less: Unamortized bond discounts	(8,721)	--	(8,721)
Unamortized gain(loss) on bond refundings	(51,850)	--	(51,850)
Add: Unamortized bond premiums	43,574	--	43,574
Net debt service requirements	<u>1,906,032</u>	<u>1,143,995</u>	<u>3,050,027</u>

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

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation		Revenue Notes (1)		Revenue Bonds (2)	
	Bonds		Principal	Interest	Principal	Interest
	Principal	Interest				
2010	\$ 25	14	--	980	12,910	13,150
2011	28	13	--	980	13,515	12,609
2012	30	11	--	980	14,165	12,033
2013	39	10	--	980	14,795	11,466
2014	26	7	--	980	15,610	10,699
2015-2019	115	20	28,000	3,430	92,995	42,407
2020-2024	13	1	--	--	108,975	19,635
2025-2029	--	--	--	--	48,475	1,406
	<u>276</u>	<u>76</u>	<u>28,000</u>	<u>8,330</u>	<u>321,440</u>	<u>123,405</u>
Less: Unamortized bond discounts	(1)	--	--	--	(942)	--
Unamortized gain(loss) on bond refundings	1	--	--	--	(15,504)	--
Add: Unamortized bond premiums	13	--	--	--	2,371	--
Net debt service requirements	<u>289</u>	<u>76</u>	<u>28,000</u>	<u>8,330</u>	<u>307,365</u>	<u>123,405</u>

Fiscal Year Ended September 30	Capital Lease		Total Airport		
	Obligations		Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2010	486	21	13,421	14,165	27,586
2011	331	4	13,874	13,606	27,480
2012	--	--	14,195	13,024	27,219
2013	--	--	14,834	12,456	27,290
2014	--	--	15,636	11,686	27,322
2015-2019	--	--	121,110	45,857	166,967
2020-2024	--	--	108,988	19,636	128,624
2025-2029	--	--	48,475	1,406	49,881
	<u>817</u>	<u>25</u>	<u>350,533</u>	<u>131,836</u>	<u>482,369</u>
Less: Unamortized bond discounts	--	--	(943)	--	(943)
Unamortized gain(loss) on bond refundings	--	--	(15,503)	--	(15,503)
Add: Unamortized bond premiums	--	--	2,384	--	2,384
Net debt service requirements	<u>\$ 817</u>	<u>25</u>	<u>336,471</u>	<u>131,836</u>	<u>468,307</u>

(1) These are variable rate notes with rates ranging from 0.24% to 8.50%.

(2) Portions of these bonds are variable rate bonds with rates ranging from 0.40% to 8.26%.

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

Nonmajor Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 1,602	908	2,249	1,885	6,814	1,294
2011	1,823	828	2,359	1,820	7,360	1,176
2012	1,727	735	2,476	1,714	7,358	926
2013	1,896	648	1,945	1,601	6,653	681
2014	1,676	552	2,734	1,514	5,460	466
2015-2019	7,964	1,499	10,250	6,106	10,022	562
2020-2024	1,408	97	14,567	3,132	305	5
2025-2029	--	--	2,445	1,041	--	--
2030-2034	--	--	1,335	605	--	--
2035-2039	--	--	1,730	255	--	--
	<u>18,096</u>	<u>5,267</u>	<u>42,090</u>	<u>19,673</u>	<u>43,972</u>	<u>5,110</u>
Less: Unamortized bond discounts	(66)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,120)	--	--	--	--	--
Add: Unamortized bond premiums	1,443	--	787	--	680	--
Net debt service requirements	<u>18,353</u>	<u>5,267</u>	<u>42,877</u>	<u>19,673</u>	<u>44,652</u>	<u>5,110</u>

Fiscal Year Ended September 30	Revenue Bonds (1)		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2010	8,215	9,114	18,880	13,201	32,081
2011	8,545	8,816	20,087	12,640	32,727
2012	9,450	8,483	21,011	11,858	32,869
2013	10,555	8,077	21,049	11,007	32,056
2014	11,000	7,635	20,870	10,167	31,037
2015-2019	62,380	30,627	90,616	38,794	129,410
2020-2024	52,305	18,202	68,585	21,436	90,021
2025-2029	56,955	7,899	59,400	8,940	68,340
2030-2034	12,825	164	14,160	164	14,324
2035-2039	--	--	1,730	--	1,730
	<u>232,230</u>	<u>99,017</u>	<u>336,388</u>	<u>128,207</u>	<u>464,595</u>
Less: Unamortized bond discounts	(750)	--	(816)	--	(816)
Unamortized gain(loss) on bond refundings	(18,514)	--	(19,634)	--	(19,634)
Add: Unamortized bond premiums	3,689	--	6,599	--	6,599
Net debt service requirements	<u>\$ 216,655</u>	<u>99,017</u>	<u>322,537</u>	<u>128,207</u>	<u>450,744</u>

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.40 to 8.26%.

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

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
	2010	\$ 2,283	1,147	2,249	1,885	9,876
2011	2,494	1,032	2,359	1,820	10,628	1,570
2012	2,368	902	2,476	1,714	10,370	1,208
2013	2,653	783	1,945	1,601	9,280	863
2014	1,998	645	2,734	1,514	7,369	556
2015-2019	9,325	1,741	10,250	6,106	11,551	622
2020-2024	1,604	111	14,567	3,132	305	5
2025-2029	--	--	2,445	1,041	--	--
2030-2034	--	--	1,335	605	--	--
2035-2039	--	--	1,730	255	--	--
	<u>22,725</u>	<u>6,361</u>	<u>42,090</u>	<u>19,673</u>	<u>59,379</u>	<u>6,588</u>
Less: Unamortized bond discounts	(84)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(2,781)	--	--	--	--	--
Add: Unamortized bond premiums	1,650	--	787	--	816	--
Net debt service requirements	<u>21,510</u>	<u>6,361</u>	<u>42,877</u>	<u>19,673</u>	<u>60,195</u>	<u>6,588</u>

Fiscal Year Ended September 30	Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2010	564	347	340,248	43	--
2011	595	319	--	--	--	980
2012	627	288	--	--	--	980
2013	674	256	--	--	--	980
2014	860	217	--	--	--	980
2015-2019	3,361	404	--	--	28,000	3,430
	<u>6,681</u>	<u>1,831</u>	<u>340,248</u>	<u>43</u>	<u>28,000</u>	<u>8,330</u>
Less: Unamortized bond discounts	(31)	--	(249)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premiums	--	--	--	--	--	--
Net debt service requirements	<u>\$ 6,650</u>	<u>1,831</u>	<u>339,999</u>	<u>43</u>	<u>28,000</u>	<u>8,330</u>

(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 rates ranging from 0.24% to 8.50%.

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

Fiscal Year Ended September 30	Business-Type Activities (in thousands)					
	Revenue Bonds (3)		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 141,361	219,086	914	15	523	97
2011	147,803	206,222	--	--	369	79
2012	163,354	195,801	--	--	40	73
2013	202,552	161,642	--	--	42	71
2014	249,485	130,964	--	--	44	68
2015-2019	795,285	651,931	--	--	259	306
2020-2024	735,808	350,975	--	--	332	233
2025-2029	653,350	179,644	--	--	256	139
2030-2034	288,295	63,829	--	--	116	16
2035-2039	137,950	13,754	--	--	--	--
	<u>3,515,243</u>	<u>2,173,848</u>	<u>914</u>	<u>15</u>	<u>1,981</u>	<u>1,082</u>
Less: Unamortized bond discounts	(13,933)	--	(1)	--	--	--
Unamortized gain(loss) on bond refundings	(146,262)	--	--	--	--	--
Add: Unamortized bond premiums	87,294	--	1	--	--	--
Net debt service requirements	<u>3,442,342</u>	<u>2,173,848</u>	<u>914</u>	<u>15</u>	<u>1,981</u>	<u>1,082</u>

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2010	498,018	225,364	723,382
2011	164,248	212,022	376,270
2012	179,235	200,966	380,201
2013	217,146	166,196	383,342
2014	262,490	134,944	397,434
2015-2019	858,031	664,540	1,522,571
2020-2024	752,616	354,456	1,107,072
2025-2029	656,051	180,824	836,875
2030-2034	289,746	63,845	353,591
2035-2039	139,680	13,754	153,434
	<u>4,017,261</u>	<u>2,216,911</u>	<u>6,234,172</u>
Less: Unamortized bond discounts	(14,298)	--	(14,298)
Unamortized gain(loss) on bond refundings	(149,043)	--	(149,043)
Add: Unamortized bond premiums	90,548	--	90,548
Net debt service requirements	<u>\$ 3,944,468</u>	<u>2,216,911</u>	<u>6,161,379</u>

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

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

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

On September 30, 2009, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

<u>Refunded Bonds</u>	<u>Escrow Maturity</u>	<u>Balance 9/30/2009</u>
General Obligation		
Certificates of Obligations, Series 2000	9/1/2010	\$ 3,580
Public Improvement Bonds, Series 2000	9/1/2010	48,745
Certificates of Obligations, Series 2001	9/1/2011	13,685
Public Improvement Bonds, Series 2001	9/1/2011	51,280
Certificates of Obligations, Series 2002	9/1/2012	6,750
Public Improvement Bonds, Series 2002	9/1/2012	13,100
Certificates of Obligations, Series 2004	9/1/2014	1,355
Austin Energy		
Series 2001	11/15/2010	48,500
Series 2003	5/15/2013	18,800
Water and Wastewater		
Series 2000	5/15/2010	87,200
Series 2001A	5/15/2011	118,265
Series 2001B	5/15/2011	53,605
Series 2003	5/15/2013	29,100
Convention Center		
Series 1999	11/15/2009	35,140
		<u>\$ 529,105</u>

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997, the City issued several series of bonds. The aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled \$310.2 million. Subsequent to September 30, 1997, the City has issued \$104.2 million in various series of housing revenue bonds that have an outstanding balance of \$102 million as of September 30, 2009.

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, 2009, \$358.3 million in revenue and revenue refunding bonds was outstanding that had an original issue value of \$383 million.

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2009, are as follows (in thousands):

Receivable Fund	Payable Fund	Amount	
		Current	Long-Term
Governmental funds:			
Nonmajor governmental funds	Nonmajor governmental funds	\$ 20,571	--
	Water and Wastewater	--	3,885
	Nonmajor enterprise funds	--	1,553
	Internal service funds	--	123
General Fund	Nonmajor governmental funds	217	--
Internal Service funds:			
Support Services	Nonmajor governmental funds	11	45
Business-type funds:			
Electric	Internal service funds	131	594
	Nonmajor enterprise funds	299	1,940
	Nonmajor governmental funds	--	138
Water and Wastewater (restricted)	Internal service funds	27	27
Airport (restricted)	Nonmajor governmental funds	--	117
Nonmajor enterprise funds	Nonmajor governmental funds	--	111
	Nonmajor enterprise funds	794	--
		<u>\$ 22,050</u>	<u>8,533</u>

Interfund receivables and payables reflect loans between funds. Of the above current amount, \$9.5 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 \$11.1 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2009 were as follows (in thousands):

Transfers Out	Transfers In			
	General Fund	Nonmajor Governmental	Nonmajor Proprietary	Total
General Fund	\$ --	10,973	9,725	20,698
Nonmajor governmental funds	--	29,651	35,896	65,547
Electric	95,000	--	--	95,000
Water and Wastewater	26,505	4,101	--	30,606
Airport	--	--	--	--
Nonmajor proprietary funds	431	2,270	--	2,701
Internal service funds	--	6,319	--	6,319
Total transfers out	<u>\$ 121,936</u>	<u>53,314</u>	<u>45,621</u>	<u>220,871</u>

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

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2009. 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 LCRA. Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

The Clean Air Act and other regulations require all existing coal plants to reduce the levels of sulfur dioxide (SO₂) and nitrogen oxide (NO_x) by 2012. As a result, FPP is in the process of installing scrubbers on Units 1 and 2. It is estimated that the project cost will be in the range of \$225 million for Austin Energy's share. The design phase was completed in February 2006. Procurement of equipment and phase II engineering and construction are currently underway. Project completion is scheduled for late 2011.

Austin Energy's investment is financed with City funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's pro-rata interest in FPP was \$183.5 million as of September 30, 2009. The increase in the pro-rata interest from 2008 is primarily due to the scrubbers. The pro-rata interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements. The original cost of Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies. Each participant issued its own debt to finance its portion of construction costs. The City's portion was primarily financed through utility revenue bonds. In addition, each participant has the obligation to finance its portion of any operating and capital costs, as well as its deficits.

b -- South Texas Project

Austin Energy is one of three participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are NRG South Texas LP and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2009, Austin Energy's investment in the STP was approximately \$488 million, net of accumulated depreciation.

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

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

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

c -- South Texas Project Decommissioning

STP is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit a certificate of financial assurance to the NRC for plant decommissioning every two years or upon transfer of ownership. The certificate provides reasonable assurance that sufficient funds are being accumulated to provide the minimum requirement for decommissioning mandated by the NRC. At September 30, 2009, Austin Energy funded its share of the estimated decommissioning liability as follows:

	<u>2009</u>	
Estimated cost to decommission STP	\$ 220,765,000	Latest site specific study in 2007 dollars
Decommissioning trust assets	156,332,088	Market value of assets as of 9/30/2009

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

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 2009, 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:

<u>Brokerage</u>	<u>Credit Rating</u>
Citigroup Global Market Holding Inc.	A
Man Group	BBB

Austin Energy follows GASB Technical Bulletin No 2003-1, Disclosure Requirement for Derivatives Not Reported at Fair Value on The Statement of Net Assets. The following information is provided regarding Austin Energy's outstanding financial hedge instruments as of September 30, 2009:

Fuel Derivative Transactions as of September 30, 2009

<u>Type of Transaction</u>	<u>Maturity Dates</u>	<u>Volumes in MMBTU*</u>	<u>Fair Market Value Gain/ (Loss)</u>
OTC Call Options	Nov 2009 - Oct 2013	11,052,500	\$ 8,879,973
OTC Put Options	Nov 2009 - Oct 2013	34,135,000	(39,240,687)
Futures	April 2012 - Oct 2013	840,000	(1,818,485)
Options	April 2013 - Oct 2013	0	(1,565,897)
OTC Swaps	Nov 2009 - Oct 2012	28,375,000	(17,477,220)
Basis Swaps	Oct 2009 - Dec 2013	12,090,000	3,543,088
OTC Swaptions	April 2011 - Oct 2011	3,210,000	(2,891,859)
*Volumes are presented net of long and short positions			<u>\$ (50,571,087)</u>

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. Premiums paid for options are deferred until the contract is executed. As of September 30, 2009, \$17,257,650 was deferred. As of September 30, 2009, Austin Energy's futures, options, swaptions, and swaps, valued at mark-to-market, net to a loss of \$50,571,087.

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

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

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

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

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

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

e -- Purchased Power

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

f -- Derivative Instruments

Swap for the Water & Wastewater System

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

In connection with the issuance of \$170,605,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds"), the City has entered into an interest rate swap transaction under an agreement to enable the City to substantially fix its interest obligation on the debt represented by the Series 2008 Bonds.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2009, are included below. The City's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued with an initial principal amount of \$132,475,000. The Series 2008 Bonds were issued with an initial principal amount of \$170,605,000. The swaps were structured to match the likely principal amortization structures and dates of the Series 2004 Bonds and Series 2008 Bonds, respectively. The counterparties to the swaps are JPMorgan Chase Bank (JPM) and Goldman Sachs Capital Markets, L.P. (GSCM). The table below contains a summary of the terms and fair value of the swaps.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Water & Wastewater Revenue Refunding Bonds, Series 2004	May 15, 2024	JPM	Aa1/AA-/AA-	68% of 1-month LIBOR	3.657%	\$ (12,107,746)
Water & Wastewater Revenue Refunding Bonds, Series 2008	May 15, 2031	GSCM	Aa3/A/A+	SIFMA Swap Index	3.600%	\$ (10,212,546)

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

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Fair value. The swap with JPM had a negative fair value as of September 30, 2009 of \$12,107,746. The swap with GSCM had a negative fair value as of September 30, 2009 of \$10,212,546. The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2009, the City was not exposed to credit risk on its outstanding swap with JPM because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. If interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of JPM are Aa1/AA-/AA- by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

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

As of September 30, 2009, the City was not exposed to credit risk in the amount of the swap's fair value on its outstanding swap with GSCM because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. If interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of GSCM are Aa3/A/A+ by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement with GSCM contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement.

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

The City does not bear basis risk on its swap with GSCM.

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

The City does not bear tax risk on its swap with GSCM.

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

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Swap payments and associated debt. As of September 30, 2009, 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	Water and Wastewater Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total Interest
	Principal	Interest		
	September 30			
2010	\$ 2,595	512	9,719	10,231
2011	6,965	505	9,504	10,009
2012	13,285	487	9,157	9,644
2013	12,905	462	8,699	9,161
2014	34,695	422	7,915	8,337
2015-2019	77,360	1,352	28,013	29,365
2020-2024	65,155	786	19,229	20,015
2025-2029	44,375	291	9,230	9,521
2030-2031	27,510	35	1,129	1,164
Total	\$ 284,845	4,852	102,595	107,447

The variable interest component was calculated utilizing the rate in effect at the end of the fiscal year.

Swap for the Airport System

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

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2009, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds were issued in August 2005 with a principal amount of \$306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc ("Morgan Stanley") with a guarantee from Morgan Stanley. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	A2/A/A	71% of 1-month LIBOR	4.051%	\$(36,193,043)

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, 2009 of \$36,193,043. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Credit risk. As of September 30, 2009, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the swap's fair value. If interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of Morgan Stanley are A2/A/A by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

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

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

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

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

Swap payments and associated debt. As of September 30, 2009, 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)		Interest Rate Swaps, Net	Total Interest
	Principal	Interest		
	2010	\$ 10,975		
2011	11,500	755	9,403	10,158
2012	12,050	719	8,955	9,674
2013	6,125	697	8,679	9,376
2014	15,350	656	8,176	8,832
2015-2019	57,375	2,725	33,947	36,672
2020-2024	108,975	1,460	18,187	19,647
2025	48,475	105	1,307	1,412
Total	\$ 270,825	7,906	98,484	106,390

The variable interest component was calculated utilizing the rate in effect at the end of the fiscal year.

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Swaps for the Hotel Occupancy Tax

Objective of the swap. In connection with the issuance of \$125,280,000 Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008 (the "Bonds"), the City has entered into an interest rate swap transaction under an agreement to enable the City to substantially fix its interest obligation on the debt represented by the Bonds.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swap, as of September 30, 2009, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The swap was structured to match the likely principal amortization structure and dates of the Bonds. The counterparty to the swap is Morgan Keegan Financial Products (MKFP).

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Nov 15, 2029	MKFP	Aa1/A+/AA-	SIFMA to 11/15/09; 67% of 1-Mo USD- LIBOR thereafter	3.2505%	\$(10,580,511)

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, 2009 of \$10,580,511. This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of September 30, 2009, the City was not exposed to credit risk on the swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of MKFP are Aa1/A+/AA- by Moody's/Standard & Poor's/Fitch respectively. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement. The credit support provider of MKFP is Deutsche Bank AG, New York Branch ("DBAG"). The swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The City bears no basis risk until November 15, 2009. Afterward, the swap has basis risk since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

14 – COMMITMENTS AND CONTINGENCIES, continued
f -- Derivative Instruments, continued

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City bears tax risk only after November 15, 2009. The City is receiving 67% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

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

Swap payments and associated debt. As of September 30, 2009, 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 Interest
	Principal	Interest		
	2010	\$ 3,325		
2011	4,425	189	3,655	3,844
2012	4,570	182	3,515	3,697
2013	4,720	174	3,370	3,544
2014	4,875	167	3,219	3,386
2015-2019	26,725	708	13,683	14,391
2020-2024	31,350	474	9,159	9,633
2025-2029	37,060	198	3,833	4,031
2030-2033	8,230	2	43	45
Total	\$ 125,280	2,290	44,263	46,553

The variable interest component was calculated utilizing the rate in effect at the end of the fiscal year.

g -- Federal and State Financial Assistance Programs

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

h -- Arbitrage Rebate Payable

The City's arbitrage consultant has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate the excess amounts to the federal government. The estimated amounts payable at September 30, 2009, was \$29 thousand for governmental activities. There is no estimated amount payable for business-type activities.

14 – COMMITMENTS AND CONTINGENCIES, continued
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 2009 Capital Budget has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include improvements to and development of the electric system, water and wastewater systems, airport, urban growth management activities, parks system, and transportation infrastructure. Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	(in thousands)	Spent-to-Date	Remaining Commitment
Governmental activities:			
General government		\$ 65,589	23,950
Public safety		13,204	8,118
Transportation		220,667	68,245
Public health		13,207	11,471
Public recreation and culture		201,841	140,040
Urban growth management		101,305	51,757
Business-type activities:			
Electric		2,325,310	302,386
Water		973,805	904,489
Wastewater		1,001,724	697,419
Airport		175,023	478,275
Convention		42,081	(4,965)
Environmental and health services		51,372	22,630
Urban growth management		249,452	289,419
Total		<u>\$ 5,434,580</u>	<u>2,993,234</u>

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 \$18.2 million reported as accrued landfill closure and postclosure costs at September 30, 2009, represents the cumulative amount reported to date based on the use of 99% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of \$177 thousand as the remaining estimated capacity is filled over the next year. Closure occurred in October 2009. The total estimated costs of \$18.2 million include costs of closure of \$10.5 million to be spent in the first year of closure and postclosure costs over the subsequent thirty years of \$7.7 million. These amounts are based on current cost estimates to perform closure and postclosure care in 2009. 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:

<u>Fund name</u>	<u>Description</u>
Employee Benefits	City employees and retirees may choose a self-insured PPO or HMO for health coverage. Approximately 30% of city employees and 43% of retirees use the HMO option; approximately 70% of city employees and 57% 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 and HMO. This stop-loss insurance covers individual claims that exceed \$500,000 per calendar year, up to a maximum of \$2 million. In fiscal year 2009, five claims exceeded the stop-loss limit of \$500,000; during fiscal years 2008, 2007, and 2006, no claims exceeded the stop-loss limit of \$500,000. City coverage is limited to \$2 million in lifetime benefits. The City does not purchase stop-loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the purchased insurance coverage for the last three years. The City also purchases insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund. Claims liabilities for the Liability Reserve Fund are calculated based on an estimate of outstanding claims, which may differ from the actual amounts paid. Possible losses are estimated to range from \$30.2 to \$47.6 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):

	<u>Employee Benefits</u>		<u>Liability Reserve</u>		<u>Workers' Compensation</u>	
	2009	2008	2009	2008	2009	2008
Liability balances, beginning of year	\$ 4,796	4,382	7,848	5,646	13,818	12,193
Claims and changes in estimates	9,807	4,658	2,784	3,727	3,391	5,303
Claim payments	(5,343)	(4,244)	(3,667)	(1,525)	(3,157)	(3,678)
Liability balances, end of year	<u>\$ 9,260</u>	<u>4,796</u>	<u>6,965</u>	<u>7,848</u>	<u>14,052</u>	<u>13,818</u>

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of \$5.0 million discounted at 4.45% in 2009 and \$4.9 million discounted at 5.40% in 2008.

14 – COMMITMENTS AND CONTINGENCIES, continued

l -- Decommissioning and Environmental/Pollution Remediation Contingencies

Austin Energy may incur costs for decommissioning and environmental/pollution remediation of certain sites including the Holly, Fayette and Seaholm Power Plants. The financial statements include a liability of approximately \$23 million at September 30, 2009. This amount includes the cost to decommission Holly as well as the remediation of the contaminated sites. Austin Energy anticipates payment of these costs in 2010 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. On May 4, 2009, the EPA notified the City that the requirements of the Administrative Order had been substantially satisfied and that the Administrative Order was officially closed. Construction costs were approximately \$413 million.

Austin Water closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The estimated decommissioning cost to close the GWTP is \$9.6 million. The financial statements include a liability of approximately \$5.1 million at September 30, 2009. Plant decommissioning is estimated to be completed in September 2010.

The Airport Fund may also incur costs for environmental/pollution remediation of certain sites and has recorded an estimated liability of \$26,766 as of September 30, 2009.

m -- Redevelopment of Robert Mueller Municipal Airport

In December 2004, City Council approved a master development agreement with Catellus Development Group (Catellus) to develop approximately 700 acres at the former site of the City's municipal airport 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. Construction of additional water and wastewater infrastructure to enhance utility services to this site is mostly complete.

In August 2005, Catellus 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.

In the northwest quadrant, 40 employers provide more than 3,000 jobs at Mueller including the Dell Children's Hospital which opened in 2007. In 2009 the 156,000 sq. ft. Seton Family of Hospitals headquarters and the 150,000 sq. ft. University of Texas' Dell Pediatric Research Institute were completed.

The first phase of Mueller's regional retail center opened in 2007, followed in 2008 by a second phase, bringing the total to more than 350,000 sq. ft. The center currently includes 30 stores open or under construction.

From the start of home sales in 2007, the community has been well received. As of September 30, 2009, approximately 590 single-family homes were either complete or under construction. In addition 441 apartment units were complete. Catellus is currently working on the third phase of single-family residential lots targeted for completion in 2011.

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, 2009, was \$22.7 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.

14 – COMMITMENTS AND CONTINGENCIES, continued
n -- Other Commitments and Contingencies

The City has entered into certain lease agreements to finance equipment for both governmental and business-type activities. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

The following summarizes capital assets recorded at September 30, 2009, under capital lease obligations (in thousands):

Capital Assets	Governmental Activities	Business-type Activities		
		Electric	Airport	Total
Building and improvements	\$ --	1,405	--	1,405
Equipment	908	--	2,320	2,320
Accumulated depreciation	(886)	(246)	(1,289)	(1,535)
Net capital assets	\$ 22	1,159	1,031	2,190

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, dental and vision insurance for the retiree and the retiree's family and \$1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate.

The City is under no obligation to pay any portion of the cost of other post-employment benefits for retirees or their dependents. Allocation of city funds to pay other post-employment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis.

The City recognizes the cost of providing these benefits as an expense and corresponding revenue in the Employee Benefits Fund, no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium.

Medical, dental, vision and life insurance expenses are reported in the Employee Benefits Fund. The estimated pay-as-you-go cost of providing medical and life benefits for 3,115 retirees was \$19.6 million in 2009 and \$21 million in 2008 for 2,956 retirees.

Annual Other Post Employment Benefits (OPEB) Cost and Net OPEB (Obligation) Asset

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2009, is as follows (in thousands):

	OPEB
Annual required contribution	\$ 108,574
Interest on net OPEB obligation	3,500
Adjustment to annual required contribution	(4,867)
Annual OPEB cost	107,207
Contributions made	(19,563)
Change in net OPEB obligation	87,644
Beginning net OPEB obligation	87,507
Net OPEB obligation	\$ 175,151

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

Schedule of Funding Progress (in thousands):

Year Ended September 30	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2009	\$ --	1,035,766	1,035,766	0.0%	648,031	159.8%

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the preceding year are as follows (in thousands):

Year Ended September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 108,574	19%	87,507
2009	107,207	18%	175,150

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

	<u>OPEB</u>
Actuarial Valuation Date	October 1, 2006
Actuarial Cost Method	Projected Unit Credit
Amortization method	Level Dollar Open
Remaining Amortization Period	30 years
Inflation Rate	N/A
Salary Increase	None
Payroll Increase	None
Assumed Rate of Return on Investments	4.0%
Health Care Cost Trend Rate	10% in 2007, decreasing 1% per year for five years to an ultimate trend of 5% in 2012

16 – SUBSEQUENT EVENTS

a -- Mueller Local Government Corporation Tax Increment Contract Revenue Bonds

In October 2009, the City issued \$15,000,000 of Mueller Local Government Corporation Tax Increment Contract Revenue Bonds, Series 2009. The Mueller Local Government Corporation is a not-for-profit local government corporation acting on behalf of the City of Austin, Texas. Proceeds from the issue will be used to provide funds for certain public infrastructure improvements within the Reinvestment Zone Number Sixteen, City of Austin, Texas, a tax increment reinvestment zone created by the City. The debt service requirements on the bonds are \$22,221,066, with interest rates ranging from 2.5% to 4.25%. Interest payments are due March 1 and September 1 of each year from 2010 to 2029. Principal payments are due September 1 of each year from 2010 to 2029.

16 – SUBSEQUENT EVENTS, continued

b – Water and Wastewater System Revenue Bond Refunding Issue

In November 2009, the City issued \$166,575,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2009A. Proceeds from the bond refunding were used to refund \$166,000,000 of the City's outstanding commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are \$317,854,463, with interest rates ranging from 4% to 5%. Interest payments are due May 15 and November 15 of each year from 2010 to 2039. Principal payments are due November 15 of each year from 2011 to 2039. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

c – Water and Wastewater System Revenue Bonds, Series 2010

In January 2010, the City delivered \$31,815,000 of Water and Wastewater System Revenue Bonds, Series 2010 as a private placement with the Texas Water Development Board. This zero-interest issuance is part of the American Recovery and Reinvestment Act. Proceeds from the issuance will be used for green infrastructure improvements at the Hornsby Bend Biosolids Management Plant. Total debt service requirements on the bonds are \$31,815,000. Principal payments are due November 15 of each year from 2012 to 2041.

d – Northwest Austin Municipal Utility District Number One

In February 2010, the City Council voted to approve the abolishment of the Northwest Austin Municipal Utility District Number One (the District). The City had the authority to abolish the District under Section 43.074 as the District was created from an area that, at the time of the District's creation, was located wholly within the municipal boundaries of the City of Austin.

Upon abolition of the District, the City assumed all of the assets and liabilities of the District, including the District's debt service for utility bonds. The services that have been furnished and the functions that have been performed by the District will be furnished and performed by the City. The infrastructure for the water and wastewater systems are already City owned assets. The book value of the District's additional assets assumed is approximately \$3.1 million.

\$110,000 of Northwest Austin MUD No. 1 Unlimited Tax Bonds, Series 2001 were assumed. The debt service requirements on the bonds are \$128,565, with interest rates ranging from 4.5% to 5.15%. Principal and interest payments are due March 1 and September 1 of each year from 2010 to 2016.

\$2,215,000 of Northwest Austin MUD No. 1 Unlimited Tax Refunding Bonds, Series 2004 were assumed. The debt service requirements on the bonds are \$2,761,594, with interest rates ranging from 3.125% to 4.3%. Principal and interest payments are due March 1 and September 1 of each year from 2010 to 2020.

\$7,677,403 of Northwest Austin MUD No. 1 Unlimited Tax Refunding and Improvement Bonds, Series 2006 were assumed. The debt service requirements on the bonds are \$12,140,683, with interest rates ranging from 4% to 4.25%. Principal and interest payments are due March 1 and September 1 of each year from 2010 to 2026.

\$2,760,000 of Northwest Austin MUD No. 1 Unlimited Tax Refunding Bonds, Series 2009 were assumed. The debt service requirements on the bonds are \$3,202,400, with interest rates ranging from 3% to 4.25%. Principal and interest payments are due March 1 and September 1 of each year from 2010 to 2018.

e – Combined Utility System Revenue Bond Retirement Reserve Account

In January 2010, the City established a City of Austin Combined Utility Reserve Account with a transfer of \$44 million from Austin Energy operating funds to satisfy its bond ordinance requirements. As allowed by the bond ordinance provision for the Bond Retirement Reserve Fund, the City had previously funded the required reserve with an insurance policy issued by an insurance company rated in the highest rating category by the rating agencies. As a result of the financial market distress in late 2008 and 2009, the credit rating of the insurance company holding the City's policy fell below the highest rating required by the bond ordinance. As of February 2009, there were no insurance companies with the required rating; therefore, the City had twelve months to remedy the provision of the bond ordinance by funding a cash reserve. The required reserve of \$44 million is based on the average annual debt service and will decline as the bonds are paid off.

Of the \$44 million, approximately \$19 million is allocated to Austin Energy and \$25 million is allocated to Austin Water Utility based on their portion of the outstanding combined utility system revenue bonds. Austin Energy funded the entire reserve and an interfund payable from Austin Water Utility to Austin Energy was created for Austin Water Utility's portion.



General Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2009
(In thousands)

City of Austin, Texas
RSI

	2009					
	Actual	Adjustments (1) (2)	Actual- Budget Basis	Budget		Variance (3) Positive (Negative)
				Original	Final	
REVENUES						
Taxes	\$ 356,064	--	356,064	376,295	376,295	(20,231)
Franchise fees	33,276	--	33,276	33,834	33,834	(558)
Fines, forfeitures and penalties	19,100	--	19,100	18,901	18,901	199
Licenses, permits and inspections	20,531	(6)	20,525	24,471	24,471	(3,946)
Charges for services/goods	33,655	93	33,748	33,287	33,287	461
Interest and other	10,456	(1,427)	9,029	11,539	11,539	(2,510)
Total revenues	473,082	(1,340)	471,742	498,327	498,327	(26,585)
EXPENDITURES						
General government						
Municipal Court	11,966	32	11,998	11,895	11,895	(103)
Public safety						
Police	229,559	(1,184)	228,375	233,981	239,079	10,704
Fire	117,601	79	117,680	121,339	121,339	3,659
Emergency Medical Services	42,646	96	42,742	44,135	44,601	1,859
Public Safety & Emergency Mgmt	(288)	397	109	6,843	110	1
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	365	--	365	325	325	(40)
Public health:						
Health	37,133	(283)	36,850	40,043	40,043	3,193
Public recreation and culture						
Parks and Recreation	35,532	(248)	35,284	35,866	36,972	1,688
Austin Public Library	24,456	(179)	24,277	24,911	24,911	634
Urban growth management						
Neighborhood Planning and Zoning	5,571	(820)	4,751	5,453	5,453	702
Development Services and						
Watershed Protection	14,111	454	14,565	16,058	16,058	1,493
General city responsibilities (4)	52,197	(41,048)	11,149	15,384	14,918	3,769
Total expenditures	570,849	(42,704)	528,145	556,233	555,704	27,559
Excess (deficiency) of revenues						
over expenditures	(97,767)	41,364	(56,403)	(57,906)	(57,377)	974
OTHER FINANCING SOURCES (USES)						
Transfers in	121,936	1,200	123,136	122,705	122,705	431
Transfers out	(20,698)	(42,599)	(63,297)	(75,254)	(75,783)	12,486
Total other financing sources (uses)	101,238	(41,399)	59,839	47,451	46,922	12,917
Excess (deficiency) of revenues and other						
sources over expenditures and other uses	3,471	(35)	3,436	(10,455)	(10,455)	13,891
Fund balance at beginning of year	88,690	(7,525)	81,165	60,403	57,449	23,716
Fund balance at end of year	\$ 92,161	(7,560)	84,601	49,948	46,994	37,607

- (1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.
- (2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
- (3) Variance is actual-budget basis to final budget.
- (4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs, budgeted payroll accrual, and amounts budgeted as fund-level expenditures.

1 – BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on the modified accrual basis. Encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The expenditure budget for these general city requirements includes the following: tuition reimbursement (\$255,000), accrued payroll (\$2,500,000), expenditures for workers' compensation (\$3,311,703), liability reserve (\$1,590,000), and public safety (\$2,472,208).

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget-basis reporting for the General Fund are the reporting of encumbrances and the reporting of certain transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	\$ 3,471
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	185
Net compensated absences accrual	172
Outstanding encumbrances established in current year	(2,034)
Payments against prior year encumbrances	2,326
Other	(684)
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	<u>\$ 3,436</u>

c -- Budget Amendments

The original expenditure budget of the General Fund was amended during fiscal year 2009 to reallocate public safety costs due to the elimination of the Public Safety and Emergency Management department. Total General Fund budgeted requirements were unchanged as a result of the elimination of the Public Safety and Emergency Management department. 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						
2006	\$1,497,800	\$1,974,000	\$476,200	75.9%	\$391,000	121.8%
2007	1,653,500	2,112,800	459,300	78.3%	417,451	110.0%
2008	1,481,377	2,246,903	765,526	65.9%	448,740	170.6%
Police Officers						
2006	417,284	576,125	158,841	72.4%	100,090	158.7%
2007	482,303	637,560	155,257	75.6%	111,809	138.9%
2008	464,230	693,202	228,972	67.0%	122,735	186.6%
Fire Fighters (2)						
2003	421,136	452,669	31,533	93.0%	55,939	56.4%
2005	493,567	580,054	86,487	85.1%	65,885	131.3%
2007	584,420	586,802	2,382	99.6%	76,556	3.1%

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

(2) The actuarial study for the Fire Fighters’ plan is performed biannually.

Information on where to obtain financial statements and supplementary information for each plan can be found in Footnote 8.

OTHER POST EMPLOYMENT BENEFITS-TREND INFORMATION

Under GASB Statement No. 45, the City is required to have an actuarial valuation of its other post employment benefits program every other year. The Schedule of Funding Progress for other post employment benefits is as follows (in thousands):

Fiscal Year Ended Sept. 30	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
2008	October 1, 2006	\$ --	\$ 1,035,766	\$ 1,035,766	0.0%	\$ 618,214	167.5%
2009	October 1, 2006	--	1,035,766	1,035,766	0.0%	629,822	164.5%

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APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

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ORDINANCE NO. 010118-53A

AN ORDINANCE providing for the issuance of ELECTRIC UTILITY SYSTEM revenue obligations; making provision for the payment of such obligations from the revenues of the City's Electric Utility 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 Electric Utility 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 Electric Light and Power 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 Electric Light and Power System and the City's Water and Wastewater 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 Electric Light and Power System and the City's Water and Wastewater 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 1986C", dated November 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994,

(xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xiv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xvii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, and (xviii) "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, Series 1982", 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, as amended by Ordinance No. 000627-A, currently authorized up to an aggregate principal amount of \$160,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No.980513-B, as amended; 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 Electric Light and Power System and the City's Water and Wastewater 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 Electric Light and Power 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 Electric Light and Power 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 ELECTRIC UTILITY SYSTEM. From and after the date hereof, all revenue obligations, other than Commercial Paper Obligations, to finance capital improvements for the Electric Utility System shall be payable from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility System are hereby pledged to the payment of the Parity Electric Utility Obligations and such Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System in accordance with the terms of this Ordinance and any Supplement. Additionally, Parity Electric Utility Obligations shall be secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplement and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of this Ordinance and any Supplement. Parity Electric Utility Obligations are and will be secured by and payable only from the Net Revenues of the Electric Utility 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 Electric Utility System. The owners of the Parity Electric Utility 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 payable from the same sources and secured in the same manner as the Prior First Lien Obligations or the Prior Subordinate Lien Obligations shall be issued, 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 Electric Utility System then Outstanding shall be Parity Electric Utility Obligations or obligations subordinate to the Parity Electric Utility Obligations then Outstanding, and payable only from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility 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 Electric Utility Obligations and any Supplement.

Section 4. RATE COVENANT. Subject to any rate regulation by any state or federal regulatory authority, the City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility 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 (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and

(iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility 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 a Utility System Consultant after a review and study of the operations of the Electric Utility 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 electric 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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility Obligations; with the adoption of each Supplement, all action on the City's part for the issuance of the Parity Electric Utility Obligations shall have been duly and effectively taken; and the Parity Electric Utility 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 Electric Utility System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Electric Utility 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 Electric Utility System operating in a business like manner; provided, however, nothing herein is intended nor shall any statement herein be construed to prevent the City from ceasing to operate or maintain, or from leasing or disposing of, any portion or component of the Electric Utility System if, in the judgment of the governing body of the City having responsibility for the management and operation of the Electric Utility System, including the making of any final decision on the acquisition and disposal of Electric Utility System properties, determines (i) it is advisable to lease, dispose of or not operate and maintain the same, (ii) the operation thereof is not essential to the maintenance and continued operation of the remainder of the Electric Utility System and (iii) the lease, disposition or failure to maintain or

operate such component or portion of the Electric Utility System will not prevent the City from complying with the requirements of Section 4 hereof.

(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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility System or the Electric Utility 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 Electric Utility System for the Parity Electric Utility 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 Electric Utility System shall be allowed.

(g) **FURTHER ENCUMBRANCE.** Save and except for the issuance of Parity Electric Utility Obligations, the Net Revenues of the Electric Utility 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, facilities and assets of the Electric Utility System at any time and from time to time. 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 Electric Utility 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 special Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Electric Utility System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Electric Utility Obligations or for any other Electric Utility System purpose.

(i) **BOOKS, RECORDS AND ACCOUNTS.** Proper books, records and accounts pertaining to the operation and ownership of the Electric Utility 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 Electric Utility System shall be recorded in such books, records and accounts, and such books and records relating to the financial operations of the Electric Utility 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 Electric Utility 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 discretion 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 Electric Utility 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 Electric Utility Obligations are Outstanding, an annual audit of the books, records and accounts relating to the operations of the Electric Utility 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 Electric Utility 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 Electric Utility System by the owners of the Parity Electric Utility Obligations and their agents and representatives at all reasonable times during regular business hours.

(l) **GOVERNMENTAL AGENCIES.** Any and all franchises, licenses, permits and authorizations received or obtained from any governmental agency or department and applicable to or necessary with respect to the operations of the Electric Utility 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 Electric Utility 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) **RIGHTS OF INSPECTION.** Subject to public safety and other restrictions as may be reasonably imposed, the owner of Parity Electric Utility Obligations shall have the right at all reasonable times during regular business hours to inspect properties of the Electric Utility 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 Electric Utility Obligations are Outstanding a separate fund or account known and designated as the "Electric Light and Power System Fund" (herein called the "Electric 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 Electric Utility 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 and (ii) the special Funds and Accounts maintain for the payment and security of the Parity Electric Utility Obligations pursuant to this Ordinance or a Supplement.

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.

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

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 Electric Utility Obligations, there is hereby created and there shall be established and maintained on the books of the City a separate fund designated as the "Electric Utility 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 Electric Utility 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 Electric Utility Obligations as the same become due and owing.

Section 8. ISSUANCE OF ADDITIONAL OBLIGATIONS. (a) Parity Electric Utility Obligations. The City reserves and shall have the right and power to issue or incur Parity Electric Utility 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 Electric Utility Obligations if a Designated Financial Officer shall certify in writing:

(i) 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 established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility 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) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility 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, exceed One Hundred Ten Per Cent (110%) the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Electric Utility Obligations.

For purposes of paragraph (a) (ii), if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the Designated Financial Officer's certificate required above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

(b) Short-Term Parity Electric Utility Obligations. The City may issue or incur Parity Electric Utility 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 Electric Utility 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) Separately Financed Projects. The City expressly retains the right to issue or incur bonds, notes, or other obligations or evidences of indebtedness, other than Parity Electric Utility Obligations, for any project or purpose for goods or services other than the generation, transmission, distribution and sale of electric energy and capacity or related goods and services, which presently are or hereafter may be authorized or permitted to be provided or maintained by municipal electric systems generally or the City specifically under the laws of the State of Texas, federal law or the City's home rule charter; provided the bonds, notes or other obligations issued or incurred for any such separately financed project are payable from and secured by other available funds derived from the ownership or operation thereof or excess Net Revenues remaining after satisfying, or making provision for the satisfaction of, the "First" through the "Fourth" priority of claims identified on such Net Revenues in Section 6 hereof and separate books and records for such separately financed project or activity are maintained by the City

(e) Credit Agreements. Payments to be made under a Credit Agreement may be treated as Parity Electric Utility 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 Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility 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.

(f) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility 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 Electric Utility System for the period of time covered by his or her certification based on such change in rates and charges being in effect for the entire period covered.

Section 9. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS. (a) Any Parity Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Electric Utility Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Electric Utility Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Electric Utility 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 Electric Utility Obligation in the manner provided in the Supplement for such Parity Electric Utility Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Electric Utility 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 Electric Utility 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 Electric Utility Obligations, the redemption premium, if any, and interest thereon, shall be applied solely to and used solely for the payment of such Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon.

Section 10. AMENDMENT OF ORDINANCE. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Electric Utility 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 Electric Utility Obligations so as to:

- (1) Make any change in the maturity of any of the Outstanding Parity Electric Utility Obligations;
- (2) Reduce the rate of interest borne by any of the Outstanding Parity Electric Utility Obligations;
- (3) Reduce the amount of the principal payable on the Outstanding Parity Electric Utility Obligations;
- (4) Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Parity Electric Utility Obligations or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all of the Parity Electric Utility Obligations then Outstanding;
- (6) Amend this subsection (a) of this Section; or
- (7) Change the minimum percentage of the principal amount of Parity Electric Utility Obligations necessary for consent to any amendment;

unless such amendment or amendments be approved by the owners of all of the Parity Electric Utility 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 Electric Utility Obligations for inspection by all Holders of Parity Electric Utility Obligations. Such publication is not required, however, if notice in writing is given by mail, first class postage prepaid, to each Holder of Parity Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility Obligations and all future Parity Electric Utility 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 vest the management and control of the Electric Utility System in an independent board of trustees or similar board pursuant to authority conferred by V.T.C.A., Government Code, Section 1502.070 et seq. or other law now or hereafter enacted;

(2) 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 Electric Utility Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(3) 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 Electric Utility Obligations then outstanding;

(4) 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 Electric Utility Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(5) 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;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Electric Utility Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Electric Utility 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 Electric Utility Obligations;

(7) 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 Electric Utility Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(8) 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 Electric Utility 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 Electric Utility 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 Electric Utility Obligations may be determined as provided in each Supplement and unless otherwise provided in a Supplement, the owners of the Parity Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility Obligations then Outstanding under such Supplement a priority over the owners of any other Parity Electric Utility Obligations then Outstanding.

Section 11. DEFICIENCIES. 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.

Section 12. 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 13. 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 14. 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 15. 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 16. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 17. 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.

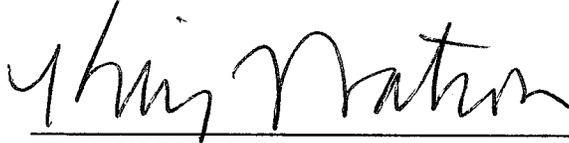
Section 18. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 19. 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 20. 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.

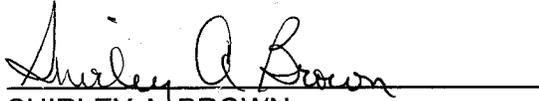
PASSED AND ADOPTED, this 18th day of January, 2001.

CITY OF AUSTIN, TEXAS



KIRK WATSON
Mayor

ATTEST:



SHIRLEY A. BROWN
City Clerk

APPROVED:



ANDREW MARTIN
City Attorney

(City Seal)

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 Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility Obligations (or by comparable debt in the event that such Parity Electric Utility 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 Electric Utility Obligations issued in the form of commercial paper shall use an interest rate for such Parity Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility Obligations would rate the Parity Electric Utility 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 Electric Utility Obligations would assign a rating to the Parity Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility 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 "Electric Utility System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"Designated Financial Officer" shall mean the Director of Finance, City Treasurer or such other official of the City having primary responsibility for the fiscal management and operations of the System.

"Electric Utility System" means all properties, facilities and plants currently owned, operated and maintained by the City for the generation, transmission, distribution and sale of electric energy and power, 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 Electric Utility System, as defined herein, shall not include (i) properties and facilities owned in whole or in part by the City and under the management and control of the electric utility department of the City but provide a service or product apart from the generation, transmission, distribution or sale of electric energy and power such as a fiber optic system, chiller tower facilities, etc.; (ii) facilities of any kind which are declared not to be a part of the Electric Utility 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; or (iii) separately financed projects or properties contemplated and authorized pursuant to Section 8(d) of the Ordinance.

"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 Electric Utility 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 Electric Utility System means all Parity Electric Utility Obligations (and, for purposes of Section 9(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, (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 or (iv) such other obligations hereafter authorized by law to be acquired for defeasance and payment of outstanding indebtedness of the City.

"Gross Revenues" means those revenues, income, and receipts derived or received by the City from the operation and ownership of the Electric Utility 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 Electric Utility System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code. The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts, grants in aid of construction or "transition charges" or similar charges imposed pursuant to V.T.C.A., Utilities Code, Subchapter G of Chapter 39 or similar law imposed for the payment of "transition bonds".

"Holder" or **"Bondholder"** or **"owner"** means the registered owner appearing on the books and records of the Registrar of any Parity Electric Utility Obligation registered as to ownership and the holder of any Parity Electric Utility 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 Electric Utility 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 Electric Utility 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 Electric Utility Obligations. Operating Expenses shall include the purchase of power, 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. 010118-53A pertaining to the issuance of Parity Electric Utility Obligations, and any amendments thereto.

"Outstanding" when used with respect to Parity Electric Utility Obligations means, as of the date of determination, all Parity Electric Utility Obligations theretofore delivered under this Ordinance and any Supplement, except:

- (i) Parity Electric Utility Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;
- (ii) Parity Electric Utility Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;
- (iii) Parity Electric Utility Obligations upon transfer of or in exchange for and in lieu of which other Parity Electric Utility Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and
- (iv) Parity Electric Utility 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 Electric Utility 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 Electric Utility Obligations or to a series of Parity Electric Utility Obligations, the outstanding and unpaid principal amount of such Parity Electric Utility Obligations paying interest on a current basis and the accreted value as of each compounding date for Parity Electric Utility Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Electric Utility Obligations

"Parity Electric Utility Obligations" means all Debt of the City 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 Electric Utility Obligations.

"Prior First Lien Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Prior Subordinate Lien Obligations" means those obligations identified and described in the preamble of the Ordinance.

"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 Electric Utility 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 Electric Utility Obligations.

"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 Electric Utility 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 Electric Utility 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" or **"Electric Fund"** means the "Electric Light and Power 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 electric light and power facilities and systems similar in size to the Electric Utility 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.

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APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues." Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered

to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and (iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B," dated February 1, 1990, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992," dated March 1, 1992, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A," dated May 15, 1992, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993," dated January 15, 1993, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A," dated June 1, 1993, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994," dated September 1, 1994, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995," dated June 1, 1995, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A," dated August 1, 1996, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B," dated August 1, 1996, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997," dated August 1, 1997, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998," dated July 1, 1996, and (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A," dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994," dated March 1, 1994, (ii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998," dated August 1, 1998, (iii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (iv) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A," dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

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.

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.

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.

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.

Reserve Fund. (a) In connection with the issuance of the Prior Lien Bonds and Subordinate Lien Bonds, the City agrees and covenants to keep and maintain with its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of

and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on (i) the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement noted below, whichever date is the last to occur. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which, subject to the limitations hereinafter specified, may be withdrawn and transferred from the Reserve Fund) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is \$106,790,235.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund.

Currently, the Required Reserve is fully funded with Financial Commitments of Financial Security Assurance Inc. in the amounts of \$30,000,000 (the Initial Financial Commitment acquired) and \$76,790,325.15 (an additional Financial Commitment acquired on or about August 31, 2004).

When and so long as the money and investments, or Financial Commitments, are on deposit to the credit of the Reserve Fund in an amount equal to or exceeding the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the Required Reserve deficiency occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve. During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the "Interest and Redemption Fund" created and established for the payment and redemption of the Subordinate Lien Bonds while the same remain outstanding and, at such time as the Subordinate Lien Bonds are no longer outstanding, such surplus may be deposited in the Bond Fund.

Notwithstanding any provision contained herein to the contrary, the Required Reserve may be funded, in whole or in part, by depositing to the credit of the Reserve Fund (i) cash, (ii) investments, and (iii) one or more Financial Commitments. The term Financial Commitments means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength meeting the requirements below. Such insurance policy or surety bond shall provide for payment thereunder of moneys when other funds available to the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, in the interest and sinking fund maintained for the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, is insufficient on a payment date when interest or principal, or both, is due and payable for such obligations.

The financial strength of the insurance company or association providing the Financial Commitment must be rated on the date of the deposit of the Financial Commitment to be credit of the Reserve Fund in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by A.M. Best. In the event the rating of the financial strength of a provider of a Financial Commitment falls below (i) "Aa2" by Moody's Investors Service, Inc., (ii) "AA" by Standard & Poor's Ratings Services, (iii) "AA" by Fitch Ratings or (iv) if applicable, "A+" by A.M. Best, the City will be required to replace the Financial Commitment with (a) cash and Authorized Securities or (b) a substitute Financial Commitment issued by an insurance company or association that satisfies the ratings requirements summarized above in this paragraph (but in no event less than the ratings described in clauses (i), (ii), (iii) and (iv) of this sentence).

Notwithstanding any provision herein to the contrary, the City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following the substitution of one or more Financial Commitments for cash and securities held in the Reserve Fund, the cash and securities released from the Reserve Fund, net of costs incurred with respect to the initial substitution of the Financial Commitment, shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Lien Bonds and Subordinate Lien Bonds in a manner that reduces the principal amount and Maturity Amount of outstanding Prior Lien Bonds and Subordinate Lien Bonds.

(b) Initial Financial Commitment. As permitted in paragraph (a) above, the City has determined to acquire initially a Financial Commitment for the Reserve Fund with coverage in the maximum amount of \$30,000,000 to fund in part the Required Reserve from Financial Security Assurance Inc., a New York domiciled insurance company (hereinafter referred to as "FSA"). In accordance with FSA's terms for the issuance of a "Municipal Bond Debt Service Reserve Insurance Policy" (the "Reserve Policy"), an Insurance Agreement by and between the City and FSA has been submitted to the City for approval and execution, and such Insurance Agreement, substantially in the form and content of Exhibit A attached hereto, is hereby approved and authorized to be executed by the City Manager and such Insurance Agreement, as executed and delivered by the City Manager, shall be deemed the Insurance Agreement herein approved by the City Council and authorized for execution.

To the extent the City should make a draw under the Reserve Policy, the City acknowledges and agrees the repayment of "Policy Costs," as defined in the Insurance Agreement, shall constitute a payment of an amount required to be deposited in the Reserve Fund to establish and maintained the Required Reserve, and insofar as the priority of uses of the revenues of (i) Electric Light and Power System and (ii) the Waterworks and Sewer System, such Policy Costs shall be entitled to the same priority of payment identified in the Prior Lien Bond Ordinances for payments required to be deposited in the Reserve Fund to establish and maintain the Required Reserve.

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 purchaser 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.

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.

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.

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.

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.

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.

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.

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.

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.

Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

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APPENDIX E

FORMS OF BOND COUNSEL'S OPINIONS

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FULBRIGHT & JAWORSKI L.L.P.

A REGISTERED LIMITED LIABILITY PARTNERSHIP
2200 ROSS AVENUE, SUITE 2800
DALLAS, TEXAS 75201-2784
WWW.FULBRIGHT.COM

TELEPHONE: (214) 855-8000

FACSIMILE: (214) 855-8200

[Closing Date]

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Series 2010A" (the "Bonds"), dated June 1, 2010, in the principal amount of \$119,255,000, we have examined into the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form only and mature on November 15 in each of the years stated in the ordinance (the "Ordinance") authorizing the issuance of the Bonds, unless redeemed prior to maturity in accordance with the applicable redemption provisions. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas, the defeasance and discharge of the City's certain 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 Electric Utility System (the "System") and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

Our examination into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including a Master Ordinance and the Ordinance (collectively, the "Ordinances"); a Special Escrow Agreement between the City and Regions Bank, Houston, Texas (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 duly authorized, issued and delivered in accordance with law and 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 "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy-Build America Bonds), the outstanding Previously Issued Electric Utility Obligations and outstanding Prior Subordinate Lien Obligations (identified and defined in the Ordinances), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinances, the City has reserved the right, to issue and incur additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

2. The 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. 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 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, or 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.

FULBRIGHT & JAWORSKI L.L.P.

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[Closing Date]

IN REGARD to the authorization and issuance of the “City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Taxable Series 2010B” (Direct Subsidy-Build America Bonds) (the “Bonds”), dated June 1, 2010, in the principal amount of \$100,990,000, we have examined into the legality and validity of the issuance thereof by the City of Austin, Texas (the “City”), which Bonds are issuable in fully registered form only and mature on November 15 in each of the years stated in the ordinance (the “Ordinance”) authorizing the issuance of the Bonds, unless redeemed prior to maturity in accordance with the applicable redemption provisions. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas and 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 Electric Utility 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”); 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:, the Bonds have been duly authorized, issued and delivered in accordance with law and 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 “City of Austin, Texas, Electric Utility System

Revenue Refunding Bonds, Series 2010A, the outstanding Previously Issued Electric Utility Obligations and outstanding Prior Subordinate Lien Obligations (identified and defined in the Ordinances), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinances, the City has reserved the right, to issue and incur additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

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; 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.

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APPENDIX F

SPECIMEN BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL
SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100