OFFICIAL STATEMENT DATED OCTOBER 18, 2010

Ratings: Moody's: "Aaa"
Standard & Poor's: "AAA"
Fitch: "AAA"
(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel"), interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

$91,560,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Public Improvement Refunding Bonds, Series 2010

Dated: November 1, 2010 Due: September 1, as stated herein

Interest on the $91,560,000 City of Austin, Texas Public Improvement Refunding Bonds, Series 2010 (the "Bonds"), will accrue from the dated date shown above, will be payable March 1, 2011, and each September 1 and March 1 thereafter until maturity, and will be calculated on the basis of a 360–day year consisting of twelve 30–day months. The City of Austin, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOND INFORMATION – Book-Entry-Only System").

The Bonds are being issued pursuant to the general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, and an ordinance (the "Ordinance") passed by the City Council of the City authorizing the Bonds (see "BOND INFORMATION - Authority for Issuance"). The Bonds are direct obligations of the City, payable from the proceeds of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the Bonds (see "BOND INFORMATION – Security").

In the Ordinance, the power to effect the sale of the Bonds was delegated to the City Manager and the Chief Financial Officer of the City. The authority to execute the sale of refunding bonds, in an aggregate principal amount not to exceed $150,000,000, expires on March 31, 2011.

Proceeds from the sale of the Bonds will be used to refund portions of the City's outstanding general obligation debt, and to pay certain costs of issuance of the Bonds (see "PLAN OF FINANCING – Purpose of Refunding Obligations" and "APPENDIX D – Summary of Bonds Refunded").

MATURITY SCHEDULE

See "MATURITY SCHEDULE" Herein

The Bonds are not subject to redemption prior to their stated maturities.

The Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Bonds (see APPENDIX C – "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, Vinson & Elkins L.L.P., Austin, Texas.

It is expected that the Bonds will be delivered through the facilities of DTC on or about November 17, 2010.

GOLDMAN, SACHS & CO.

Barclays Capital | **Citi** | **Cabrera Capital Markets, LLC**
Morgan Keegan & Company, Inc. | **Morgan Stanley** | **Rice Financial Products Company**
Siebert Brandford Shank & Co., LLC | **Southwest Securities**

$91,560,000
CITY OF AUSTIN, TEXAS
Public Improvement Refunding Bonds, Series 2010

MATURITY SCHEDULE
Base CUSIP No. 052396 (1)

Maturity (September 1)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix	Maturity (September 1)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix
2012	$ 630,000	5.000%	0.550%	ZS0	2019	$13,780,000	5.000%	2.420%	ZY7
2013	680,000	5.000%	0.770%	ZT8	2020	14,545,000	5.000%	2.640%	ZZ4
2014	2,695,000	4.000%	1.020%	ZU5	2021	16,555,000	5.000%	2.860%	A24
2015	7,955,000	4.000%	1.320%	ZV3	2022	12,570,000	5.000%	2.970%	A32
2016	8,275,000	5.000%	1.630%	A57	2022	2,500,000	4.500%	2.970%	A73
2017	2,605,000	5.000%	1.920%	ZW1	2023	2,250,000	5.000%	3.100%	A40
2018	4,770,000	5.000%	2.18%	ZX9	2023	1,750,000	3.500%	3.100%	A65

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & 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 (as defined herein), nor the Underwriters take any responsibility for the accuracy of such numbers.

No dealer, broker, salesman or other person has been authorized by the City or by the Underwriters to give any information or to make any representations, other than as contained in this Official Statement, and if given or made such other 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, the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or used for any other purpose. In no instance may this Official Statement be reproduced or used in part.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE ORDINANCE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939 IN RELIANCE ON EXEMPTIONS CONTAINED IN SUCH ACTS. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The information set forth herein has been furnished by the City and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of the 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 or the other matters described herein since the date hereof. CUSIP numbers have been assigned to this issue by the CUSIP Global Services for the convenience of the owners of the Bonds.

This Official Statement includes descriptions and summaries of certain events, matters, and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the City or from Public Financial Management, Inc., the Financial Advisor to the City. Any statements made in this Official Statement or the Appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS OF ANY OR ALL OF SUCH BONDS MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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 THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES AND 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 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.

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CITY OF AUSTIN

Elected Officials

		Term Expires June 15
Lee Leffingwell	Mayor	2012
Chris Riley	Councilmember Place 1	2011
Mike Martinez, Mayor Pro Tem	Councilmember Place 2	2012
Randi Shade	Councilmember Place 3	2011
Laura Morrison	Councilmember Place 4	2011
Bill 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
Howard Lazarus	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 M. Kennard	Acting City Attorney
Shirley A. Gentry	City Clerk

BOND COUNSEL
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

For additional information regarding the City, please contact:

Art P. Alfaro	Bill Newman	Dennis Waley
Treasurer	Public Financial Management, Inc.	Public Financial Management, Inc.
City of Austin	700 Lavaca	700 Lavaca
700 Lavaca, Suite 1510	Suite 1500	Suite 1500
Austin, TX 78701	Austin, TX 78701	Austin, TX 78701
(512) 974-7882	(512) 472-7194	(512) 472-7194
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SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds as defined below to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this data page from this Official Statement or to otherwise use it without the entire Official Statement.

This data page was prepared to present the Underwriters of the Bonds information concerning the Bonds, description of the tax base and other pertinent data, all as more fully described herein.

The Issuer............................ The City of Austin, Texas (the "City"), is a political subdivision of the State of Texas (the "State") located in Travis, Williamson and Hays Counties, operating as a home–rule city under the laws of the State and a charter approved by the voters in 1953, as amended. The City operates under the Council/Manager form of government where the mayor and six councilmembers are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer.

The City is approximately 302 square miles in area (see APPENDIX A – "General Information Regarding the City").

The Bonds .... The City of Austin, Texas Public Improvement Refunding Bonds, Series 2010 (the "Bonds") are being issued in the principal amount of $91,560,000 pursuant to the general laws of the State, particularly Chapter 1207, Texas Government Code, and an ordinance (the "Ordinance") passed by the City Council of the City authorizing the Bonds (see "BOND INFORMATION – Authority for Issuance").

Security.................................. The Bonds constitute direct obligations of the City, payable from a continuing annual ad valorem tax levied, within the limits prescribed by law, on taxable property within the City in an amount sufficient to provide for payment of principal of and interest on the Bonds (see "BOND INFORMATION").

Redemption of Bonds .... The Bonds are not subject to redemption prior to their stated maturities.

Tax Exemption .... In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel"), the interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds will not constitute private activity bonds. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations.

Payment Record................. The City has not defaulted on a payment of its bonded indebtedness since 1900 when all bonds were refunded at par with a voluntary reduction in interest rates.

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Selected Issuer Indices

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
2002	671,044	$47,782,873,096	$ 71,206.77	$863,637	$1,287.01	1.81%	99.23%
2003	674,719	50,759,650,668	75,230.80	896,011	1,327.98	1.77%	99.60%
2004	683,551	48,964,275,008	71,632.22	955,156	1,397.34	1.95%	98.90%
2005	695,881	49,702,906,522	71,424.93	933,180	1,341.01	1.88%	99.60%
2006	714,237	52,349,642,297	73,294.50	943,312	1,320.73	1.80%	100.32%
2007	732,381	60,512,328,889	82,624.11	869,974	1,187.87	1.44%	100.20%
2008	746,105	68,736,790,926	92,127.50	907,667	1,216.54	1.32%	99.56%
2009	770,296	76,752,007,737	99,639.63	1,065,565	1,383.32	1.39%	99.44%
2010	774,636	80,177,031,725	103,502.85	869,182	1,122.05	1.08%	100.02% (3)
2011	782,483	77,097,264,234 (4)	98,529.00	872,969 (5)	1,115.64 (5)	1.13% (4)	N/A

(1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31.
(2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget.
(3) Estimated Collections as of June 30, 2010 based on the July 2009 Certified Tax Roll tax levy.
(4) Certified taxable value for the 2010 tax year.
(5) Projected. Includes the Bonds. Excludes the Refunded Obligations.

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OFFICIAL STATEMENT

Relating to

$91,560,000
CITY OF AUSTIN, TEXAS
Public Improvement Refunding Bonds, Series 2010

INTRODUCTION

This Official Statement, which includes the cover pages, the summary statement and the appendices hereto, provides certain information regarding the issuance by the City of Austin, Texas (the "City") of its $91,560,000 Public Improvement Refunding Bonds, Series 2010 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Bonds adopted by the City Council of the City on September 23, 2010 (the "Ordinance"), except as otherwise indicated herein. In accordance with the terms of the Ordinance, the City Council authorized the City Manager and the Chief Financial Officer of the City to effect the sale of the Bonds. The Ordinance designated certain outstanding obligations of the City as eligible to be refunded. Through the issuance of the Bonds, most, but not all, of the obligations designated in the Ordinance shall be refunded. The authority delegated to the City Manager and the Chief Financial Officer of the City permits the issuance of up to $150,000,000 in aggregate principal amount of refunding bonds. The Bonds represent the first issuance of bonds under authority of the Ordinance. The authority to issue refunding bonds by the terms of the Ordinance expires on March 31, 2011.

There follows in this Official Statement a description of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement and the Escrow Agreement (hereinafter defined) pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

PLAN OF FINANCING

Purpose of Refunding

The Bonds are being issued to refund $91,560,000 of the City's currently outstanding general obligation indebtedness (the "Refunded Obligations") and to pay costs of issuance. The purpose of the transaction is to effect debt service savings. The refunding of the Refunded Obligations results in a net present value savings to the City in excess of the thresholds established by the Ordinance. See APPENDIX D for a listing of the Refunded Obligations.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Refunded Obligations from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and UMB Bank, N.A., Kansas City, Missouri (the "Escrow Agent"). The Ordinance provides that the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded Obligations. 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 "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 Obligations.

The Arbitrage Group, Inc., a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate that the 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 Obligations. Such maturing principal of and interest on the 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 Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into a firm banking and financial arrangement for the discharge and final payment of the Refunded Obligations, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Securities and cash held for such purpose by the Escrow Agent, and such Refunded Obligations will not be deemed as being outstanding for the purpose of any limitation on debt or the assessment of taxes.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, or any additional amounts required to pay the principal of and interest on the Refunded Obligations, 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 proceeds of the Bonds will be applied substantially as follows:

Sources of Funds:	
Principal Amount of the Bonds	$ 91,560,000.00
Accrued Interest	197,011.11
Original Issue Premium	16,846,130.25
Issuer Contribution	967,463.10
Total Available Funds	$109,570,604.46
Uses of Funds:	
Deposit to Escrow Fund	$108,579,135.54
Accrued Interest	197,011.11
Costs of Issuance	308,753.61
Underwriters' Discount	485,704.20
Total Available Funds	$109,570,604.46

BOND INFORMATION

Authority for Issuance

The City is authorized to issue the Bonds under authority granted by Chapter 1207, Texas Government Code, and by the Ordinance.

General

The Bonds are dated as of November 1, 2010 (the "Dated Date") and shall bear interest on the unpaid principal amounts from such date, at the per annum rates shown on the inside cover page. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be payable on March 1, 2011, and on each September 1 and March 1 thereafter until maturity. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the bondholder. The Bonds are issued only as fully registered obligations in denominations of $5,000 or any integral multiple thereof within a maturity.

The record date (the "Record Date") for the interest payable on any interest payment date is the 15th day of the month next preceding such interest payment date, as specified in the Ordinance. In the event of a nonpayment of interest on a scheduled interest payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, if and 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, which shall be at least 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 Bonds appearing on the registration 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.

Security

The Bonds constitute direct obligations of the City, payable from a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on taxable property located within the City in an amount sufficient to pay the principal of and interest on all ad valorem tax debt.

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax within the limits prescribed by law sufficient to provide for the payment of principal of and interest on all ad valorem tax debt. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. The City operates under a Home Rule Charter, sometimes referred to herein as the "Charter", which also limits the City's ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. Within such Charter limitation, the total tax which may be levied annually by the City for municipal general operating purposes may not exceed $1.00 per $100 assessed valuation.

Remedies

If the City defaults in the payment of principal or interest on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, 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 or the Ordinance 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 court, 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. The Ordinance does not 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 Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the State 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 the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

The City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could 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.

Defeasance of Bonds

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise), either (i) will have been made or caused to be made in accordance with the terms of the Ordinance, or (ii) will have been provided for on or before the due date by irrevocably depositing with or making available to the Paying Agent/Registrar in accordance with an escrow agreement or other instrument between the City and the Paying Agent/Registrar for the payment of the Bonds (1) lawful monies of the United States of America sufficient to make such payment or (2) Defeasance Securities, 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 when proper arrangements have been made by the City with the Paying Agent/Registrar for the payment of its services until all Bonds being defeased will have become due and payable. The Ordinance provides that "Defeasance Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that on the date of their purchase are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid.

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 Ordinance. 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 regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are collectively referred to 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 (the "SEC"). 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 Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, the 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 the 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 Direct and Indirect 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, certificates for the Bonds 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.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is UMB Bank, N.A. Interest on and principal of the Bonds will be payable, and transfer functions will be performed at the corporate trust office of the Paying Agent/Registrar in Kansas City, Missouri (the "Designated Payment/Transfer Office"). In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank, trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt thereof to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Redemption

The Bonds are not subject to redemption prior to maturity.

TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District (the "Appraisal District"). Excluding agricultural and open–space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title 1, Texas Tax Code (commonly known as the "Property Tax Code"), to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. State law further limits the appraised value of a residence homestead for a tax year (the "Homestead 10% Increase Cap") to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the appraised value of the property for the preceding tax year, (b) the appraised value of the property for the preceding tax year and (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open–space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Article VIII, Section 1–b, and State law, the governing body of a political subdivision, at its option, may grant:

(1) An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;
(2) An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000.

State law and Article VIII, Section 2, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a sum of $12,000.

Article VIII, Section 1-b, and State law authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of persons who are disabled or 65 years of age or older. If the City Council does not take action to establish the tax limitation, voters within the City may submit a petition signed by five percent of the registered voters of the City requiring the City Council to call an election to determine by majority vote whether to establish the tax limitation.

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the residence homestead exemption for persons who are disabled or 65 years of age or older may not be increased, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is 55 years of age or older at the time of the person's death. In addition, the tax limitation applicable to a person's homestead may be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

The City Council has not determined at this time what action, if any, it will take regarding this constitutional amendment. The City can make no representations or predictions concerning the impact such a tax limitation would have on the taxing rates of the City or its ability to make debt service payments.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Personal property not used in the business of a taxpayer, such as automobiles or light trucks, is exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. In addition, Article VIII, Section 1-n, provides for the exemption from taxation of "goods in transit." "Goods in transit" is defined as personal property acquired or imported into the State and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into the State. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. The Property Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods in transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods in transit exemptions for items of personal property. Freeport property is exempt from taxation by the City; and, the City has taken action to tax goods-in-transit.

The City grants an exemption to the appraised value of the residence homestead of persons 65 years of age or older and to the disabled of $51,000.

The City may create one or more tax increment financing districts ("TIF") within the City and freeze the taxable values of real property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF. The City may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has adopted criteria for granting tax abatements which establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The City has entered into several such abatement agreements in recent years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with such a program, the City may make loans or grant of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City has entered into several such Chapter 380 agreements in recent years.

Tax Valuation

January 1, 2010 Appraised Valuation (1)		$87,397,099,769
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead over 65	$1,342,338,907	
Homestead 10% Increase Cap	583,561,669	
Disabled Veterans	153,238,253	
Agricultural and Historical Exemptions	498,154,573	
Disability Exemption	89,222,147	
Other Exemptions	6,756,966,235	
Freeport Exemption	876,353,751	10,299,835,535
January 1, 2010 Net Taxable Assessed Valuation (1)		$77,097,264,234

(1) 2010 Certified Appraised Value includes $6,437,243,506 in property in the appeals process.

(2) Exemptions or adjustments to assessed valuation granted in 2010 include (a) exemptions of $51,000 for resident homestead property of property owners over 65 years of age; (b) exemptions for residents homestead property exceeding a 10 percent increase in valuation from the previous year; (c) exemptions ranging from $5,000 to $12,000 for property of disabled veterans or certain surviving dependents of disabled veterans; (d) certain adjustments to productive agricultural lands; (e) exemptions to the land designated as historically significant sites by certain public bodies; (f) exemptions of $51,000 to disabled resident homestead property owners; (g) exemption of freeport property detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from the State.

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Statement of Debt (As of October 31, 2010)

The following table sets forth on a pro forma basis the amount of Public Improvement Bonds, Assumed Bonds, Contract Tax Bonds, Certificates of Obligation and Contractual Obligations outstanding and certain debt ratios related thereto.

Public Improvement Bonds (1)	$826,758,000	
Certificates of Obligations (1)	113,220,000	
Contractual Obligations	77,870,000	
Assumed Bonds (1)(2)	13,220,000	
The Bonds	91,560,000	
Total		$1,122,628,000
Less Self-Supporting Debt:		
Assumed Water and Wastewater Bonds (2)	$4,718,488	
Airport (3)	250,781	
Austin Energy (3)	1,139,033	
City Hall (3)	24,153,785	
CMTA Mobility (4)	8,700,000	
Convention Center (3)	25,038,291	
Financial Services (3)	23,426,868	
Fleet Management (3)	4,674,237	
Golf (3)	4,506,755	
One Texas Center (3)	9,745,000	
PARD – Zilker Park (4)	2,134,865	
Solid Waste (3)	60,420,186	
Public Works/Transportation (3)	17,903,777	
Water and Wastewater (3)	16,577,699	
Watershed Protection (3)	12,166,499	
Total Self-Supporting		$ 215,556,263
Interest and Sinking Fund, All Public Improvement Bonds (5)		$ 21,465,872
Self-supporting General Fund Payments (6)		$ 12,636,918
Net Debt (6)		$ 872,968,947
Ratio Total Debt to FY 2011 Net Taxable Assessed Valuation		1.46%
Ratio Net Debt to FY 2011 Net Taxable Assessed Valuation		1.13%

2011 Population (Estimate) – 782,483 (7)
Per Capita Net Taxable Assessed Valuation – $98,529.00
Per Capita Net Debt Outstanding – $1,115.64

(1) Excludes the Refunded Obligations.
(2) Represents bonds of utility districts annexed by the City.
(3) Airport, Austin Energy, City Hall, Convention Center, Financial Services, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection represent a portion of the City's Outstanding Public Improvement Bonds, Certificates of Obligation and/or Contractual Obligations. Debt service for Airport, Austin Energy, Convention Center, Financial Services, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection is paid from revenue of the respective enterprises. The City plans to continue to pay these obligations from each respective enterprise. In the event such obligations are not paid from the respective enterprises, ad valorem taxes would be levied for such purposes. Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.

(4) The City entered into an interlocal agreement with Capital Metro Transit Authority (CMTA), whereby CMTA will pay the required debt service to the City through a transfer of funds 30 days prior to each debt service payment date.
(5) Represents estimate of cash plus investments at cost on September 30, 2010.
(6) Various general fund departments have issued debt which is supported by a transfer into the debt service fund from the issuing department. These departments budget the required debt service which reduces the debt service tax requirement.
(7) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

Revenue Debt (As of October 31, 2010)

In addition to the above, on a pro forma basis, the City had outstanding $168,211,746 Combined Utility Systems Revenue Bonds payable from a first lien on the combined net revenue of the Electric System and the Water and Wastewater System and $236,454,512 Combined Utility System Revenue Bonds payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System; $1,143,615,000 Electric Utility Bonds payable from a separate lien on the net revenues of the Electric Utility System; $1,637,300,000 Water and Wastewater Obligations payable from a separate lien on the net revenue of the Water and Wastewater System, and $299,825,000 Combined Utility Systems Commercial Paper payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System.

The City also has outstanding $336,530,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding $224,015,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

Obligations Subject to Annual Appropriation

With respect to the redevelopment of the property formerly known as Robert Mueller Municipal Airport ("Mueller"), the City entered into a Master Development Agreement with Catellus Austin, LLC, effective as of December 2, 2004 (the "Development Agreement"), and in the Development Agreement, the City agreed to issue debt to finance certain "Public Finance Reimbursable Project Costs" either directly or through the auspices of a local government corporation to be created by the City. The City has entered into a economic development grant agreement (the "Grant Agreement") with Mueller Local Government Corporation ("MLGC"), a non-profit local government corporation created by the City to act on its behalf with respect to the redevelopment of Mueller. MLGC was created in response to the provisions of the Development Agreement. Under the terms of the Grant Agreement, the City will make grant payments to MLGC from the General Fund, subject to annual appropriation by the City, in amounts sufficient to pay debt service on bonds issued by MLGC to fund Public Finance Reimbursable Project Costs and pay administrative costs associated with such bonds. It is anticipated that sales tax revenues generated by properties developed at Mueller will be sufficient to fund the grants throughout the term of the Grant Agreement. In 2006, MLGC issued $12,000,000 in Contract Revenue Bonds to finance Public Finance Reimbursable Project Costs.

The City has also created a tax increment reinvestment zone for the Mueller project to include Reinvestment Zone Number Sixteen (the "Zone") and neighboring areas for the promotion, development, encouragement and maintenance of employment, commerce, economic development and public facility development in the Zone which consists of approximately 700 acres. Currently, only the City participates in the Zone by contributing its tax increment revenues to the Zone, and it is not expected that any other taxing unit will participate in the Zone. The tax increment revenues of the City will be contributed by the City to MLGC pursuant to the terms of a Tri-Party Agreement among the City, MLGC and the Zone (the "Tri-Party Agreement"). In addition, the City has agreed to consider making payments to MLGC under a grant agreement between the City and MLGC, pursuant to which the City may make available to MLGC grant funds in amounts sufficient to pay debt service on the Bonds, should Pledged Revenues be insufficient to allow MLGC to meet its debt service payment obligations. The grant payments are to be funded from available moneys in the City's general fund, subject to annual appropriation. The City is under no obligation to make grant payments. MLGC issued $15 million in Tax Increment Contract Revenue Bonds in October 2009 backed by tax increment revenues generated from taxation of real property within the boundaries of the Zone from taxing units participating in the Zone.

Valuation and Funded Debt History

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
2002	671,044	$47,782,873,096	$ 71,206.77	$863,637	$1,287.01	1.81%	99.23%
2003	674,719	50,759,650,668	75,230.80	896,011	1,327.98	1.77%	99.60%
2004	683,551	48,964,275,008	71,632.22	955,156	1,397.34	1.95%	98.90%
2005	695,881	49,702,906,522	71,424.93	933,180	1,341.01	1.88%	99.60%
2006	714,237	52,349,642,297	73,294.50	943,312	1,320.73	1.80%	100.32%
2007	732,381	60,512,328,889	82,624.11	869,974	1,187.87	1.44%	100.20%
2008	746,105	68,736,790,926	92,127.50	907,667	1,216.54	1.32%	99.56%
2009	770,296	76,752,007,737	99,639.63	1,065,565	1,383.32	1.39%	99.44%
2010	774,636	80,177,031,725	103,502.85	869,182	1,122.05	1.08%	100.02% (3)
2011	782,483	77,097,264,234 (4)	98,529.00	872,969 (5)	1,115.64 (5)	1.13% (4)	N/A

(1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31.
(2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget.
(3) Estimated Collections as of June 30, 2010 based on the July 2009 Certified Tax Roll tax levy.
(4) Certified taxable value for the 2010 tax year.
(5) Projected. Includes the Bonds; excludes the Refunded Obligations.

Tax Rate, Levy and Collection History

Fiscal Year Ended 9-30	Total Tax Rate	Distribution: General Fund	Distribution: Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2002	$0.4597	$0.3041	$0.1556	$219,657,867	98.81%	99.23%
2003	0.4597	0.2969	0.1628	233,342,114	98.84%	99.60%
2004	0.4928	0.3236	0.1692	241,295,947	99.06%	98.90%
2005 (1)	0.4430	0.2747	0.1683	220,183,876	98.97%	99.60%
2006	0.4430	0.2841	0.1589	231,908,915	99.55%	100.32%
2007	0.4126	0.2760	0.1366	249,673,869	99.61%	100.20%
2008	0.4034	0.2730	0.1304	277,284,215	99.14%	99.56%
2009	0.4012	0.2749	0.1263	307,929,055	99.03%	99.44%
2010	0.4209	0.2950	0.1259	337,465,127	99.32% (2)	100.02% (2)
2011 (3)	0.4571	0.3262	0.1309	347,139,505	N/A	N/A

(1) The total tax rate decreased by 6.35¢ as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new County-wide hospital district, which resulted in public health services previously provided by the City being provided by the hospital district. (See "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes".)
(2) Estimated collections as of June 30, 2010 based on the July 2009 Certified Tax Roll tax levy.
(3) Approved Budget.

Ten Largest Taxpayers (1)

Name of Taxpayer	Nature of Property	January 1, 2010 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Samsung Semiconductor LLC	Manufacturing	$1,000,506,530	1.30%
Thomas Property Group LLC	Commercial	616,874,688	0.80%
Freescale Semiconductor Inc.(2)	Manufacturing	298,892,746	0.39%
Dell Computer Corporation	Manufacturing	274,297,343	0.36%
Advanced Micro Devices Inc	Manufacturing	254,498,551	0.33%
St. David's HealthCare	Commercial	249,279,861	0.32%
IBM Corporation	Manufacturing	232,068,893	0.30%
Shopping Center at Gateway LP	Commercial	202,485,879	0.26%
Spansion LLC (3)	Manufacturing	181,405,407	0.24%
Brandywine Acquisition Partners LP	Commercial	167,173,847	0.22%
TOTAL		$3,477,483,745	4.51%

(1) Six of the companies represent computer technology manufacturers.
(2) The Motorola Corporation released a portion of its operations to form Freescale Semiconductor Inc.
(3) The Advanced Micro Devices corporation released a portion of its operations to form Spansion LLC.
Source: Travis Central Appraisal District.

Property Tax Rate Distribution

	Fiscal Year Ended September 30				
	2007	2008	2009	2010	2011 (1)
General Fund	$.2760	$.2730	$.2749	$.2950	$.3262
Interest and Sinking Fund	.1366	.1304	.1263	.1259	.1309
Total Tax Rate	$.4126	$.4034	$.4012	$.4209	$.4571

(1) Approved Budget.

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Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended 9-30	Valuation Date	Real Property Amount	Real Property % of Total	Personal Property Amount	Personal Property % of Total	Net Taxable Assessed Valuation	Total Tax Levy	% Current Collections	% Total Collections
2000	1-1-99	$30,114,175,223	84.58%	$5,488,665,103	15.42%	$35,602,840,326	$179,224,698	99.08%	99.85%
2001	1-1-00	35,301,260,116	85.23%	6,118,054,170	14.77%	41,419,314,286	193,138,262	98.98%	99.60%
2002	1-1-01	40,775,710,666	85.34%	7,007,162,430	14.66%	47,782,873,096	219,657,867	98.81%	99.23%
2003	1-1-02	44,261,013,540	87.20%	6,498,637,128	12.80%	50,759,650,668	233,342,114	98.84%	99.60%
2004	1-1-03	42,832,762,815	87.48%	6,131,512,193	12.52%	48,964,275,008	241,295,947	99.06%	98.90%
2005	1-1-04	43,662,323,952	87.85%	6,040,582,570	12.15%	49,702,906,522	220,183,876 (1)	98.97%	99.60%
2006	1-1-05	46,492,828,677	88.81%	5,856,813,620	11.19%	52,349,642,297	231,908,915	99.55%	100.32%
2007	1-1-06	53,724,137,471	88.78%	6,788,191,418	11.22%	60,512,328,889	249,673,869	99.61%	100.20%
2008	1-1-07	61,455,307,904	89.41%	7,281,483,022	10.59%	68,736,790,926	277,284,215	99.14%	99.56%
2009	1-1-08	68,790,111,385	89.63%	7,961,896,352	10.37%	76,752,007,737	307,929,055	99.03%	99.44%
2010	1-1-09	72,029,659,502	89.83%	8,147,372,223	10.16%	80,177,031,725	337,465,127	99.32% (2)	100.02% (2)
2011	1-1-10	70,024,297,956	90.83%	7,072,966,278	9.17%	77,097,264,234	347,139,505	N/A	N/A

(1) The City approved a tax rate of $0.5065 which is the effective tax rate. As a result of the voter approved Hospital District, the tax rate was amended and reduced by $0.0635 to $0.4430 (see "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes").

(2) Estimated collections through June 30, 2010 based on the July 2009 Certified Tax Roll tax levy.

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Tax Rate Limitation

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. The City operates under a Home Rule Charter which also limits the City's ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes.

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per $100 taxable value for the upcoming fiscal year beginning October 1. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

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DEBT INFORMATION (a)

Fiscal Year Ending 09/30	Public Improvement Bonds	Certificates of Obligation	Contractual Obligations	Assumed MUDs	The Bonds	Grand Total Requirements	Less Self-Supporting Requirements (b)	Net Total Requirements	Percent Principal Payout
2011	$ 104,049,930	$ 15,393,243	$ 17,825,373	$ 1,821,645	$ 3,693,958	$ 142,784,149	$ 37,414,243	$ 105,369,906	
2012	85,282,294	15,164,546	16,731,904	1,123,505	5,062,750	123,364,999	37,366,849	85,998,151	
2013	88,682,018	9,936,214	13,790,200	1,117,360	5,081,250	118,607,043	33,417,887	85,189,156	
2014	80,317,860	10,030,228	11,566,688	1,120,098	7,062,250	110,097,123	30,009,332	80,087,791	
2015	71,230,295	7,851,594	10,032,736	1,115,998	12,214,450	102,445,072	25,377,724	77,067,348	34.42%
2016	68,174,402	7,893,211	7,416,845	1,135,590	12,216,250	96,836,298	23,093,420	73,742,878	
2017	80,202,672	6,579,268	4,302,202	1,008,319	6,132,500	98,224,961	19,466,071	78,758,890	
2018	73,040,440	8,048,969	2,111,110	1,012,938	8,167,250	92,380,706	14,385,758	77,994,948	
2019	60,102,204	8,089,124	613,638	1,030,083	16,938,750	86,773,798	12,922,018	73,851,780	
2020	59,728,876	8,055,828	309,956	1,033,498	17,014,750	86,142,908	12,267,482	73,875,426	63.30%
2021	50,376,778	8,104,912		1,046,118	18,297,500	77,825,307	12,497,223	65,328,085	
2022	43,968,680	8,162,872		1,036,678	15,984,750	69,152,979	9,881,266	59,271,714	
2023	44,120,857	8,204,037		1,041,188	4,173,750	57,539,831	7,168,240	50,371,592	
2024	43,786,900	7,903,010		1,038,575		52,728,485	6,895,425	45,833,060	
2025	38,231,670	5,997,841		1,044,475		45,273,986	4,974,454	40,299,531	84.29%
2026	43,119,785	5,458,554		943,463		49,521,801	4,499,349	45,022,453	
2027	62,287,637	3,566,671				65,854,307	1,805,437	64,048,870	
2028	29,811,449	3,307,506				33,118,956	1,726,568	31,392,387	
2029	16,082,244	2,449,420				18,531,664	1,746,552	16,785,112	
2030	23,733,298	2,149,595				25,882,893	1,437,394	24,445,498	99.75%
2031		388,640				388,640	388,640	-	
2032		386,655				386,655	386,655	-	
2033		389,200				389,200	389,200	-	
2034		391,040				391,040	391,040	-	
2035		392,175				392,175	392,175	-	99.87%
2036		397,450				397,450	397,450	-	
2037		396,775				396,775	396,775	-	
2038		400,388				400,388	400,388	-	
2039		398,050				398,050	398,050	-	100.00%

(a) As of October 31, 2010
(b) Includes principal and interest on all self-supporting debt (see "Statement of Debt", p. 9).

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-09) (in 000's)

Expenditures of the various taxing bodies within the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the date stated above, and such entities may have programs requiring the issuance of substantial amounts of additional bonds the amount of which cannot be determined. The following table reflects the estimated share of overlapping funded debt of the major taxing bodies in the area.

Taxing Jurisdiction	Total Funded Debt	Estimated % Applicable	Overlapping Funded Debt
Austin, City of	$872,969 (1)	100.00%	$ 872,969
Austin Community College	95,504	71.12%	67,922
Austin Independent School District	742,011	93.97%	697,268
Northwest Travis County Road District #3	2,780	100.00%	2,780
Round Rock Independent School District	665,862	33.39%	222,331
Travis County	522,990	69.92%	365,675
Del Valle Independent School District	162,275	68.31%	110,850
Eanes Independent School District	125,205	29.89%	37,424
Leander Independent School District	949,185	11.07%	105,075
Manor Independent School District	194,052	69.65%	135,157
Pflugerville Independent School District	375,345	37.63%	141,242
Williamson County	763,345	9.85%	75,189
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT			$2,833,882
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (2)			3.68%
Per Capita Overlapping Funded Debt (3)			$3,621.65

(1) Includes the Bonds. Excludes the Refunded Obligations. Excludes general obligation debt reported in proprietary funds as self-supporting debt. See "Statement of Debt" and accompanying footnotes, herein.

(2) Based on assessed valuation of $77,097,264,234 provided by the Travis Central Appraisal District, Williamson Central Appraisal District and Hays Central Appraisal District.

(3) Based on 2011 estimated population of 782,483.

Source: 2009 City of Austin CAFR.

Note: Overlapping governments are those that coincide, as least in part, with the geographic boundaries of the City. This schedule estimated the portion of the outstanding debt of those overlapping governments that is borne by the City residents and businesses. This process recognized that, when considering the City's ability to issue and repay long-term debt, the entire debt borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

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Authorized But Unissued General Obligation Bonds

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Unissued Balance
Brackenridge 2000	10-22-83	$ 50,000,000	$ 40,785,000	$ 9,215,000
Parks Improvements	09-08-84	9,975,000	9,648,000	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	5,395,000
Transportation (Prop 1)	11-07-06	103,100,000	65,660,000	37,440,000
Drainage Improvements (Prop 2)	11-07-06	145,000,000	107,000,000	38,000,000
Park Improvements (Prop 3)	11-07-06	84,700,000	51,575,000	33,125,000
Cultural Arts (Prop 4)	11-07-06	31,500,000	11,100,000	20,400,000
Affordable Housing (Prop 5)	11-07-06	55,000,000	39,900,000	15,100,000
Central Library (Prop 6)	11-07-06	90,000,000	1,500,000	88,500,000
Public Safety Facility (Prop 7)	11-07-06	58,100,000	42,350,000	15,750,000
TOTAL		$647,660,000	$384,408,000	$263,252,000

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the Fall of 2011. The City continues to review opportunities for refunding certain previously issued general obligation bonds and assumed debt. To the extent there remains authority under the Ordinance to refund debt obligations of the City after the issuance of the Bonds, that authority expires on March 31, 2011.

Funded Debt Limitation

No direct funded debt limitation is imposed on the City under current State law or the City's Home Rule Charter. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 assessed valuation for all City purposes. The City operates under a Home Rule Charter which adopts the constitutional provisions and also contains a limitation that the total tax which may be levied annually by the City for municipal general operating purposes may not exceed $1.00 per $100 assessed valuation.

FISCAL MANAGEMENT

The Capital Improvements Program Plan and Capital Budget

The Capital Improvement Plan is a five-year list of capital improvements and a corresponding spending plan for financing these improvements. It is developed through public input and department prioritization of needs. The process includes neighborhood meetings, department requests, Budget Office assessment of requested projects, input from the Planning Commission's CIP Subcommittee and other Boards and Commissions, and citizen input from public hearings. Each year, the Planning Commission reviews the Capital Improvement Plan and submits a recommendation to the City Manager detailing specific projects to be included in the Capital Budget for the next fiscal year.

The City Manager considers the Planning Commission's recommended Plan to propose a Capital Budget to the City Council. The Capital Budget contains requested appropriations for new projects, additional appropriations for previously approved projects and any requests to revise prior year appropriations. Unlike the Operating Budget, which authorizes expenditures for only one fiscal year, Capital Budget appropriations are multi-year, lasting until the project is complete or until changed by the City Council.

The City Council reviews the Capital Budget, holds public hearings to gather final citizen input and establishes the amount of revenue and general obligation bonds to sell to fund capital improvements.

2010-2011 Capital Budget

The 2010-2011 five-year Capital Improvement Program ("CIP") plan was reviewed by the Planning Commission and the Bond Oversight Committee. Public input was received at a public hearing held by the Planning Commission and the Bond Oversight Committee. The plan estimates city-wide capital spending in 2010-2011 of $619.0 million in enterprise funds and $219.1 million in general government funds.

The first year of the five-year plan was used to determine the new appropriations required for inclusion in the 2010-2011 Capital Budget. Total new approved appropriation for General Government CIP Funds is $150.3 million and total new approved appropriation for Enterprise CIP Funds is $252.5 million. Appropriation by department is listed below.

Summary of 2010-2011 Approved Capital Budget (millions):	
Austin Energy	$142.3
Austin Water Utility	54.9
Aviation	12.8
Solid Waste Services	17.6
Watershed Protection	24.9
Enterprise Appropriations	$252.5
Communications & Technology Management	$ 9.2
Financial & Administrative Services	4.9
Fire	0.6
Fleet	0.6
Neighborhood Housing & Community Development	6.5
Parks & Recreation	18.4
Planning & Development Review	2.7
Public Works and Austin Transportation	12.4
Watershed Protection	95.0
General Government Appropriations	$150.3
TOTAL APPROVED NEW APPROPRIATIONS	$402.8

Operating Budget

The City's Home Rule Charter and State law require the City Manager to prepare and submit to the City Council a balanced budget consisting of an estimate of the revenues and expenditures in the budget period and the undesignated General Fund balance available for reappropriation. The budget process in the City normally commences with all department heads submitting to the Chief Financial Officer of the City a detailed estimate of the appropriations required for their respective departments during the next fiscal year. The Chief Financial Officer of the City, in turn, forwards these estimates to the City Manager who submits them to the Mayor and City Council for their consideration and approval.

In June 1989, the City Council approved Financial Management Policies. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least $40,000,000 shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than $2,000,000, and a General Fund Reserve for Budget Stabilization shall be budgeted annually. At the end of each fiscal year, any excess revenue received in that year and any unspent appropriations at the end of that year will be deposited into General Fund Reserve for Budget Stabilization. The Budget Stabilization Reserve will then be available for appropriation for one-time expenditures such as capital equipment but no more than one-third of the reserve will normally be appropriated in any one year.

2010–2011 Budget (Amounts are in thousands)

The 2010-2011 operating budget was presented on July 28, 2010, and was prepared in accordance with guidelines provided by the City Council. The approved budget includes a total tax rate of $0.4571 per $100 assessed valuation, which is based on the 2010 certified tax roll. The property tax revenue in the approved budget is not significantly different with the revised tax rates. The following is a summary of the approved 2010-2011 General Fund Budget.

Beginning Balance, October 1, 2010 (Budget Basis) (000's omitted)		$ 0
Summary of Budgeted General Fund Resources		
Revenue:		
General Property Taxes	$247,620	
City Sales Tax	148,275	
Other Taxes	5,872	
Gross Receipts/Franchise Fees	35,139	
Miscellaneous	77,872	
Total Revenue		514,778
Transfers In:		
Electric Light and Power System	103,000	
Water and Wastewater System	32,463	
Total Transfers In		135,463
Total General Fund Resources		650,241
Summary of Budgeted General Fund Requirements		
Departmental Appropriations:		
Administrative Services	12,265	
Urban Growth Management	21,194	
Public Safety	423,185	
Public Health and Human Services	39,582	
Public Recreation and Culture	69,413	
Total Departmental Appropriations		565,639
Transfers Out:		
Support Services Fund	28,731	
Other Funds	26,240	
Total Transfers Out		54,971
Other Requirements		29,631
Total General Fund Requirements		650,241
Use of Beginning Balance		0
Ending Balance		0
One-Time Critical Equipment		14,393
Transfer to/from Budget Stabilization Reserve		(14,393)
Adjusted Ending Balance		$ 0
Budgeted Reserve Requirements		
Emergency Reserve		$ 40,000
Contingency Reserve		6,172
Budget Stabilization Reserve Fund		33,313
Total Budgeted Reserve Requirements		$ 79,485

Deficit Budgeting

The City is barred by State law and the City's Charter from deficit budgeting.

Accounting System

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenue being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise and internal service funds are maintained on an accrual basis.

Article VII, Section 16 of the City's Charter requires an annual audit of all accounts of the City by an independent certified public accountant. This charter requirement has been complied with and the accountant's report is included herein.

Short–Term Borrowing

Pursuant to Chapter 1431, Texas Government Code, the City has the authority to conduct short-term borrowings to provide for the payment of current expenses, through the issuance of anticipation notes. Such notes must mature before the first anniversary of the date the Attorney General approves the anticipation notes.

INVESTMENTS

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

Legal Investments

Under State 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 or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State 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; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (11) no-load money market mutual funds registered with and regulated by the SEC 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 SEC that have an average weighted maturity of less than two years, invest exclusively in obligations described in 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.

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

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

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

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

Investment Policies

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

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

Additional Provisions

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

Current Investments

As of September 30, 2010, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	4%
U. S. Agencies	43%
Money Market Funds	5%
Local Government Investment Pools	48%

The dollar weighted average maturity for the combined City investment portfolios is 334 days. The City prices the portfolios weekly utilizing a market pricing service.

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GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
(Amounts are in thousands)

	Fiscal Year Ended September 30				
	2005	2006	2007	2008	2009
Revenues:					
Taxes (1)	$264,786	$294,344	$326,576	$347,961	$356,064
Franchise Fees	28,973	30,677	32,275	35,577	33,276
Fines, Forfeitures and Penalties	17,529	18,832	16,094	18,946	19,100
Licenses, Permits and Inspections	17,399	22,131	25,635	24,268	20,531
Charges for Services	23,064	24,453	26,357	29,175	33,655
Interest and Other	10,691	15,882	13,602	12,639	10,456
Total Revenues	$362,442	$406,319	$440,539	$468,566	$473,082
Expenditures:					
Administration	$ 8,699	$ 9,018	$ 10,607	$ 11,592	$ 11,966
Urban Growth Management	15,205	16,701	18,886	20,692	19,682
Public Safety	296,335	323,006	352,149	384,081	389,518
Public Services and Utilities	473	262	297	340	365
Public Health	26,715	29,824	32,545	34,823	37,133
Public Recreation and Culture	45,145	47,599	53,213	58,919	59,988
Social Services Management	0	0	0	0	0
Nondepartmental Expenditures	52,044	54,494	68,170	65,112	52,197
Total Expenditures	$444,616	$480,904	$535,867	$575,559	$570,849
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	$ (82,174)	$ (74,585)	$ (95,328)	$(106,993)	$ (97,767)
Other Financing Sources (Uses):					
Capital Leases	$ 932	$ 0	$ 0	$ 0	$ 0
Transfers from Other Funds	94,451	97,658	107,241	116,311	121,936
Transfers to Other Funds	(14,154)	(16,611)	(16,907)	(27,438)	(20,698)
Net Other Financing Sources	$ 81,229	$ 81,047	$ 90,334	$ 88,873	$101,238
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	$ (945)	$ 6,462	$ (4,994) (2)	$ (18,120)	$ 3,471
Special Item – Hospital District Reserve	0	0	0	0	0
Fund Balances at Beginning of Year	106,287	105,342	111,804	106,810	88,690
Fund Balances at End of Year	$105,342	$111,804	$106,810	$ 88,690 (3)	$ 92,161 (3)

(1) Consists of property, sales and mixed drinks tax.

(2) The City's financial policies were amended in 2006 to establish a budget stabilization reserve in the General Fund. The policies allow the expenditure of one-third of this reserve in any given year to fund capital or other one-time costs. During 2006 and 2007, the City allocated reserve funds to pay for capital and one-time costs that had been deferred during fiscal years 2002 through 2004.

(3) In addition to the budget stabilization reserve, the ending balance includes a contingency reserve of approximately $5.0 million and an emergency reserve of $40 million.

CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

At an election held on September 30, 1967, the citizens of Austin voted a 1% retail sales and use tax to become effective on January 1, 1968. This tax provides an additional revenue source to the General Fund of the City. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, who currently remits the proceeds of the tax to the City monthly. Revenue from this source has been:

Fiscal Year Ended 9-30	Per Capita Sales and Use Tax	(in 000's) Sales and Use Tax	% of Ad Valorem Tax Levy
2002	$172.03	$115,441	52.55%
2003	163.70	110,454	47.34%
2004	172.23	117,725	48.79%
2005	177.64	123,617	56.14%
2006	196.75	139,289	60.06%
2007	211.43	153,098	61.32%
2008	207.00	154,445	55.70%
2009	181.48	139,795	45.40%
2010 (1)	185.84	143,956	43.31%
2011 (2)	189.49	148,275	42.71%

(1) Estimate
(2) Estimate used in FY 2011 Approved Budget.

Transfers from Utility Funds

The City owns and operates a Waterworks and Wastewater System and an Electric Utility System (also referred to herein as "Austin Energy"), the financial operations of which are accounted for in the Utility Funds. Transfers from the Utility Funds to the General Fund have historically provided a significant percentage of the receipts for operation of the General Fund. The following sets forth the amount of such transfers.

Fiscal Year Ended 9-30	(in 000's) Transfers	% of General Fund Requirements
2002	$ 88,924	21.7%
2003	92,417	20.3%
2004	95,894	21.1%
2005	94,116	20.9%
2006	97,658	20.3%
2007	106,471	20.0%
2008	115,629	19.8%
2009	121,505	20.9%
2010 (1)	129,967	21.5%
2011 (2)	134.263	20.7%

(1) Estimate.
(2) Estimate used in FY 2011 Approved Budget.

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ENTERPRISE FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Assets

The Enterprise Funds account for the activities of the City which render services on a user charge basis to the general public. Set forth on pages B-28 and B-29 of APPENDIX B, attached hereto, is a summary of the revenues, expenses, transfers and net assets of the City's enterprise funds for the year ended September 30, 2009.

THE SYSTEMS

The City owns and operates an Electric Utility System and a Water and Wastewater System 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 1,622 full-time regular employees as of June 30, 2010. The Water and Wastewater System had approximately 1,007 full-time regular employees as of the same date.

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 the Resource, Generation, and Climate Protection Plan to 2020 (the "Plan") to meet these objectives.

The City Council adopted the 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.

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 the Plan, which was discussed further in the previous section.

Five objectives were identified to support the strategies including:

1. 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.

2. 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.

3. 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.

4. 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 average/year
   - EAF (equivalent availability factor) = 94.8% for STP and 94.2% for FPP

5. 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.

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.

STRATEGY	OBJECTIVE	TARGET			2005 – 2006		2006 – 2007		2007 – 2008		2008 – 2009	
Risk Management	Maintain Financial Integrity	"AA" (S&P) credit rating by 2010 – Separate lien electric utility system revenue bonds			"A+"		"A+"		"A+"		"A+"	
Excellent Customer Service	Create and Sustain Economic Development	Exceed M/WBE Goals by 2008	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)
		Construction	12.90	12.60	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										
		EAF greater than or equal to 95% STP			93.2%		95.9%		96.3%		95.70%	
		STP EAF of 94.8%			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%	
		200MW solar generation by 2020			1.00 MW		1.60 MW		2.603 MW		4.51 MW	
		800 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.

Financial Policies

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

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

- A fund named Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
  - An Emergency Reserve with a minimum of 60 days of operating cash.
  - Up to a maximum of 60 days additional operating cash set aside as a contingency reserve ("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 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 South Texas Project Electric Generation Station ("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 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/10-11/downloads/fy11_proposed_budget_volume_2.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 Public Utilities Commission of Texas ("PUCT") under section 33.101 of the Public Utility Regulatory Act ("PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City 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 Electric Reliability Council of Texas ("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, adopted and enacted into law in 1999, 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 the Federal Electric Regulatory Commission ("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".

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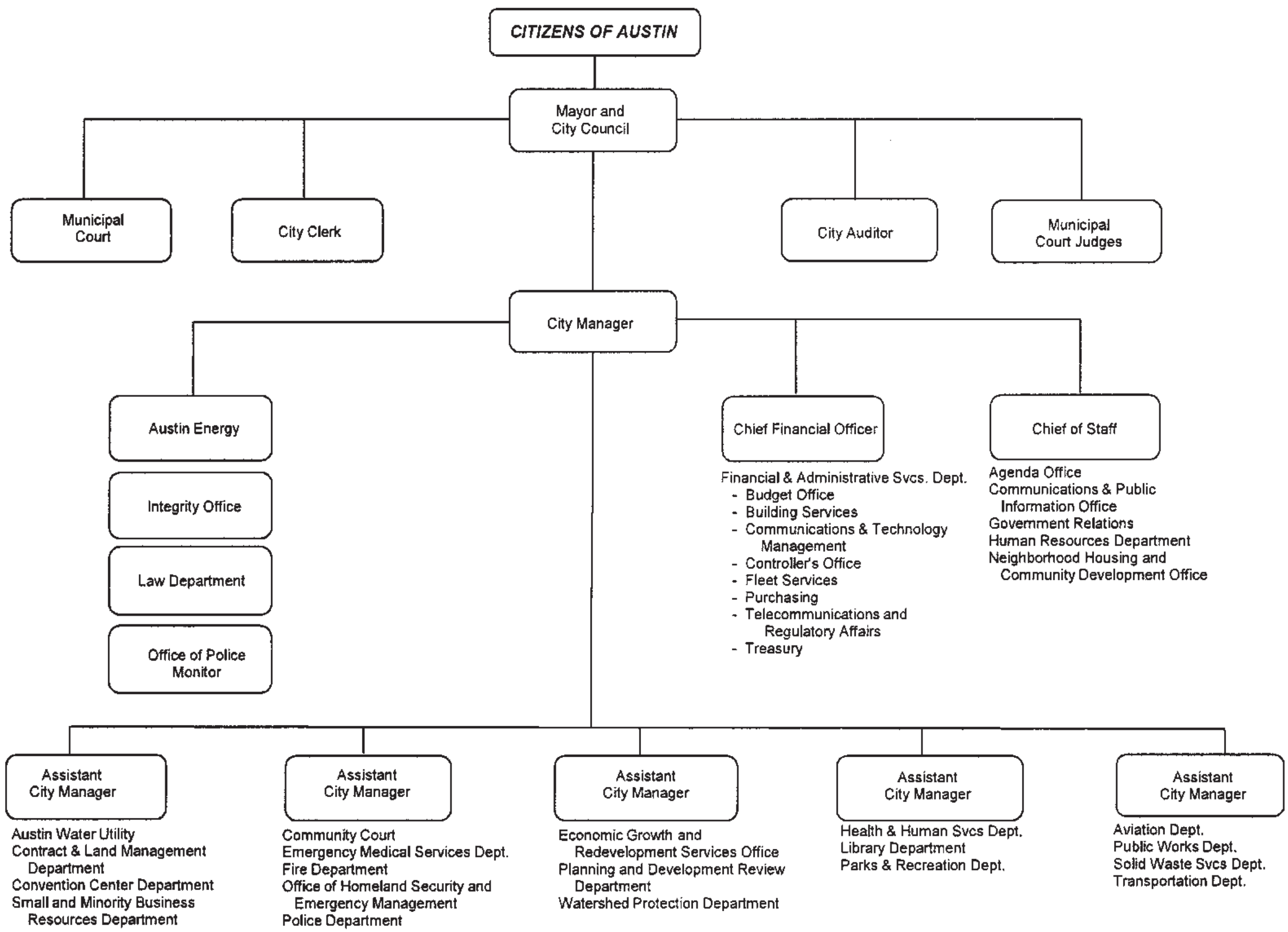
CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

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

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

City Manager – Marc A. Ott

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

Chief Financial Officer – Leslie Browder, CPA

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

Services Provided by the City

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

Employees

Municipal employees are prohibited from engaging in strikes and collective bargaining under State law. An exception allows fire and police employees to engage in collective bargaining (but not the right to strike) after a favorable vote of the electorate. The voters have approved collective bargaining for firemen; however, voters have not approved collective bargaining for 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. State 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 2000.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
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
2010 (2)	2	195

(1) Includes acres converted from limited purpose to full purpose status.
(2) Annexations effective through July 1, 2010.

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 most populous 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:

- 2010 annual program – includes developed residential and commercial areas; planned residential areas, and public right of way.
- 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 in accordance with 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 is scheduled to take place in December 2010 in accordance with the terms of the amended SPA.
- 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 is scheduled to take place in 2015 under the terms of the SPA.
- River Place MUD – full purpose annexation is scheduled to 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. As of December 31, 2009, the amortization period of the unfunded actuarial accrued liability for the Police Officer's Fund was 29.3 years, for the Firefighters Fund it was 20.5 years and for the Municipal Employees Fund it was infinite.

The actuarial accrued liability for the City of Austin Employees' Retirement System (ERS) as of December 31, 2009 was $2,330,936,980 and the funded ratio was 71.8%. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2009 was $733,634,660 and the funded ratio was 70.6%. The actuarial accrued liability for the Firefighters Pension Fund as of December 31, 2009, was $664,185,240 and the funded ratio was 88.7%.

As reported in the actuarial valuation of the ERS prepared for the period ending December 31, 2009, current contributions to the ERS are not sufficient to adequately fund the current benefit structure. Although the ERS 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 increased its contribution from 8% to 12% pursuant to the terms of the SFP. On September 13, 2010, City Council approved an amendment to the SFP for ERS. That increased the rate of the City contribution to ERS from 12% in FY 10, to 14% in FY 2011, 16% in FY 2012, and 18% in FY 2013 and thereafter.

While ERS remains able to pay benefits to retirees on an ongoing basis and is not at serious risk of insolvency within the near future at the current funding and benefit levels, the ERS Board of Trustees, its actuaries, and City management have all concluded that both the Funded Ratio and the Amortization Period of the ERS must be addressed to ensure the sustainability of the ERS.

City management, in collaboration with the ERS Board of Trustees, has developed a plan to improve the financial health of ERS. The three primary objectives of the plan are to; achieve a 30-year amortization period for the UAAL in the near future, improve the funded ratio to at least 80% over the long-term; and to continue providing an attractive retirement benefit for City employees that will support our recruitment and retention goals and reward a full career of service to the citizens of Austin.

In order to accomplish these objectives, the plan addresses both sides of the retirement system equation – contributions to ERS and the benefits paid out by the system. The contribution component has already been addresses with the action City Council took on September 13, 2010 mentioned above. The City is currently forming the second component of the plan, which is a proposed new benefit tier for future City employees. The proposed new benefit tier for future City employees is expected to be presented to the City Council for possible action on October 14, 2010.

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 potential changes 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, 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 as of the end of each fiscal year within six months after the end of each fiscal year.

The City will provide the updated information to the MSRB through its Electronic Municipal Markets Access ("EMMA") information system.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the "Rule"), promulgated by the SEC. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not 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 Bonds; (7) modifications to rights of Holders of the Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to 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 in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement 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 this date the City had filed unaudited financial statements, in accordance with the Rule, pursuant to its continuing disclosure agreements, and will file the audited financial statements promptly upon the receipt thereof.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date hereof ("Existing Law"), for federal income tax purposes, interest on the Bonds (1) will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds", the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See APPENDIX C - Form of Bond Counsel's Opinion.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, (b) covenants of the City contained in the documents authorizing the Bonds relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith, and (c) the verification report of the Arbitrage Group, Inc. (see "OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculation"). Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the City, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to their date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the projects financed or refinanced with the proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the owners of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the owners of the Bonds may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the obligations less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BEFORE DETERMINING WHETHER TO PURCHASE ANY OF THE BONDS.

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received ratings of "AAA" by Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P"), "AAA" by Fitch Ratings, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's"). The presently outstanding tax supported debt of the City is rated "AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's. An explanation of the significance of such ratings may be obtained from the company 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 such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Bonds. The City will undertake no responsibility to notify the owners of the Bonds of any such revisions or withdrawal of ratings.

Litigation

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

Electric Utility System Litigation

The City is in litigation with the owner of a block of land in downtown Austin, which is the site of a municipal parking garage and utility-owned chilled-water plant site. The chilled-water plant is one of two currently providing chilled-water services to some of Austin Energy's commercial customers in the downtown area. The City initiated a condemnation proceeding against the land on August 9, 2001 in Travis County Probate Court as Cause No. 2403, City of Austin v. Whittington, et al. The trial court granted the City summary judgment upholding the City's right to condemn the land, and a jury awarded the condemnee a price of $7.75 million. The condemnee appealed the condemnation proceeding. It also brought a related suit for declaratory judgment in the 250th Travis County District Court, Cause No. GN302752, Whittington, et al. v. City of Austin, alleging the City had failed to include an alleyway crossing the land in its condemnation proceeding, and thus had not taken title to the entire block. In the original condemnation proceeding, the Third Court of Appeals (Case No. 03-03-00496-CV) reversed the trial court's summary judgment, holding that the

City had failed to meet its burden to show the City Council made proper determinations of public purpose and necessity in deciding to condemn the land. The Texas Supreme Court declined to review the appellate court's decision. In the separate alleyway case, the trial court entered judgment against the City, finding that the City had failed to include the alleyway in its condemnation proceeding and thus did not hold title to the alleyway portion of the land. The cases were consolidated and tried to a jury in April 2007. The jury found against the City on its affirmative defense, and valued the property at $10.5 million. The City appealed. The Third Court of Appeals upheld the trial court verdict. The City has filed a petition for review with the Texas Supreme Court. The City is unable to predict the outcome of the appeal.

Registration and Qualification

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

Under the Texas Public Security Procedures Act (Chapter 1201, Texas Government Code), the Bonds are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in the State which have adopted investment policies and guidelines in accordance with the PFIA, the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. 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 least $1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Opinions and No-Litigation Certificate

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are a valid and binding obligation of the City payable from the proceeds of an annual ad valorem tax levied, within the legal limits prescribed by law, upon all taxable property within the City. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the City payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described above under "TAX MATTERS." Such opinion will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. The form of Bond Counsel's opinion is attached hereto as APPENDIX C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins L.L.P., Austin, Texas, counsel to the Underwriters, whose legal fees are contingent on the sale and delivery of the Bonds.

Bond Counsel was engaged by, and only represents, the City. In its capacity as Bond Counsel, such firm has reviewed the statements and information contained under the headings, "PLAN OF FINANCING - Refunded Obligations," "BOND INFORMATION" (except for the subcaption "Book-Entry-Only System"), "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings"), "TAX MATTERS," "OTHER RELEVANT INFORMATION - Legal Opinions and No-Litigation Certificate," "OTHER RELEVANT INFORMATION - Registration and Qualification," "OTHER RELEVANT INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas" and "APPENDIX C - Form of Bond Counsel's Opinion" and is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Ordinance.

The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly 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 out of the transaction.

Financial Advisor

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

Independent Auditors

The financial statements of the City included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, to the extent and for the periods indicated in their report.

Underwriting

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a purchase price of $107,920,426.05 (representing $91,560,000.00 original principal amount thereof, plus a net original issue premium of $16,846,130.25, less an underwriting discount of $485,704.20 plus interest accrued on the Bonds from the dated date thereof to the closing). The Underwriters will be obligated to purchase all the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters. The representative of the Underwriters is Goldman, Sachs & Co.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Bonds that Incapital sells

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., each an underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. 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 Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respective allocations of Bonds.

Verification of Arithmetical and Mathematical Calculations

The Arbitrage Group, Inc. (the "Verification Agent"), a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the City its report indicating that they have examined the mathematical accuracy of computations prepared by PFM relating to (a) the sufficiency of the anticipated receipts from the Securities and on the Bonds and (b) language regarding yields.

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

Authenticity of Financial Data and Other Information

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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.

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Ordinance adopted by the City Council on September 23, 2010.

/s/ Lee Leffingwell
Mayor
City of Austin, Texas

ATTEST:

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

APPENDIX A

General Information Regarding the City

The following information 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 774,000 in 2010. 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 economics 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 2010, Forbes magazine ranked Austin as the eighth Best Places for Business and Careers and Entrepreneur Magazine included Austin in the top 10 of their Top U.S. Startup Cities. American City Business Journal included Austin in its list of Top Green Cities in the U.S. The Mother Nature Network also included Austin in its list of Top 10 Greenest Cities in the Country.

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 New 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 July 2010 published by The Real Estate Center at Texas A&M University, the U.S. employment growth rate was negative 0.1 percent from June 2009 to June 2010, while Texas experienced 0.9 percent employment growth during the same period. The same report indicates the annual employment growth rate for the Austin-Round Rock metropolitan area from June 2009 to June 2010 as eighth in the State of Texas at 1.3 percent. According to the Bureau of Labor Statistics, Texas experienced an increase in the unemployment rate during the same time period, from 7.8 to 8.2 percent, while the U.S. rate in June was 9.5 percent, the same rate as June 2009. 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 that 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 increase of 1.7 percent from May 2009 to 2010, which compares to the increase of 2.0 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 authorized approximately $6.5 million of the budget stabilization reserves to address capital replacement and other critical needs. The Approved Budget has 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 revenues from the sale of water and wastewater service along with miscellaneous other revenue are $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 expected to be 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 issued its Public Improvement Bonds, Taxable Series 2009B as Build America Bonds, which ARRA authorized and 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 2010, the City's cash resources were invested in local government investment pools and U.S. Treasury and Agency issues.

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

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

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	2006	% of Total	2007	% of Total	2008	% of Total	2009	% of Total	June 2010	% of Total
Manufacturing	57,400	7.9%	60,600	7.9%	55,000	7.0%	49,500	6.5%	47,100	6.1%
Government	156,600	21.5%	158,400	20.8%	163,700	21.0%	167,900	22.1%	169,400	22.0%
Trade, transportation & utilities	151,400	20.8%	159,800	21.0%	163,700	21.0%	152,500	20.1%	149,700	19.4%
Services and miscellaneous	275,800	37.9%	290,100	38.0%	300,500	38.5%	304,000	40.0%	321,000	41.6%
Finance, insurance and real estate	42,500	5.8%	45,200	5.9%	47,200	6.0%	43,900	5.8%	44,400	5.8%
Natural resources, mining & construction	44,600	6.1%	49,200	6.4%	50,800	6.5%	42,000	5.5%	39,700	5.1%
Total	728,300	100.0%	763,300	100.0%	780,900	100.0%	759,800	100.0%	771,300	100.0%

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

Source: Texas Labor Market Review, July 2010, Texas Workforce Commission.

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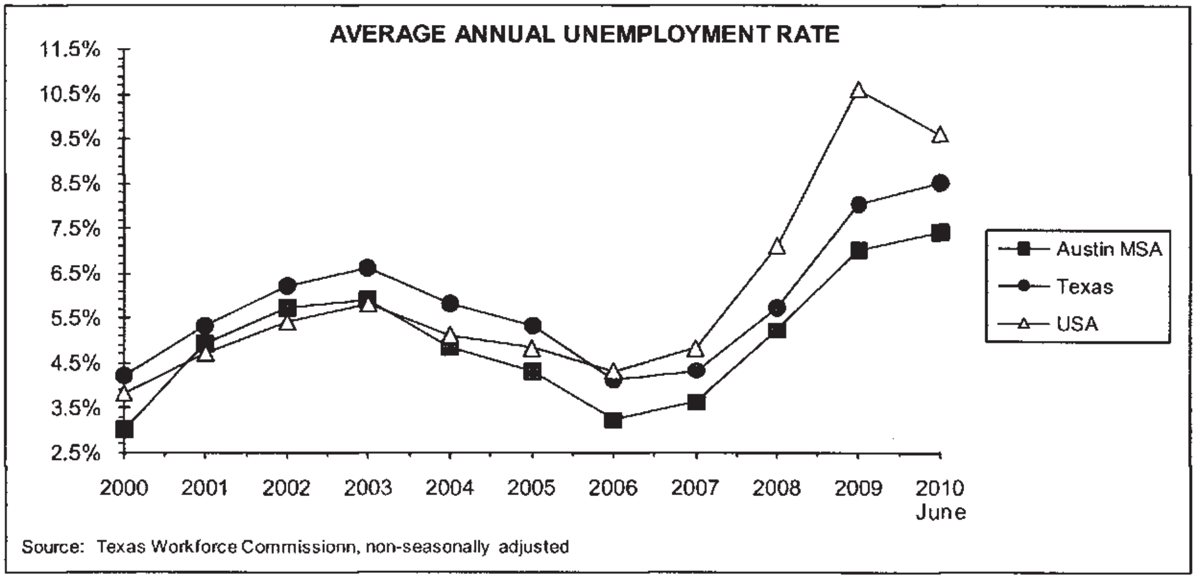
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
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 June	7.4%	8.5%	9.6%

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

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
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	5-1-10	14.145
6-1-06	10.725	6-1-07	11.748	6-1-08	12.185	6-1-09	11.213	6-1-10	11.533
7-1-06	11.981	7-1-07	12.011	7-1-08	12.129	7-1-09	10.752	7-1-10	11.569
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		

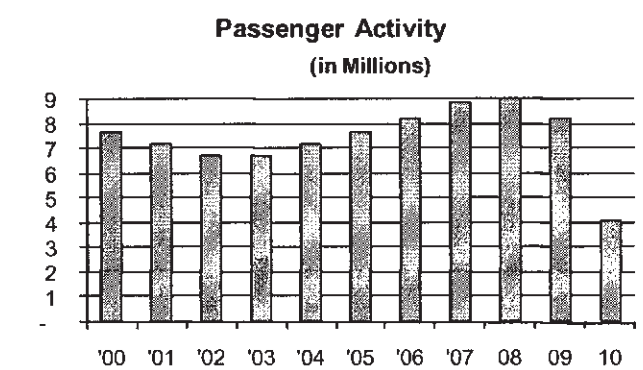
*Includes a $1.5 million one-time sales tax correction.
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2009)

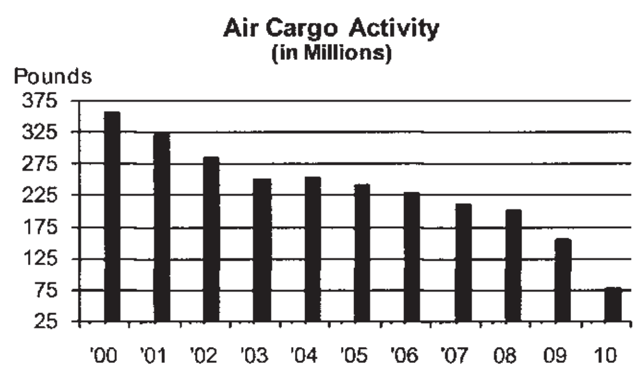
Employer	Product or Service	Employees
State Government	State Government	37,754
The University of Texas at Austin	Education	25,313
Dell Computer Corporation	Computers	16,000
City of Austin	City Government	12,406
Federal Government	Government	11,991
Austin Independent School District	Education	11,322
HEB 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



Source: COA Aviation Department. 2010 Activity through June - Calendar Year basis.



Source: COA Aviation Department. 2010 Activity through June - Calendar Year basis.

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 nine major airlines with scheduled air service: American, Continental, Delta, Frontier, JetBlue, Northwest, Southwest, United, US Airways. Non-stop service is available to 39 U.S. destinations.

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

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

Wealth Indicators

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

Demographic and Economic Statistics - Last Ten Years

Year	City of Austin Population (1)	Area of Incorporation (Square Miles) (1)	Population MSA (2) (3)	Income (MSA) (thousands of dollars) (2)	Median Household Income MSA (3)	Capital Personal Income MSA (2)	Unemployment Rate (MSA) (4)
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

	Utility Connections			Building Permits		
Year	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1999	348,721	173,038	173,150	$1,501,435,229	$54,399,189	$1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361
2001	349,671	178,608	172,177	1,625,508,854	71,189,116	1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786
2007	388,626	199,671	188,101	2,529,648,915	14,272,851	2,543,921,766
2008	396,791	206,695	198,718	1,468,699,801	4,099,000	1,472,798,801
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 $845 per month, with an occupancy rate of 93.3% for the third quarter 2010.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
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	5,470,241,896	243,783
2009	20,747	4,924,240,373	237,347
2010 June	10,909	2,629,014,206	239,588

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
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	80.6%
2010 (1st Qtr)	80.6%

Source: Oxford Commercial.

Education

The Austin Independent School District had an enrollment of 84,996 for the 2009/2010 school year. This reflects an increase in enrollment from the end of the 2009 school year. The District includes 110 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,063	74,212
2007/08	82,739	74,622
2008/09	83,730	75,606
2009/10	84,996	76,658

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 51,195 for the fall semester of 2010 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 191 hotels available within the Austin Metropolitan Area, as of the second quarter of 2010, with a hotel occupancy rate of 64.9 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.

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APPENDIX B

Financial Statements and Independent Auditors' Report

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CITY OF AUSTIN, TEXAS
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
Year Ended September 30, 2009

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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 Activities		Business-Type Activities		Total	
	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	2,983,858	2,807,499	8,310,346	7,986,886	11,294,204	10,794,385
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	1,399,972	1,202,987	5,424,217	5,104,735	6,824,189	6,307,722
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	$1,583,886	1,604,512	2,886,129	2,882,151	4,470,015	4,486,663

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 Activities		Business-Type Activities		Total	
	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

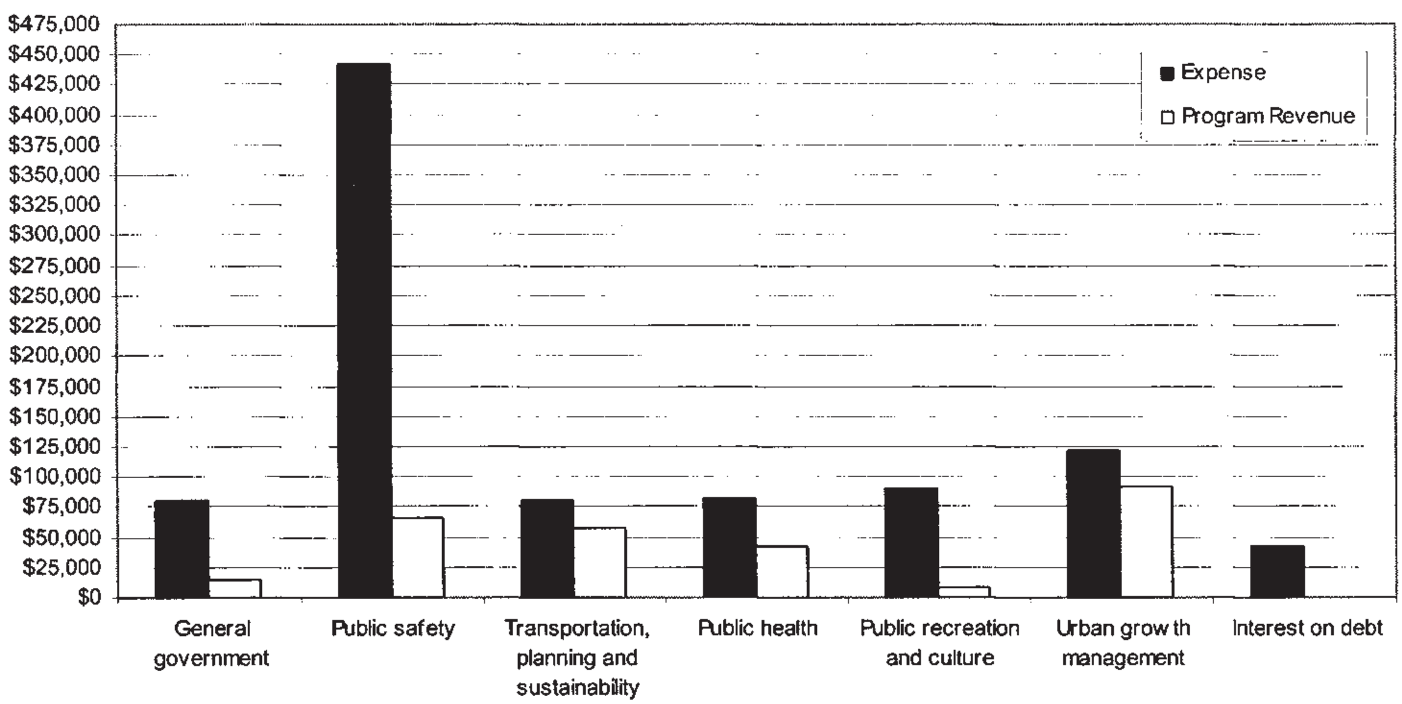
c -- Program revenues and expenses -- governmental activities

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.

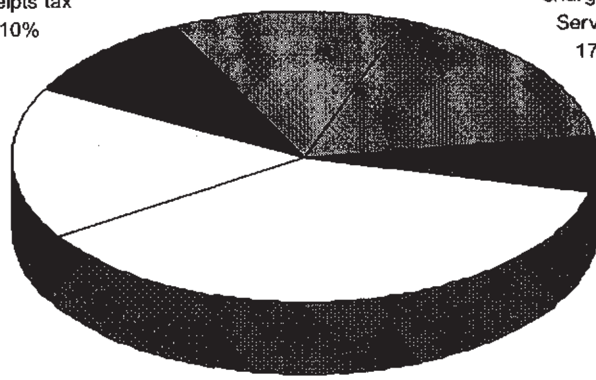
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



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

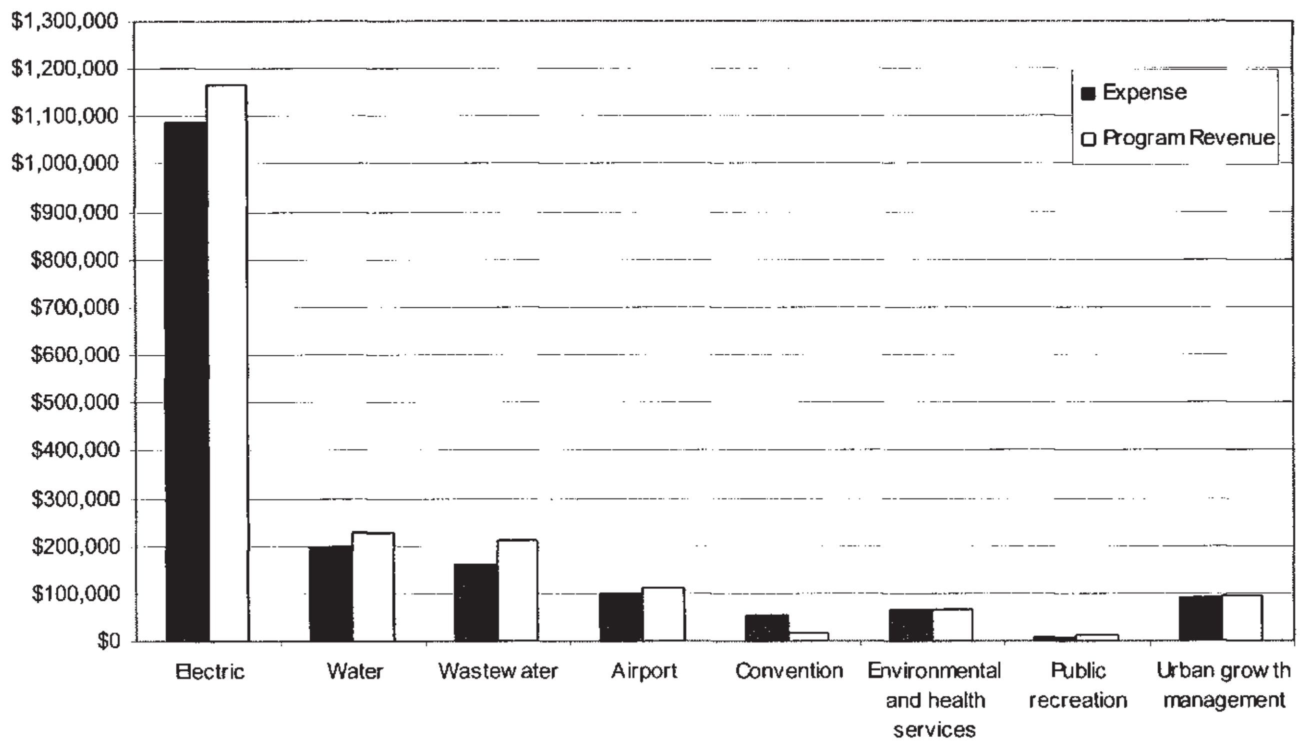
Business-type activities increased the City's net assets by approximately $82.9 million, accounting for a 1.9% increase in the City's total net assets. Key factors include:

- 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.

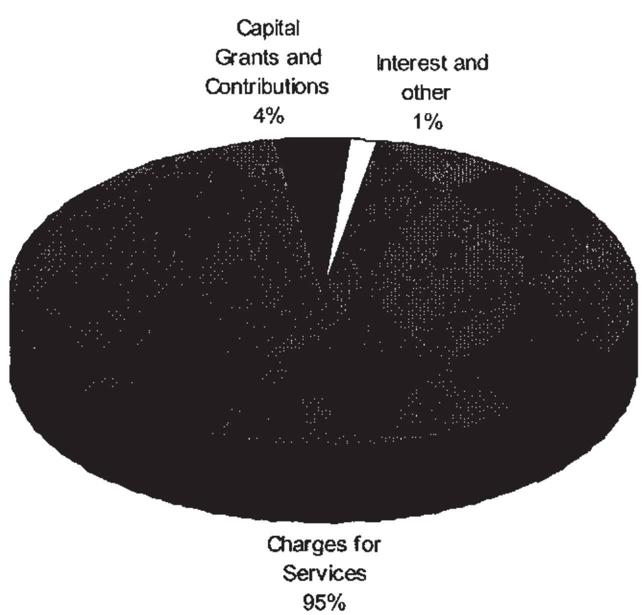
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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	$ 2,303	2,259	6,339	6,038	8,642	8,297

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	$ 953	830	3,944	3,748	4,897	4,578

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/.

(In thousands)

	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.

(In thousands)

	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: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: 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.

(In thousands)

	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	140,057	463,135	603,192
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	47,896	103,409	151,305
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	92,161	359,726	451,887
Total liabilities and fund balances	$ 140,057	463,135	603,192

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

(In thousands)

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	(964,322)	
		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	5,665	
		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	(21,851)	
		(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		$ 1,583,886

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

(In thousands)

	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.

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)

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	(33,226)	
		(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	67,282	
		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	69,809	
		(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	2,427	
		(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	338,666	66,179	153,662
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	131,791	52,099	4,848
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	--	16,509	--
Total current assets	852,600	217,399	175,630
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	1,993,891	2,155,483	504,681
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	--	75,000	--
Total capital assets	2,504,398	2,724,746	626,712
Other long-term assets	66	--	--
Deferred costs and expenses, net of amortization	189,621	195,082	3,158
Total noncurrent assets	2,811,916	2,919,855	629,987
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
	Nonmajor Enterprise Funds	2009 Total	Activities-Internal Service Funds
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.

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2009 Total	Activities-Internal Service Funds
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.

	Business-Type Activities		Governmental
	Nonmajor Enterprise Funds	2009 Total	Activities- Internal Service Funds
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	1,815	14,278	734
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	184,219	785,580	92,197
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	29,836	352,693	8,603
Net cash provided (used) by operating activities	6,890	651,927	17,323

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.

	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.

(In thousands)

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

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

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

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	(70,782)	(10,473)	--	(6,255)	--	(87,510)
Total	$ 12,117	14,624	43,122	3,372	894	74,129

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
	$ 522,369	104,031	168,801	63,575	858,776

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:

	Exhibit A-2	Exhibit C-2	
	Business-Type Activities	Electric	Business-Type Activities
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	$ 2,803,257	1,625,000	2,796,140

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.

Nonmajor Governmental	Deficit
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
CMTA 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):

	Pooled Investments and Cash	
	Unrestricted	Restricted
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	929,011	356,662
Total pooled investments and cash	$ 1,285,673	

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):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
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	18,734	503,286	--	522,020
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)	539,991	745,552	5,025	1,290,568
Total investments	$ 558,725	1,248,838	5,025	1,812,588

(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:

	Fair Value (in thousands)				
Investment Type	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	Weighted Average Maturity (days)
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:

	Fair Value (in thousands)		
Investment Type	Governmental Activities	Business-type Activities	Final Maturity
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:

Investment Type	Fair Value (in thousands) Business-type Activities	Final Maturity
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:

Investment Type	Fair Value (in thousands)	Weighted Average Maturity (days)
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:

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

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):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
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	565,631	1,255,362	5,025	1,826,018
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	$ 565,631	1,255,362	5,025	1,826,018

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):

		Governmental Activities	Business-Type Activities	Total
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	$	6,906	49,025	55,931

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):

Enterprise Funds	
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	321,637	23,294	(592)	344,339
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	2,657,966	190,321	(37,672)	2,810,615
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	(924,081)	(101,146) (2)	28,930	(996,297)
Net property, plant, and equipment in service	1,733,885	89,175	(8,742)	1,814,318
Other capital assets not depreciated				
Construction in progress	203,328	101,416	(160,138)	144,606
Total capital assets	$ 2,258,850	213,885	(169,472)	2,303,263

(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	$ 101,146

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	62,395	3,135	(1,523)	64,007
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	3,686,508	142,249	(36,885)	3,791,872
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	(1,705,518)	(114,172) (1)	21,709	(1,797,981)
Net property, plant, and equipment in service	1,980,990	28,077	(15,176)	1,993,891
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	$ 2,379,041	299,362	(174,005)	2,504,398

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 114,172

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	204,908	710	(49)	205,569
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	2,984,005	215,438	(3,039)	3,196,404
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	(964,603)	(78,531) (2)	2,213	(1,040,921)
Net property, plant, and equipment in service	2,019,402	136,907	(826)	2,155,483
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	$ 2,581,448	343,901	(200,603)	2,724,746

(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	$ 78,531

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	92,770	2,207	--	94,977
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	679,045	14,594	(14,970)	678,669
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	(169,146)	(18,708) (1)	13,866	(173,988)
Net property, plant, and equipment in service	509,899	(4,114)	(1,104)	504,681
Other capital assets not depreciated				
Construction in progress	15,008	26,235	(14,189)	27,054
Total capital assets	$ 617,677	24,328	(15,293)	626,712

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 18,708

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	83,375	2,160	(1)	85,534
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	471,511	38,377	(1,720)	508,168
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	(136,786)	(20,816) (2)	1,553	(156,049)
Net property, plant, and equipment in service	334,725	17,561	(167)	352,119
Other capital assets not depreciated				
Construction in progress	41,960	41,479	(37,489)	45,950
Total capital assets	$ 460,060	61,200	(37,657)	483,603

(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	$ 20,816

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	443,448	8,212	(1,573)	450,087
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	7,821,069	410,508	(56,464)	8,175,113
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	(2,976,053)	(232,227)(2)	39,341	(3,168,939)
Net property, plant, and equipment in service	4,845,016	178,281	(17,123)	5,006,174
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	$6,038,226	728,641	(427,408)	6,339,459

(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	$ 232,227

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:

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

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	$ 82,146	646	218	83,010

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	$ 45,655

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 Amount Issue	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
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
			$ 1,068,741			

(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):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding		Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt	
1990B Refunding	February 1990	$ 236,009	3,668	20,502	(1)	7.35%	11/15/2014-2017	
1992 Refunding	March 1992	265,806	30,116	78,049	(1)	6.80 - 6.85%	11/15/2009-2012	
1992A Refunding	May 1992	351,706	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	
			$ 458,888					

(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
			$ 1,025,940			

(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
			$ 1,477,660			

(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-Wurttemberg	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
					$ 270,825	

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
					$ 28,000	

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
			$ 232,230				

(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
					$ 125,280	

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

Governmental Activities
(in thousands)

Fiscal Year Ended September 30	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
	831,053	353,876	78,403	28,045	28,410	6,837
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	845,741	353,876	78,525	28,045	28,456	6,837

Fiscal Year Ended September 30	Capital Lease Obligations		Total Governmental Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2010	152	--	69,596	43,204	112,800
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
	468	--	938,334	388,758	1,327,092
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	$ 468	--	953,190	388,758	1,341,948

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

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest
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	--	--	--	--
	1,122	347	231	7	140,956	21
Less: Unamortized bond discount	(3)	--	--	--	(249)	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	67	--	--	--	--	--
Net debt service requirements	1,186	347	231	7	140,707	21

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Electric Debt Service Requirements Principal	Total Electric Debt Service Requirements Interest	Total Electric Debt Service Requirements Total
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
	1,263,838	811,441	1,164	1,057	1,407,311	812,873	2,220,184
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	$ 1,236,140	811,441	1,164	1,057	1,379,428	812,873	2,192,301

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

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

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt Principal	Tax Supported Debt Interest
2010	$ 594	169	2,910	464	564	347
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	--	--	--	--
	3,231	671	15,176	1,471	6,681	1,831
Less: Unamortized bond discounts	(14)	--	--	--	(31)	--
Unamortized gain(loss) on bond refundings	(1,662)	--	--	--	--	--
Add: Unamortized bond premiums	127	--	136	--	--	--
Net debt service requirements	1,682	671	15,312	1,471	6,650	1,831

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds (2) Principal	Revenue Bonds (2) Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest
2010	199,292	22	54,413	97,546	914	15
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	--	--
	199,292	22	1,697,735	1,139,985	914	15
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	$ 199,292	22	1,682,182	1,139,985	914	15

(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
	1,923,029	1,143,995	3,067,024
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	1,906,032	1,143,995	3,050,027

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

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Revenue Notes (1)		Revenue Bonds (2)	
	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
	276	76	28,000	8,330	321,440	123,405
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	289	76	28,000	8,330	307,365	123,405

Fiscal Year Ended September 30	Capital Lease Obligations		Total Airport 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
	817	25	350,533	131,836	482,369
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	$ 817	25	336,471	131,836	468,307

(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	--	--
	18,096	5,267	42,090	19,673	43,972	5,110
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	18,353	5,267	42,877	19,673	44,652	5,110

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
	232,230	99,017	336,388	128,207	464,595
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	$ 216,655	99,017	322,537	128,207	450,744

(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	1,764
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	--	--
	22,725	6,361	42,090	19,673	59,379	6,588
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	21,510	6,361	42,877	19,673	60,195	6,588

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	--	980
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
	6,681	1,831	340,248	43	28,000	8,330
Less: Unamortized bond discounts	(31)	--	(249)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premiums	--	--	--	--	--	--
Net debt service requirements	$ 6,650	1,831	339,999	43	28,000	8,330

(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

Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Revenue Bonds (3)		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
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	--	--	--	--
	3,515,243	2,173,848	914	15	1,981	1,082
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	3,442,342	2,173,848	914	15	1,981	1,082

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
	4,017,261	2,216,911	6,234,172
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	$ 3,944,468	2,216,911	6,161,379

(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):

Refunded Bonds	Escrow Maturity	Balance 9/30/2009
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
		$ 529,105

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	Amount 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	--
		$ 22,050	8,533

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 In			
Transfers Out	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	$ 121,936	53,314	45,621	220,871

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 (NOx) 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:

	2009	
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:

Brokerage	Credit Rating
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

Type of Transaction	Maturity Dates	Volumes in MMBTU*	Fair Market Value Gain/ (Loss)
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			$ (50,571,087)

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 September 30	Water and Wastewater Variable-Rate Bonds (in thousands) Principal	Interest	Interest Rate Swaps, Net	Total Interest
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) Principal	Interest	Interest Rate Swaps, Net	Total Interest
2010	$ 10,975	789	9,830	10,619
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) Principal	Interest	Interest Rate Swaps, Net	Total Interest
2010	$ 3,325	196	3,786	3,982
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	$	5,434,580	2,993,234

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:

Fund name	Description
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):

	Employee Benefits		Liability Reserve		Workers' Compensation	
	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	$ 9,260	4,796	6,965	7,848	14,052	13,818

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):

	Governmental	Business-type Activities		
Capital Assets	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:

	OPEB
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 | **City of Austin, Texas**
Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual-Budget Basis | **RSI**
For the year ended September 30, 2009
(In thousands)

	2009					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance (3) Positive (Negative)
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	$ 3,436

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

Form of Bond Counsel's Opinion

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Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT REFUNDING BONDS,
SERIES 2010,
IN THE PRINCIPAL AMOUNT OF $91,560,000

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which Bonds are issued in the aggregate principal amount of $91,560,000. The Bonds bear interest from the date and mature on the dates specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the ordinance of the City authorizing the issuance of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, the charter of the City, certified copies of the proceedings of the City, and other proofs authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond No. R-1); however, we express no opinion with respect to any statement of insurance printed on the Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with the Constitution and laws of the State of Texas, and the Bonds and the Ordinance constitute valid and legally binding obligations of the City; and that the ad valorem taxes, upon all taxable property within the City, necessary to pay the interest on and principal of said Bonds, have been pledged for such purpose, within the limits prescribed by the Constitution and the charter of the City. The opinion hereinbefore expressed is qualified to the extent that the obligations of the City, and the enforceability thereof, are subject to applicable bankruptcy, reorganization or similar laws relating to or affecting creditors' rights generally, and the exercise of judicial discretion in accordance with general principles of equity.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. In addition, we have relied upon the report of The Arbitrage Group, Inc., independent certified public accountants, with respect to certain arithmetical and mathematical computations relating to the Bonds and the obligations refunded with the proceeds of the Bonds. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. 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 disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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 (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

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APPENDIX D

Summary of Obligations Refunded

	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Circle C MUD #3	11/15/2013	5.250%	$ 190,000	12/20/2010	100%
Waterworks and Sewer System Combination	11/15/2014	5.250%	205,000	12/20/2010	100%
Unlimited Tax and Revenue Bonds, Series 1996	11/15/2015	5.250%	225,000	12/20/2010	100%
	11/15/2016	5.250%	240,000	12/20/2010	100%
	11/15/2017	5.250%	260,000	12/20/2010	100%
			$ 1,120,000		
Circle C MUD #4	11/15/2011	5.000%	$ 170,000	12/20/2010	100%
Waterworks and Sewer System Combination	11/15/2012	5.000%	180,000	12/20/2010	100%
Unlimited Tax and Revenue Bonds, Series 1996	11/15/2013	5.000%	200,000	12/20/2010	100%
	11/15/2014	5.000%	200,000	12/20/2010	100%
	11/15/2015	5.000%	220,000	12/20/2010	100%
			$ 970,000		
Davenport Ranch MUD #1	9/1/2012	4.550%	$ 220,000	12/20/2010	100%
Waterworks and Sewer System Combination	9/1/2013	4.600%	240,000	12/20/2010	100%
Unlimited Tax and Revenue Bonds, Series 1997	9/1/2014	4.650%	250,000	12/20/2010	100%
	9/1/2015	4.650%	265,000	12/20/2010	100%
	9/1/2016	4.700%	275,000	12/20/2010	100%
	9/1/2017	4.700%	290,000	12/20/2010	100%
			$ 1,540,000		
Davenport Ranch MUD #1	9/1/2012	5.600%	$ 295,000	12/20/2010	100%
Waterworks and Sewer System Combination	9/1/2013	5.650%	315,000	12/20/2010	100%
Unlimited Tax and Revenue Bonds, Series 1997B	9/1/2014	5.700%	335,000	12/20/2010	100%
	9/1/2015	5.750%	355,000	12/20/2010	100%
	9/1/2016	5.800%	375,000	12/20/2010	100%
	9/1/2017	5.800%	400,000	12/20/2010	100%
	9/1/2018	5.850%	425,000	12/20/2010	100%
			$ 2,500,000		
Northwest Austin MUD #1	9/1/2012	4.700%	$ 20,000	12/20/2010	100%
Unlimited Tax Bonds, Series 2001	9/1/2013	4.800%	20,000	12/20/2010	100%
	9/1/2014	5.000%	10,000	12/20/2010	100%
	9/1/2015	5.100%	10,000	12/20/2010	100%
	9/1/2016	5.150%	10,000	12/20/2010	100%
			$ 70,000		
Certificates of Obligation, Series 2001	9/1/2014	4.375%	$ 2,020,000	9/1/2011	100%
	9/1/2019	4.750%	2,600,000	9/1/2011	100%
	9/1/2020	4.750%	2,735,000	9/1/2011	100%
	9/1/2021	4.750%	1,730,000	9/1/2011	100%
			$ 9,085,000		
Certificates of Obligation, Series 2002	9/1/2015	4.125%	$ 1,850,000	9/1/2012	100%
	9/1/2016	4.300%	1,950,000	9/1/2012	100%
	9/1/2017	4.400%	2,050,000	9/1/2012	100%
	9/1/2022 *	4.750%	5,075,000	9/1/2012	100%
			$ 10,925,000		
Public Improvement Bonds, Series 2002	9/1/2015	4.125%	$ 5,800,000	9/1/2012	100%
	9/1/2016	4.250%	6,000,000	9/1/2012	100%
	9/1/2019	4.625%	7,000,000	9/1/2012	100%
	9/1/2020	4.750%	7,400,000	9/1/2012	100%
	9/1/2021	5.000%	7,700,000	9/1/2012	100%
	9/1/2022	5.000%	7,600,000	9/1/2012	100%
			$ 41,500,000		
Public Improvement and	9/1/2018	4.375%	$ 4,605,000	9/1/2013	100%
Refunding Bonds, Series 2003	9/1/2019	4.500%	4,805,000	9/1/2013	100%
	9/1/2020	4.500%	5,010,000	9/1/2013	100%
	9/1/2021	5.000%	5,235,000	9/1/2013	100%
	9/1/2022	5.000%	5,470,000	9/1/2013	100%
	9/1/2023	5.000%	6,660,000	9/1/2013	100%
			$ 31,785,000		
Total Refunded Obligations			$ 99,495,000		

* Term Bond