

Supplement dated September 14, 2011

TO
OFFICIAL STATEMENT

relating to

\$78,090,000
CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT BONDS, SERIES 2011A

\$8,450,000
CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT BONDS, TAXABLE SERIES 2011B

\$51,150,000
CITY OF AUSTIN, TEXAS
CERTIFICATES OF OBLIGATION, SERIES 2011

\$26,725,000
CITY OF AUSTIN, TEXAS
PUBLIC PROPERTY FINANCE CONTRACTUAL OBLIGATIONS,
SERIES 2011

PLEASE BE ADVISED that the referenced Official Statement, dated August 25, 2011, relating to the captioned obligations (the "Obligations") is hereby supplemented in the following manner as a result of the recent action by the President of the United States of America in submitting the "American Jobs Act of 2011" to Congress for enactment which, among other effects, could result in additional federal income tax being imposed on certain owners of tax-exempt obligations, including the Tax-Exempt Obligations, for tax years beginning on or after January 1, 2013.

The section entitled "TAX MATTERS" on page 41 of the Official Statement is hereby amended by inserting a new subheading on page 43 of the Official Statement immediately following the subheading entitled "Certain Federal Income Tax Consequences", with the text of the new subheading provided as follows:

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Tax-Exempt Obligations under federal or state law and could affect the market price or marketability of the Tax-Exempt Obligations. On September 12, 2011, President Obama submitted to Congress a legislative proposal entitled the "American Jobs Act of 2011" (the "Jobs Act"). If enacted, as proposed, the Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of the Jobs Act being enacted in the form introduced or in some other form cannot be predicted. Prospective purchasers of the Tax-Exempt Obligations should consult their own tax advisors regarding the foregoing matters."

OFFICIAL STATEMENT DATED AUGUST 25, 2011

Ratings: Moody's: "Aaa"
 Standard & Poor's: "AAA"
 Fitch: "AAA"

(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

On 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.

\$78,090,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Public Improvement Bonds, Series 2011A

Dated: September 1, 2011

Due: September 1, as stated herein

Interest on the City of Austin, Texas \$78,090,000 Public Improvement Bonds, Series 2011A (the "Series 2011A Bonds"), will accrue from the dated date shown above, will be payable March 1, 2012, and each September 1 and March 1 thereafter until maturity or prior redemption, 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 ("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 "OBLIGATION INFORMATION – Book-Entry-Only System").

The Series 2011A Bonds are direct obligations of the City, payable from an 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 Series 2011A Bonds (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Series 2011A Bonds will be used to finance various capital improvements (see "OBLIGATION INFORMATION – Authority for Issuance"), and to pay certain costs of issuance of the Series 2011A Bonds.

MATURITY SCHEDULE
 Base CUSIP No. 052396 (1)

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
2012	\$8,400,000	2.250%	0.260%	G93	2021	\$ 3,850,000	4.000%	2.600%	H92
2013	-				2022	2,880,000	3.000%	3.000%	J25
2014	100,000	2.000%	0.530%	H27	2023	2,060,000	3.125%	3.240%	J33
2015	100,000	2.000%	0.690%	H35	2024	4,320,000	4.000%	3.400%	J41
2016	1,250,000	2.000%	1.030%	H43	2025	9,930,000	4.000%	3.540%	J58
2017	100,000	2.000%	1.340%	H50	2026	7,800,000	4.000%	3.660%	J66
2018	100,000	2.000%	1.700%	H68	2027	-			
2019	2,000,000	2.000%	2.000%	H76	2028	10,400,000	4.000%	3.870%	J74
2020	100,000	3.000%	2.300%	H84	2029	14,700,000	4.000%	4.000%	J82

\$10,000,000 4.000% Series 2011A Term Bonds due September 1, 2031, Initial Yield 4.100%, CUSIP 052396J90

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The City reserves the right, at its option, to redeem the Series 2011A Bonds having stated maturities on or after September 1, 2022, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2021, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Optional Redemption of the Bonds and the and the Certificates").

The Series 2011A Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State 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 Series 2011A Bonds (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Series 2011A Bonds will be delivered through the facilities of DTC on or about October 4, 2011.

OFFICIAL STATEMENT DATED AUGUST 25, 2011

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"), as of the date of issuance of the Series 2011B Bonds, the Series 2011B Bonds are not obligations described in Section 103(a) of the Internal Revenue Code of 1986. See "TAX MATTERS".

\$8,450,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Public Improvement Bonds, Taxable Series 2011B

Dated: September 1, 2011

Due: September 1, as stated herein

Interest on the City of Austin, Texas \$8,450,000 Public Improvement Bonds, Taxable Series 2011B (the "Series 2011B Bonds"), will accrue from the dated date shown above, will be payable March 1, 2012, and each September 1 and March 1 thereafter until maturity or prior redemption, 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 ("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 "OBLIGATION INFORMATION – Book-Entry-Only System").

The Series 2011B Bonds are direct obligations of the City, payable from an 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 Series 2011B Bonds (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Series 2011B Bonds will be used to finance various capital improvements (see "OBLIGATION INFORMATION – Authority for Issuance"), and to pay certain costs of issuance of the Series 2011B Bonds.

MATURITY SCHEDULE
 Base CUSIP No. 052396 (1)

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
2014	\$100,000	2.500%	1.110%	F37	2021	\$650,000	4.000%	3.290%	G28
2015	100,000	2.500%	1.460%	F45	2022	650,000	3.500%	3.540%	G36
2016	350,000	2.500%	1.860%	F52	2023	680,000	3.600%	3.640%	G44
2017	100,000	2.500%	2.210%	F60	2024	700,000	3.700%	3.740%	G51
2018	100,000	2.500%	2.480%	F78	2025	720,000	4.000%	3.840%	G69
2019	400,000	2.750%	2.760%	F86	2026	750,000	4.000%	4.000%	G77
2020	100,000	4.000%	3.040%	F94					

\$3,050,000 4.500% Series 2011B Term Bonds due September 1, 2031, Initial Yield 4.540%, CUSIP 052396G85

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The City reserves the right, at its option, to redeem the Series 2011B Bonds having stated maturities on or after September 1, 2022, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2021, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "REDEMPTION – Optional Redemption of the Bonds and the Certificates").

The Series 2011B Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State 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 Series 2011B Bonds (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Series 2011B Bonds will be delivered through the facilities of DTC on or about October 4, 2011.

OFFICIAL STATEMENT DATED AUGUST 25, 2011

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 Certificates is excludable from gross income for federal income tax purposes under existing law and the Certificates 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.

\$51,150,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Certificates of Obligation, Series 2011

Dated: September 1, 2011

Due: September 1, as shown below

Interest on the \$51,150,000 City of Austin, Texas Certificates of Obligation, Series 2011 (the "Certificates"), will accrue from the dated date as shown above, will be payable March 1, 2012, and each September 1 and March 1 thereafter until maturity or prior redemption, 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 ("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 "OBLIGATION INFORMATION – Book-Entry-Only System").

The Certificates are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and are additionally payable from and secured by a limited pledge of surplus revenues (not to exceed \$1,000) of the City's solid waste disposal system, as provided in the ordinance authorizing the Certificates (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Certificates will be used to finance various capital improvements and to pay certain costs of issuance of the Certificates.

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	\$ 485,000	3.000%	0.300%	A81	2020	\$1,525,000	3.000%	2.300%	B80
2013	510,000	3.000%	0.400%	A99	2021	1,605,000	3.000%	2.600%	B98
2014	1,130,000	3.000%	0.530%	B23	2024	1,850,000	4.000%	3.400%	C22
2015	1,190,000	3.000%	0.700%	B31	2025	1,945,000	4.000%	3.550%	C30
2016	1,255,000	3.000%	1.030%	B49	2026	2,045,000	5.000%	3.400%	C48
2017	1,320,000	3.000%	1.340%	B56	2027	2,145,000	5.000%	3.500%	C55
2018	1,385,000	3.000%	1.700%	B64	2028	2,250,000	4.000%	3.900%	C63
2019	1,455,000	3.000%	2.000%	B72					

\$3,455,000 3.125% Term Certificates due September 1, 2023, Initial Yield 3.250%, CUSIP 052396D47
 \$4,850,000 4.000% Term Certificates due September 1, 2030, Initial Yield 4.050%, CUSIP 052396C71
 \$5,565,000 4.000% Term Certificates due September 1, 2033, Initial Yield 4.150%, CUSIP 052396C89
 \$5,015,000 4.125% Term Certificates due September 1, 2036, Initial Yield 4.250%, CUSIP 052396C97
 \$5,805,000 4.250% Term Certificates due September 1, 2039, Initial Yield 4.300%, CUSIP 052396D39
 \$4,365,000 4.250% Term Certificates due September 1, 2041, Initial Yield 4.350%, CUSIP 052396D21

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The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2022, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2021, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Optional Redemption of the Bonds and the Certificates").

The Certificates are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State 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 Certificates (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Certificates will be delivered through the facilities of DTC on or about October 4, 2011.

OFFICIAL STATEMENT DATED AUGUST 25, 2011

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 Contractual Obligations is excludable from gross income for federal income tax purposes under existing law and the Contractual Obligations 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.

\$26,725,000
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Public Property Finance Contractual Obligations, Series 2011

Dated: September 1, 2011

Due: May 1 and November 1, as shown below

Interest on the \$26,725,000 City of Austin, Texas Public Property Finance Contractual Obligations, Series 2011 (the "Contractual Obligations"), will accrue from the dated date as shown above, will be payable May 1, 2012, and on each November 1 and May 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 ("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 "OBLIGATION INFORMATION – Book-Entry-Only System").

The Contractual Obligations are direct obligations of the City, payable from an 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 Contractual Obligations (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Contractual Obligations will be used to purchase certain equipment and other personal property for use by various City departments and to pay costs of issuance of the Contractual Obligations.

MATURITY SCHEDULE

Base CUSIP No. 052396 (1)

<u>Maturity</u> <u>(May 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>(November 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
2012	\$1,535,000	0.050%	0.500%	D54	2012	\$1,730,000	0.050%	0.750%	E46
2013	1,760,000	0.050%	1.000%	D62	2013	1,795,000	0.050%	1.250%	E53
2014	1,830,000	1.000%	1.000%	D70	2014	1,860,000	2.000%	0.750%	E61
2015	1,900,000	1.000%	1.100%	D88	2015	1,935,000	1.000%	1.120%	E79
2016	1,970,000	2.000%	1.200%	D96	2016	2,005,000	2.000%	1.250%	E87
2017	2,045,000	2.000%	1.530%	E20	2017	2,080,000	2.000%	1.580%	E95
2018	2,120,000	2.000%	1.850%	E38	2018	2,160,000	2.000%	1.900%	F29

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The Contractual Obligations are not subject to redemption prior to their stated maturities.

The Contractual Obligations are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State 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 Contractual Obligations (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Contractual Obligations will be delivered through the facilities of DTC on or about October 4, 2011.

The Series 2011A Bonds, the Series 2011B Bonds, the Certificates, and the Contractual Obligations (collectively referred to herein as the "Obligations") are offered by the City under a common Official Statement. The Series 2011A Bonds, the Series 2011B Bonds, the Certificates, and the Contractual Obligations are separate and distinct securities offerings being issued and sold independently, except for the common Official Statement; and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

No dealer, broker, salesman or other person has been authorized by the City or by the purchasers of all or any of the Obligations (collectively referred to herein as the "Purchasers") 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 Purchasers. 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 Obligations, 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 OBLIGATIONS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAVE THE ORDINANCES BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939 IN RELIANCE ON EXEMPTIONS CONTAINED IN SUCH ACTS.

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 Purchasers. 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 Obligations.

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 SERIES 2011A BONDS, THE SERIES 2011B BONDS, THE CERTIFICATES, AND THE CONTRACTUAL OBLIGATIONS, THE PURCHASERS OF ANY OR ALL OF SUCH OBLIGATIONS MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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CITY OF AUSTIN

Elected Officials

		<u>Term Expires June 15</u>
Lee Leffingwell	Mayor	2012
Chris Riley	Councilmember Place 1	2014
Mike Martinez	Councilmember Place 2	2012
Kathie Tovo	Councilmember Place 3	2014
Laura Morrison	Councilmember Place 4	2014
Bill Spelman	Councilmember Place 5	2012
Sheryl Cole, Mayor Pro Tem	Councilmember Place 6	2012

Appointed Officials

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

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Austin, TX 78701
(512) 614-5323
waleyd@pfm.com

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 Series 2011A Bonds, the Series 2011B Bonds, the Certificates and the Contractual Obligations (referred herein collectively as the “Obligations”) 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 purchasers of the Series 2011A Bonds, the Series 2011B Bonds, the Certificates and the Contractual Obligations, and information concerning the Series 2011A Bonds, the Series 2011B Bonds, the Certificates, and the Contractual Obligations, the 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 located in Travis, Williamson and Hays Counties, operating as a home-rule city under the laws of the State of Texas 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 306 square miles in area (see APPENDIX A – “General Information Regarding the City”).

The Series 2011A Bonds..... The Series 2011A Bonds are being issued in the principal amount of \$78,090,000, pursuant to the general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, elections held by the City (see “DEBT INFORMATION – Authorized General Obligation Bonds”), and an ordinance passed by the City Council of the City (see “OBLIGATION INFORMATION – Authority for Issuance”).

The Series 2011B Bonds..... The Series 2011B Bonds are being issued in the principal amount of \$8,450,000, pursuant to the general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, elections held by the City (see “DEBT INFORMATION – Authorized General Obligation Bonds”), and an ordinance passed by the City Council of the City (see “OBLIGATION INFORMATION – Authority for Issuance”).

The Certificates..... The Certificates are being issued in the principal amount of \$51,150,000 pursuant to the general laws of the State of Texas, particularly Subchapter C, Chapter 271, Texas Local Government Code (the “Certificate of Obligation Act”) and an ordinance passed by the City Council of the City (see “OBLIGATION INFORMATION – Authority for Issuance”).

The Contractual Obligations..... The Contractual Obligations are being issued in the principal amount of \$26,725,000 pursuant to the general laws of the State of Texas, particularly Subchapter A, Chapter 271, Texas Local Government Code (the “Public Property Finance Act”) and an ordinance passed by the City Council of the City (see “OBLIGATION INFORMATION – Authority for Issuance”).

Security..... Each series of the Obligations constitutes a direct obligation of the City, payable from a continuing 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 all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenues (not to exceed \$1,000) of the City’s solid waste disposal system (see “OBLIGATION INFORMATION”).

Redemption of Obligations..... The City reserves the right, at its option, to redeem the Series 2011A Bonds, the Series 2011B Bonds and the Certificates having stated maturities on and after September 1, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2021, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see “OBLIGATION INFORMATION – Optional Redemption of the Bonds and the Certificates”). The Series 2011A Bonds maturing September 1, 2031, are subject to mandatory sinking fund redemption prior to their scheduled maturity (see “OBLIGATION INFORMATION – Mandatory Sinking Fund Redemption of the Series 2011A Bonds”). The Series 2011B Bonds maturing September 1, 2031, are subject to mandatory sinking fund redemption prior to their scheduled maturity (see “OBLIGATION INFORMATION – Mandatory Sinking Fund Redemption of the Series 2011B Bonds”). The Certificates maturing on September 1 in each of the years 2023, 2030, 2033, 2036, 2039 and 2041 are subject to mandatory sinking fund redemption prior to their scheduled maturity (see “OBLIGATION INFORMATION – Mandatory Sinking Fund Redemption of the Certificates”). **The Contractual Obligations are not subject to redemption prior to their stated maturities.**

Tax Exemption..... In the opinion of Bond Counsel, the interest on the Series 2011A Bonds, the Certificates and the Contractual Obligations are excludable from gross income for federal income tax purposes under existing law and the Obligations will not constitute private activity bonds. See “TAX MATTERS RELATING TO THE TAX-EXEMPT OBLIGATIONS” for a discussion of the opinion of Bond Counsel including the alternative minimum tax consequences for corporations.

In the opinion of Bond Counsel, as of the date of issuance of the Series 2011B Bonds, the Series 2011B Bonds are not obligations described in section 103(a) of the Internal Revenue Code of 1986. See “CERTAIN FEDERAL INCOME TAX CONSIDERATIONS RELATING TO THE TAXABLE BONDS”.

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

Selected Issuer Indices

Fiscal Year Ended	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
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	71,424.43	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%	100.63%
2010	778,560	80,960,540,976	103,987.54	1,002,186	1,287.23	1.24%	99.93%
2011	799,578	77,097,148,556	96,422.30	915,707	1,145.24	1.19%	99.91% (3)
2012	813,776	80,089,291,854 (4)	98,416.88	933,628 (5)	1,147.28 (5)	1.17% (4)	N/A

- (1) Source: City of Austin Department of Planning and Development based on full purpose area as of September 30.
- (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, 2011 based on the July 2010 Certified Tax Roll tax levy.
- (4) Certified taxable value for the 2011 tax year.
- (5) Projected. Includes the Obligations.

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OFFICIAL STATEMENT

Relating to

\$78,090,000

CITY OF AUSTIN, TEXAS

Public Improvement Bonds, Series 2011A

\$8,450,000

CITY OF AUSTIN, TEXAS

Public Improvement Bonds, Taxable Series 2011B

\$51,150,000

CITY OF AUSTIN, TEXAS

Certificates of Obligation, Series 2011

\$26,725,000

CITY OF AUSTIN, TEXAS

Public Property Finance Contractual Obligations, Series 2011

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 \$78,090,000 Public Improvement Bonds, Series 2011A (the "Series 2011A Bonds"), its \$8,450,000 Public Improvement Bonds, Taxable Series 2011B (the "Series 2011B Bonds"), its \$51,150,000 Certificates of Obligation, Series 2011 (the "Certificates") and its \$26,725,000 Public Property Finance Contractual Obligations, Series 2011 (the "Contractual Obligations"). The Series 2011A Bonds and the Series 2011B Bonds are collectively referred to herein as the "Bonds". The Bonds, the Certificates, and the Contractual Obligations, are collectively referred to herein as the "Obligations". The Series 2011A Bonds, the Certificates, and the Contractual Obligations, are collectively referred to herein as the "Tax-Exempt Obligations". The Series 2011B Bonds are referred to herein as the "Taxable Bonds". The Bonds, the Certificates, and the Contractual Obligations are being offered separately by the City, and delivery of each issue is not contingent upon the delivery of the other issues. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the respective ordinances authorizing the issuance of each series of the Bonds (collectively, the "Bond Ordinance"), the ordinance authorizing the issuance of the Certificates of Obligations (the "Certificate Ordinance"), and the ordinance authorizing the issuance of the Contractual Obligations (the "Contractual Obligation Ordinance"), except as otherwise indicated herein. The Bond Ordinance, the Certificate Ordinance, and the Contractual Obligation Ordinance are collectively referred to herein as the "Ordinances".

There follows in this Official Statement descriptions of the Obligations 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.

OBLIGATION INFORMATION

Authority for Issuance

The capital improvements to be financed with the proceeds of the Bonds were authorized at elections held on various dates, and passed by a majority of the participating voters in the City (see "DEBT INFORMATION – Authorized General Obligation Bonds"). The City is authorized to incur debt by voter authorization by Chapter 1331, Texas Government Code and by the Bond Ordinance, the adoption of which are pursuant to the City Charter adopted by voters on January 31, 1953, as amended.

The Certificates are being issued pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act"), and the Certificate Ordinance passed by the City Council.

The Contractual Obligations are being issued pursuant to the general laws of the State of Texas, particularly Subchapter A of Chapter 271, Texas Local Government Code (the "Public Property Finance Act"), and the Contractual Obligation Ordinance passed by the City Council.

General

Each series of Obligations is dated as of the Dated Date and shall bear interest on the unpaid principal amounts from such date, at the per annum rates shown on the respective cover pages for each series of Obligations described herein. Interest on the Obligations will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds and the Certificates will be payable on March 1, 2012, and on each September 1 and March 1 thereafter until maturity or prior redemption. Interest on the Contractual Obligations will be payable on May 1, 2012, and on each November 1 and May 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 Obligations 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 Ordinances. 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 Ordinances, 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 Obligations 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 Obligations constitute direct obligations of the City, payable from a continuing 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. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenue (not to exceed \$1,000) of the City's solid waste disposal system.

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, 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, interest, or redemption price on any series of the Obligations when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in any of the Ordinances, 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 Obligations if there is no other available remedy at law to compel performance of the Obligations or the respective Ordinance authorizing the issuance of such Obligations, and the City's

obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders of any series of the Obligations upon any failure of the City to perform in accordance with the terms of the Ordinances, 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 Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Obligations may not be able to bring such a suit against the City for breach of the Obligations or covenants contained in the Ordinances. 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 Obligations 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 Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

Defeasance of Obligations

The Ordinances provide for the defeasance of the Obligations when the payment of the principal of and premium, if any on the Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agency, in trust (1) money 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 to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Obligations. The Ordinances provide that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) 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 (c) 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. There is no assurance that the ratings for any Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Obligations shall no longer be regarded to be outstanding or unpaid. The City has reserved the option, however, to be exercised at the time of the defeasance of the Obligations, to call for redemption at an earlier date, Obligations which have been defeased to their maturity date, if the City in the proceedings providing for the firm banking and financial arrangements (i) expressly reserves the right to call the Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of the Obligations immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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 Ordinances. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Obligations are described herein.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Obligations. The Obligations will be issued as fully-registered Obligations registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 issues, 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 referred to herein as “Participants”. DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC’s records. The ownership interest of each actual purchaser of each Obligation (“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 Obligations 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 Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Obligations 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 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations 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 Obligations unless authorized by a Direct Participant in accordance with DTC's MMI 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 Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Obligations 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 Obligations 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, 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, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as depository with respect to the Obligations 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, Obligation certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Obligation certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book entry system has been obtained from sources that the City believes to be reliable, but neither the City nor the Purchasers take any responsibility for the accuracy thereof.

Paying Agent/Registrar

The initial Paying Agent/Registrar for each series of Obligations is Bank of Texas, N.A. Interest on and principal of the Obligations will be payable, and transfer functions will be performed at the corporate trust office of the Paying Agent/Registrar in Houston, Texas (the "Designated Payment/Transfer Office"). In the Ordinances, 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 Obligations 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 Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations 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 Obligations 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. An Obligation 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 Obligation will be delivered by the Paying Agent/Registrar, in lieu of the Obligations 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 Obligations 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 Obligations 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 Obligations 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 Obligations.

Limitation on Transfer of Bonds or Certificates Called for Redemption

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond or Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled principal of a Bond or Certificate.

Optional Redemption of the Bonds and the Certificates

The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2021, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. If less than all of the Bonds or all of the Certificates are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds and the Certificates are in Book-Entry-Only form) shall determine by lot the Bonds or the Certificates, or portions thereof, within such maturity to be redeemed.

Mandatory Sinking Fund Redemption of the Series 2011A Bonds

The Series 2011A Bonds maturing on September 1, 2031 (the “Series 2011A Term Bonds”) are subject to mandatory redemption prior to maturity, in part, at the redemption price of par plus accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

Series 2011A Term Bonds Maturing September 1, 2031	
Mandatory Sinking Fund	
Redemption Date (September 1)	Mandatory Sinking Fund Payment
2030	\$ 200,000
2031*	9,800,000
	<u>\$10,000,000</u>

*Stated maturity.

The principal amount of the Series 2011A Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Series 2011A Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Series 2011A Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Mandatory Sinking Fund Redemption of the Series 2011B Bonds

The Series 2011B Bonds maturing on September 1, 2031 (the “Series 2011B Term Bonds”) are subject to mandatory redemption prior to maturity, in part, at the redemption price of par plus accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

Series 2011B Term Bonds Maturing September 1, 2031

<u>Mandatory Sinking Fund</u>	
<u>Redemption Date</u> <u>(September 1)</u>	<u>Mandatory Sinking</u> <u>Fund Payment</u>
2028	\$ 750,000
2029	800,000
2030	800,000
2031*	<u>700,000</u>
	\$3,050,000

*Stated maturity.

The principal amount of the Series 2011B Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Series 2011B Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Series 2011B Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Mandatory Sinking Fund Redemption of the Certificates

The Certificates maturing on September 1 of each of the years 2023, 2030, 2033, 2036, 2039 and 2041 (the "Term Certificates") are subject to mandatory redemption prior to maturity, in part, at the redemption price of par plus accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

Term Certificates Maturing September 1, 2023

<u>Mandatory Sinking Fund</u>	
<u>Redemption Date</u> <u>(September 1)</u>	<u>Mandatory Sinking</u> <u>Fund Payment</u>
2022	\$1,685,000
2023*	<u>1,770,000</u>
	\$3,455,000

Term Certificates Maturing September 1, 2030

<u>Mandatory Sinking Fund</u>	
<u>Redemption Date</u> <u>(September 1)</u>	<u>Mandatory Sinking</u> <u>Fund Payment</u>
2029	\$2,365,000
2030*	<u>2,485,000</u>
	\$4,850,000

Term Certificates Maturing September 1, 2033

<u>Mandatory Sinking Fund</u>	
<u>Redemption Date</u> <u>(September 1)</u>	<u>Mandatory Sinking</u> <u>Fund Payment</u>
2031	\$2,610,000
2032	1,440,000
2033*	<u>1,515,000</u>
	\$5,565,000

Term Certificates Maturing September 1, 2036

<u>Mandatory Sinking Fund</u>	
<u>Redemption Date</u> <u>(September 1)</u>	<u>Mandatory Sinking</u> <u>Fund Payment</u>
2034	\$1,590,000
2035	1,670,000
2036*	<u>1,755,000</u>
	\$5,015,000

Term Certificates Maturing September 1, 2039

<u>Mandatory Sinking Fund</u>	
<u>Redemption Date</u> <u>(September 1)</u>	<u>Mandatory Sinking</u> <u>Fund Payment</u>
2037	\$1,840,000
2038	1,935,000
2039*	<u>2,030,000</u>
	\$5,805,000

Term Certificates Maturing September 1, 2041

<u>Mandatory Sinking Fund</u>	
<u>Redemption Date</u> <u>(September 1)</u>	<u>Mandatory Sinking</u> <u>Fund Payment</u>
2040	\$2,130,000
2041*	<u>2,235,000</u>
	\$4,365,000

*Stated maturity.

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

Notice of Redemption

At least thirty days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Bond or Certificate to be redeemed at the address shown on the registration books maintained by the Paying Agent/Registrar and subject to the terms and provisions relating thereto contained in the Ordinances. If a Bond or a Certificate (or a portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Bond or Certificate (or the portion of its principal sum to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date thereof, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

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, V.T.C.A. 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 property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (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 Section 1-b, Article VIII, 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 Section 2, Article VIII, 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.

Section 1-b, Article VIII of the Texas Constitution, 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 sixty-five 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 sixty-five 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 fifty-five 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 of the Texas Constitution provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication.

Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit." "Goods-in-transit" are defined as (i) personal property acquired or imported into Texas and transported to another location in the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) 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 Texas. 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. Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 2011, to provide for the taxation of the goods-in-transit. After holding the public hearing, a taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created.

Freeport property is exempt from taxation by the City, and, the City anticipates taking action in October 2011 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 a program established pursuant to Chapter 380, 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, 2011 Appraised Valuation (1)		\$91,767,486,326
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead over 65	\$1,422,646,185	
Homestead 10% Increase Cap	343,995,165	
Disabled Veterans	157,734,502	
Agricultural and Historical Exemptions	522,802,891	
Disability Exemption	105,118,585	
Other Exemptions	8,052,413,541	
Freeport Exemption	<u>1,073,483,603</u>	<u>11,678,194,472</u>
January 1, 2011 Net Taxable Assessed Valuation (1)		<u>\$80,089,291,854</u>

(1) 2011 Certified Appraised Value includes \$6,232,221,078 in property in the appeals process.

(2) Exemptions or adjustments to assessed valuation granted in 2010 include (a) exemptions of \$51,000 for homestead property of property owners who are over 65 years of age or disabled; (b) exemptions for residence homestead property exceeding a 10 percent increase in valuation from the previous year; (c) exemptions 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) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

Statement of Debt (As of September 30, 2011) (3)

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)	\$851,980,000	
Certificates of Obligations (1)	102,475,000	
Contractual Obligations (1)	62,125,000	
Assumed Bonds (2)	11,905,000	
The Obligations (3)	<u>164,415,000</u>	
Total		\$1,192,900,000
Less Self-Supporting Debt:		
Assumed Water & Wastewater Bonds (2)	\$ 7,621,582	
Airport (4)	222,881	
Austin Energy (4)	986,930	
City Hall (4)	20,503,186	
CMTA Mobility (5)	5,635,000	
Code Compliance (4)	224,557	
Convention Center (4)	23,201,507	
Financial Services (4)	22,420,160	
Fleet Management (4)	4,129,587	
Golf (4)	1,155,000	
One Texas Center (4)	8,535,000	
PARC - Zilker Park (5)	1,745,946	
Solid Waste (3) (4)	67,153,808	
Transportation (3) (4)	18,358,141	
Waller Creek (3) (4)	35,000,000	
Water and Wastewater (3) (4)	19,630,101	
Watershed Protection (4)	<u>13,088,842</u>	
		\$249,612,228
Interest and Sinking Fund (6)		16,528,490
Self-Supporting General Fund Payments (7)		<u>11,052,317</u>
Net Debt (7)		\$915,706,966
Ratio Total Debt to FY 2011 Net Taxable Assessed Valuation		1.55%
Ratio Net Debt to FY 2011 Net Taxable Assessed Valuation		1.19%

2011 Population (Estimate) – 799,578 (8)

Per Capita Net Taxable Assessed Valuation – \$96,422.30

Per Capita Net Debt Outstanding – \$1,145.24

(1) Excludes the Obligations.

(2) Represents bonds of utility districts annexed by the City.

(3) The Obligations to be sold on August 25, 2011 are expected to be delivered on October 4, 2011.

(4) 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. Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.

- (5) 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. The City entered into an agreement with C3 Productions, whereby C3 Productions will pay the City \$500,000 each year for 5 years to cover the required debt service.
- (6) Represents estimate of cash plus investments at cost on September 30, 2011.
- (7) 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.
- (8) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

Revenue Debt (As of June 30, 2011)

In addition to the above, on a pro forma basis, the City had outstanding \$119,597,847 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 \$230,919,512 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; \$1,103,605,000 Electric Utility Obligations payable from a separate lien on the net revenues of the Electric Utility System; \$1,773,675,000 Water and Wastewater Obligations payable from a separate lien on the net revenue of the Water and Wastewater System, and \$307,588,000 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 \$323,015,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding \$215,470,000 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 an 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. \$12,000,000 in Contract Revenue Bonds were issued in 2006 by MLGC 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 the MLGC pursuant to the terms of a Tri-Party Agreement among the City, the MLGC and the Zone (the "Tri-Party Agreement"). In addition, the City has agreed to consider making payments to the MLGC under a grant agreement between the City and the MLGC, pursuant to which the City may make available to the MLGC grant funds in amounts sufficient to pay debt service on the Tax Increment Contract Revenue Bonds, should Pledged Revenues be insufficient to allow the 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. The MLGC issued \$15 million in Tax Increment Contract Revenue Bonds in September 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	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
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	71,424.43	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%	100.63%
2010	778,560	80,960,540,976	103,987.54	1,002,186	1,287.23	1.24%	99.93%
2011	799,578	77,097,148,556	96,422.30	915,707	1,145.24	1.19%	99.91% (3)
2012	813,776	80,089,291,854 (4)	98,416.88	933,628 (5)	1,147.28 (5)	1.17% (4)	N/A

- (1) Source: City of Austin Department of Planning and Development based on full purpose area as of September 30.
- (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, 2011 based on the July 2010 Certified Tax Roll tax levy.
- (4) Certified taxable value for the 2011 tax year.
- (5) Projected. Includes the Obligations.

Tax Rate, Levy and Collection History

Fiscal Year Ended	Total Tax Rate	Distribution			% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund	Tax Levy		
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	99.22%	99.56%
2009	0.4012	0.2749	0.1263	307,929,055	99.60%	100.63%
2010	0.4209	0.2950	0.1259	340,762,917	99.00%	99.93%
2011	0.4571	0.3262	0.1309	352,411,066	99.13% (2)	99.91% (2)
2012 (3)	0.4823	0.3560	0.1263	385,420,812	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 to be 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, 2011 based on the July 2010 Certified Tax Roll tax levy.
- (3) Preliminary, subject to change pending adoption of the tax rate.

Ten Largest Taxpayers (1)

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	<u>January 1, 2011 Taxable Assessed Valuation</u>	<u>% of Total Taxable Assessed Valuation</u>
Samsung Semiconductor LLC	Manufacturing	\$2,880,603,071	3.60%
Thomas Property Group LLC	Commercial	707,020,200	0.88%
Freescale Semiconductor Inc.(2)	Manufacturing	282,070,717	0.35%
Advanced Micro Devices Inc	Manufacturing	258,394,900	0.32%
IBM Corporation	Manufacturing	214,683,553	0.27%
Dell Computer Corporation	Manufacturing	193,025,722	0.24%
Spansion LLC (3)	Manufacturing	171,948,670	0.21%
Metropolitan Life Insurance	Commercial	155,781,175	0.19%
Southwestern Bell Telephone	Commercial	141,930,480	0.18%
Sinon Property Group Texas LP	Commercial	<u>132,546,017</u>	<u>0.17%</u>
TOTAL		<u>\$5,138,004,505</u>	<u>6.42%</u>

(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				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012 (1)</u>
General Fund	\$.2730	\$.2749	\$.2950	\$.3262	\$.3560
Interest and Sinking Fund	<u>.1304</u>	<u>.1263</u>	<u>.1259</u>	<u>.1309</u>	<u>.1263</u>
Total Tax Rate	\$.4034	\$.4012	\$.4209	\$.4571	\$.4823

(1) Preliminary, subject to change pending adoption of the tax rate.

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Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended	Valuation Date	Real Property		Personal Property		Net Taxable Assessed Valuation	Total Tax Levy	% Current Collections	% Total Collections
		Amount	% of Total	Amount	% of Total				
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	99.22%	99.56%
2009	1-1-08	68,709,111,385	89.63%	7,961,896,352	10.37%	76,752,007,737	307,929,055	99.60%	100.63%
2010	1-1-09	72,029,659,502	94.21%	8,147,372,223	10.66%	80,960,540,976	340,762,917	99.00%	99.93%
2011	1-1-10	70,024,297,956	90.85%	7,072,850,600	9.17%	77,097,148,556	352,411,066	99.13% (2)	99.91% (2)
2012	1-1-11	71,055,252,115	88.72%	9,034,039,739	11.28%	80,089,291,854	385,420,812	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, 2011 based on the July 2010 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. 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.

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, The Certificates and The Contractual Obligations		Less Self-Supporting Requirements (b)	Net Total Requirements	Percent Principal Payout
					Obligations	Requirements			
2012	90,345,044	15,164,546	16,731,904	1,123,505	15,805,374	139,170,374	39,246,011	99,924,363	
2013	93,763,268	9,936,214	13,790,200	1,117,360	9,295,578	127,902,620	36,086,290	91,816,330	
2014	87,380,110	10,030,228	11,566,688	1,120,098	10,233,516	120,330,639	33,157,965	87,172,675	
2015	86,139,745	7,851,594	10,032,736	1,115,998	10,352,768	115,492,839	28,570,056	86,922,783	
2016	78,855,902	7,893,211	7,416,845	1,135,590	11,875,293	107,176,841	26,388,487	80,788,354	32.56%
2017	84,975,422	6,579,268	4,302,202	1,008,319	10,544,768	107,409,978	22,737,277	84,652,702	
2018	81,207,690	8,048,969	2,111,110	1,012,938	10,633,918	103,014,623	18,126,994	84,887,629	
2019	77,040,954	8,089,124	613,638	1,030,083	10,733,068	97,506,865	16,000,940	81,505,925	
2020	76,743,626	8,055,828	309,956	1,033,498	6,326,818	92,469,725	14,533,531	77,936,194	
2021	68,674,278	8,104,912		1,046,118	10,654,068	88,479,375	14,809,313	73,670,062	61.43%
2022	59,953,430	8,162,872		1,036,678	9,535,918	78,688,897	12,269,955	66,418,942	
2023	48,294,607	8,204,037		1,041,188	8,669,111	66,208,943	9,933,558	56,275,384	
2024	43,786,900	7,903,010		1,038,575	10,884,944	63,613,429	9,682,619	53,930,810	
2025	38,231,670	5,997,841		1,044,475	16,337,244	61,611,230	7,773,848	53,837,381	
2026	43,119,785	5,458,554		943,463	13,833,444	63,355,245	7,318,142	56,037,103	83.01%
2027	62,287,637	3,566,671			4,939,194	70,793,501	4,624,481	66,169,020	
2028	29,811,449	3,307,506			16,086,944	49,205,899	4,541,862	44,664,037	
2029	16,082,244	2,449,420			20,012,194	38,543,858	4,581,646	33,962,212	
2030	23,733,298	2,149,595			4,913,594	30,796,486	4,293,688	26,502,798	
2031		388,640			14,395,194	14,783,834	3,262,334	11,521,500	98.26%
2032		386,655			2,197,294	2,583,949	2,583,949		
2033		389,200			2,214,694	2,603,894	2,603,894		
2034		391,040			2,229,094	2,620,134	2,620,134		
2035		392,175			2,243,506	2,635,681	2,635,681		
2036		397,450			2,259,619	2,657,069	2,657,069		99.06%
2037		396,775			2,272,225	2,669,000	2,669,000		
2038		400,388			2,289,025	2,689,413	2,689,413		
2039		398,050			2,301,788	2,699,838	2,699,838		
2040					2,315,513	2,315,513	2,315,513		
2041					2,329,988	2,329,988	2,329,988		100.00%

(a) As of September 30, 2011

(b) Includes principal and interest on all self-supporting debt (see "Statement of Debt", p. 11).

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-10) (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.

<u>Taxing Jurisdiction</u>	<u>Total Funded Debt</u>	<u>Estimated % Applicable</u>	<u>Overlapping Funded Debt</u>
Austin, City of	\$899,500 (1)	100.00%	\$ 899,500
Austin Community College	94,519	71.12%	67,222
Austin Independent School District	809,188	93.97%	760,394
Northwest Travis County Road District #3	2,780	100.00%	2,780
Round Rock Independent School District	666,450	33.39%	222,528
Travis County	523,199	69.92%	365,821
Del Valle Independent School District	173,905	68.31%	118,795
Eanes Independent School District	115,945	29.89%	34,656
Leander Independent School District	1,280,258	11.07%	141,725
Manor Independent School District	190,775	69.65%	132,875
Pflugerville Independent School District	358,635	38.48%	138,003
Williamson County	767,347	9.85%	<u>75,584</u>

TOTAL DIRECT AND OVERLAPPING FUNDED DEBT \$2,959,883

Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (2) 3.66%

Per Capita Overlapping Funded Debt (3) \$3,801.74

(1) Includes the Obligations. Excludes general obligation debt reported in proprietary funds.

(2) Based on assessed valuation of \$80,960,540,976 provided by the Travis Central Appraisal District, Williamson County Appraisal District and Hays Central Appraisal District.

(3) Based on 2010 estimated population of 778,560.

Source: 2010 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 General Obligation Bonds

<u>Purpose</u>	<u>Date</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Unissued</u>
	<u>Authorized</u>	<u>Authorized</u>	<u>Previously</u>	<u>Being</u>	<u>Balance</u>
			<u>Issued</u>	<u>Issued</u>	
				<u>Series 2011</u>	
Brackenridge 2000	10/22/83	\$ 50,000,000	\$ 40,785,000	\$ -	\$ 9,215,000
Park 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	14,300,000	23,140,000
Drainage Improvements (Prop 2)	11/07/06	145,000,000	107,000,000	18,000,000	20,000,000
Park Improvements (Prop 3)	11/07/06	84,700,000	51,575,000	6,235,000	26,890,000
Cultural Arts (Prop 4)	11/07/06	31,500,000	11,100,000	10,500,000	9,900,000
Affordable Housing (Prop 5)	11/07/06	55,000,000	39,900,000	8,450,000 (1)	6,650,000
Central Library (Prop 6)	11/07/06	90,000,000	1,500,000	4,000,000	84,500,000
Public Safety Facility (Prop 7)	11/07/06	58,100,000	42,350,000	9,750,000	6,000,000
Mobility Transportation (Prop 1)	11/02/10	<u>90,000,000</u>	<u>-</u>	<u>15,305,000</u>	<u>74,695,000</u>
		<u>\$737,660,000</u>	<u>\$384,408,000</u>	<u>\$86,540,000</u>	<u>\$266,712,000</u>

(1) Series 2011B Bonds; all other amounts shown in this column are Series 2011A Bonds.

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2012. The City continues to review opportunities for refunding certain previously issued general obligation bonds and assumed debt.

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.

2011-2012 Capital Budget

The 2011-2012 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 2011-2012 of \$450.2 million in enterprise funds and \$428.4 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 2011-2012 Capital Budget. Total new proposed appropriation for General Government CIP Funds is \$170.6 million and total new proposed appropriation for Enterprise CIP Funds is \$237.1 million. Appropriation by department is listed below.

Summary of 2011-2012 Proposed Capital Budget (millions):	
Austin Energy	\$104.0
Austin Water Utility	\$31.1
Aviation	\$23.4
Solid Waste Services	\$7.8
Watershed Protection	<u>\$70.8</u>
Enterprise Appropriations	\$237.1
Communications & Technology Management	\$12.9
Economic Growth and Redevelopment Services Office	\$0.2
Financial & Administrative Services	\$3.6
Library	\$77.6
Neighborhood Housing & Community Development	\$9.6
Parks & Recreation	\$24.2
Planning & Development Review	\$0.7
Public Works and Austin Transportation	<u>\$41.8</u>
General Government Appropriations	\$170.6
TOTAL PROPOSED NEW APPROPRIATIONS	<u>\$407.7</u>

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.

2011–2012 Budget (Amounts are in thousands)

The 2011-2012 operating budget was presented on July 27, 2011, and was prepared in accordance with guidelines provided by the City Council. The proposed budget includes a total tax rate of \$0.4823 per \$100 assessed valuation, which is based on the 2011 certified tax roll. The property tax revenue in the proposed budget is not significantly different with the revised tax rates. The following is a summary of the proposed 2011-2012 General Fund Budget.

Beginning Balance, October 1, 2011 (Budget Basis) (000's omitted)		
<u>Summary of Budgeted General Fund Resources</u>		
Revenue:		
General Property Taxes	\$279,378	
City Sales Tax	152,723	
Other Taxes	5,160	
Gross Receipts/Franchise Fees	33,827	
Miscellaneous	<u>83,006</u>	
Total Revenue		\$554,094
Transfers In:		
Electric Revenue	\$103,000	
Water Revenue	31,920	
Water Infrastructure Inspection	<u>1,200</u>	
Total Transfers In		<u>136,120</u>
Total General Fund Resources		<u>\$690,214</u>
<u>Summary of Budgeted General Fund Requirements</u>		
Departmental Appropriations:		
Administrative Services	\$ 12,773	
Urban Growth Management	21,112	
Public Safety	447,131	
Public Health and Human Services	41,017	
Public Recreation and Culture	<u>70,814</u>	
Total Departmental Appropriations		\$592,847
Transfers Out:		
Support Services Fund	\$ 30,944	
Other Funds	<u>22,637</u>	
Total Transfers Out		\$ 60,581
Other Requirements		<u>36,786</u>
Total General Fund Requirements		<u>\$690,214</u>
Use of Beginning Balance		0
Ending Balance		0
One-Time Critical Equipment		\$ 11,046
Transfer to/from Budget Stabilization Reserve		(11,046)
Adjusted Ending Balance		0
<u>Budgeted Reserve Requirements</u>		
Emergency Reserve	\$ 40,000	
Contingency Reserve	6,505	
Property Tax Reserve	4,000	
Budget Stabilization Reserve Fund	<u>36,192</u>	
Total Budgeted Reserve Requirements		<u>\$ 86,697</u>

Deficit Budgeting

The City is barred by Texas 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 15 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 Section 1431, V.T.C.A 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 State 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 Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States; (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 of Texas and are guaranteed or insured by a combination of cash and 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 a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and (13) local

government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than “AAA”, “AAA-m” or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PITA. 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 and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the 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 Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council, (3) require the registered representative of firms seeking to sell securities to the City to (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; and (5) provide specific investment training for the Chief Financial Officer of the City, Treasurer and Investment Officers.

Current Investments

As of June 30, 2011, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	4%
U. S. Agencies	48%
Municipal Bonds	1%
Money Market Funds	2%
Local Government Investment Pools	45%

The dollar weighted average maturity for the combined City investment portfolios is 400 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				
	2006	2007	2008	2009	2010
Revenues:					
Taxes (1)	\$294,344	\$326,576	\$347,961	\$356,064	\$387,061
Franchise Fees	30,677	32,275	35,577	33,276	34,964
Fines, Forfeitures and Penalties	18,832	16,094	18,946	19,100	18,692
Licenses, Permits and Inspections	22,131	25,635	24,268	20,531	15,716
Charges for Services	24,453	26,357	29,175	33,655	33,394
Interest and Other	<u>15,882</u>	<u>13,602</u>	<u>12,639</u>	<u>10,456</u>	<u>8,059</u>
Total Revenues	\$406,319	\$440,539	\$468,566	\$473,082	\$497,886
Expenditures:					
Administration	\$ 9,018	\$ 10,607	\$ 11,592	\$ 11,966	\$ 11,768
Urban Growth Management	16,701	18,886	20,692	19,682	17,535
Public Safety	323,006	352,149	384,081	389,518	398,930
Public Services and Utilities	262	297	340	365	363
Public Health	29,824	32,545	34,823	37,133	37,464
Public Recreation and Culture	47,599	53,213	58,919	59,988	60,040
Nondepartmental Expenditures	<u>54,424</u>	<u>68,170</u>	<u>65,112</u>	<u>52,197</u>	<u>69,456</u>
Total Expenditures	\$480,904	\$535,867	\$575,559	\$570,849	\$595,556
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (74,585)	\$ (95,328)	\$(106,993)	\$ (97,767)	\$ (97,670)
Other Financing Sources (Uses):					
Transfers from Other Funds	97,658	107,241	116,311	121,936	130,233
Transfers to Other Funds	<u>(16,611)</u>	<u>(16,907)</u>	<u>(27,438)</u>	<u>(20,698)</u>	<u>(16,014)</u>
Net Other Financing Sources	\$ 81,047	\$ 90,334	\$ 88,873	\$101,238	\$114,219
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	\$ 6,462	\$ (4,994) (2)	\$ (18,120)	\$ 3,471	\$ 16,549
Fund Balances at Beginning of Year	<u>105,342</u>	<u>111,804</u>	<u>106,810</u>	<u>88,690</u>	<u>92,161</u>
Fund Balances at End of Year	<u>\$111,804</u>	<u>\$106,810</u>	<u>\$ 88,690</u> (3)	<u>\$ 92,161</u> (3)	<u>\$108,710</u>

(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 <u>Ended 9-30</u>	Per Capita <u>Sales and Use Tax</u>	(in 000's) <u>Sales and Use Tax</u>	% of <u>Ad Valorem Tax Levy</u>
2003	\$163.70	\$110,454	47.34%
2004	173.44	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	182.51	139,795	45.40%
2010	185.87	144,710	42.47%
2011 (1)	185.44	148,275	42.07%
2012 (2)	187.67	152,723	39.63%

(1) Estimate.

(2) Estimate used in FY 2012 Proposed Budget.

Transfers from Utility Funds

The City owns and operates a Water and Wastewater System and an Electric Light and Power System, 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 <u>Ended 9-30</u>	(in 000's) <u>Transfers</u>	% of General <u>Fund Requirements</u>
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	129,967	21.5%
2011 (1)	134,263	20.7%
2012 (2)	134,920	19.5%

(1) Estimate.

(2) Estimate used in FY 2012 Proposed 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, 2010.

THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") and a Water and Wastewater System (also referred to herein as the "Water and Wastewater Utility") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The Electric Utility System had approximately 1,609 full-time regular employees as of March 31, 2011. The Water and Wastewater System had approximately 1,070 full-time regular employees as of the same date.

RESPONSE TO COMPETITION

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 manage its exposure when considering future courses of action. This approach allows Austin Energy to prepare for future options without prematurely investing and allows time 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 seek cost effective renewable energy and conservation solutions to meet customers' new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy has developed a Resource, Generation and Climate Protection Plan to 2020 discussed further in the next section.

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 approved the Plan on April 22, 2010 with a delayed effective date to give Austin Energy time to develop an affordability plan for City Council approval.

Goals Summary

The City Council adopted the following changes and additions to the prior resource planning goals, with a target of meeting these goals by 2020:

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

Following the development of an affordability goal, the City Council adopted the Plan on February 17, 2011, as a resource-planning tool that brings together demand and energy management options over the planning horizon.

Affordability Goal

The affordability goal, intended to make the Plan as predictable as possible, calls for Austin Energy to operate so as to control all-in (base, fuel, riders, etc.) rate increases to residential, commercial, and industrial customer to 2% or less per year. In addition, the goal is to maintain Austin Energy's current all-in competitive rates in the lower 50 percent of Texas rates overall. The affordability goal will apply immediately upon implementation of Austin Energy's revenue requirements in 2012. Austin Energy will update electric rate benchmarking metrics and an affordability forecast every year and report to the City Council along with its five-year financial forecast. This will allow the City Council to gauge whether progress towards achieving the Plan's goals is keeping Austin Energy in its favorable position related to other electric service providers in Texas.

Developing the Plan involved extensive analysis of the expected risks, costs, and opportunities to meet the future demand for electricity services and an evaluation of the state of technology and national, state and local energy policies. The Plan also benefited from substantial input from citizens, customer groups, utility advisory commissions and a City Council-appointed task force.

The Plan is designed to be flexible and dynamic. As circumstances change, the City maintains 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 the 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 be taken before the City Council for review and authorization.

Financial Policies

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

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance.
- A fund named Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
 - An Emergency Reserve with a minimum of 60 days of operating cash.
 - Up to a maximum of 60 days additional operating cash set aside as a Contingency Reserve ("Contingency Reserve").
 - Any additional funds over the maximum 120 days of operating cash may be set aside in a Competitive Reserve ("Competitive Reserve").
- The 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.)
- Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and

miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) General Fund transfers, (4) equity funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable and (7) any other current budget directing excess net revenues for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies and other Austin Energy requirements such as working capital.

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 Utilities 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. State 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.

Rate Review

Austin Energy began planning for a review of its electric rate levels and rate structures in early 2010 and began work on a cost of service study in October 2010. Austin Energy's rate review includes reviewing its customer classes, determining its revenue requirements, completing a cost of service analysis to determine the cost to serve each customer class, and designing new rates for each customer class and rate option.

To remain financially sustainable, Austin Energy must produce sufficient revenue from its retail rates to cover its revenue requirements and allow for ongoing operating expenses and capital improvement. The cost of service study provides the analytic basis for identifying the true costs incurred by Austin Energy to provide service to different types of customers. Austin Energy has a policy to complete a cost of service study at a minimum of every five years. The rate design includes an assessment of the rate structures for each customer class and consideration of the utility's strategic objectives.

The City Council appointed Electric Utility Commission and the City Council in a series of public meetings and hearings in late 2011 will review Austin Energy's rate proposal. It is expected that new rates will be implemented in early 2012.

State Wholesale Market Design Developments

On September 23, 2005, the Electric Reliability Council of Texas ("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 congestion revenue rights ("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 began operation on December 1, 2010. Austin Energy's Energy and Market Operations staff, system planning and operations staff, and finance and accounting staff have taken the necessary 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 Energy Regulatory Commission ("FERC") and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records.

Under the Energy Policy Act of 2005, all users, owners and operators of the bulk-power system (including Austin Energy) are now subject to certain FERC jurisdiction regarding the reliability of the bulk power system. On July 20, 2006, the FERC certified the North American Electric Reliability Corporation ("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. Specific Reliability Standards have been developed by NERC and approved by the FERC. On April 19, 2007, FERC approved the Delegation Agreement between NERC and ERCOT, which governed the responsibilities of the "Texas Regional Entity" (a division of ERCOT) as the Regional Entity responsible for overseeing compliance with the NERC reliability standards in the ERCOT region. Since that time, the Texas Regional Entity separated from ERCOT and became the Texas Reliability Entity (Texas RE). Texas RE now oversees compliance with 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 United States. Austin Energy has established a Reliability Compliance Office to assist Austin Energy operational organizations in examining the requirements for compliance with the NERC standards and to evaluate and implement any needed changes to systems and procedures. This process is verified through external audits involving the Texas RE. Austin Energy has been through several audits conducted by Texas RE.

Texas RE alleged that Austin Energy failed to comply with NERC Reliability Standard IRO-001-1, Requirement 8. Essentially, Texas RE took that position that Austin Energy, as the Qualified Scheduling Entity for a Generation Resource, failed to timely convey to the Generation Resource a directive (*i.e.* a dispatch instruction) received from ERCOT.

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

In 1999, as part of legislation enacted into law which provided for comprehensive changes to the electric utility industry in Texas ("SB7"), the State 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 LCRA) and current emission rates are averaging approximately 0.107 lb/mmBtu. All the Decker units will comply 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, Lower Colorado River Authority (“LCRA”), have installed 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 joined the California Climate Action Registry (“CCAR”), which requires Austin Energy to report its point and non-point sources. The emissions will be reported each year and will be certified by a third party auditor.

Greenhouse Gas Emissions

In 2007, the United States Supreme Court rendered its first major decision in the climate change area in *Massachusetts v. EPA*. The Court held, 5-4, that carbon dioxide was an “air pollutant” for purposes of Section 202 of the Clean Air Act (“CAA” or the “Act”) and that USEPA was required by that section to issue carbon dioxide emission standards for motor vehicles if it found that such emissions endanger public health and welfare. In December 2009, USEPA made the endangerment finding. USEPA’s endangerment finding obligated the agency, under Section 202(a) of the CAA, to issue greenhouse gas emissions standards for motor vehicles. In May 2010, USEPA began discharging this duty when it issued a final rule regulating greenhouse gas emissions from mobile sources (the “Light Duty Vehicle Rule”). With this action, greenhouse gas emissions became “subject to regulation” under the CAA for the first time. Under the text of the CAA, air pollutants that are subject to regulation under the statute are subject to the Act’s Prevention of Significant Deterioration (“PSD”) and Title V Operating-Permit (“Title V”) provisions for stationary sources. Consequently, adoption of the Light Duty Vehicle Rule triggered the regulation of new and modified stationary sources, such as power plants, under the PSD and Title V programs. In an effort to limit the number of affected sources, USEPA issued a rule on June 3, 2010 (the “Tailoring Rule”), which establishes heightened emission thresholds for new and modified sources. In addition, USEPA’s reconsideration of the “Johnson Memo”, which was completed on March 29, 2010, confirmed that the inclusion of greenhouse gas emissions in PSD permits for new and modified sources exceeding the emission threshold will begin on January 2, 2011.

Austin Energy is a participant in trade organizations actively monitoring potential greenhouse gas regulatory programs. While there is much uncertainty as to how greenhouse gases will be regulated, Austin Energy believes that it is similarly positioned as any other comparable electric utility with similar electric generation resources and is factoring the best available information into its generation resource decisions.

Environmental Regulation Water

Wastewater discharges are regulated pursuant to the Clean Water Act National Pollution Discharge Elimination System ("NPDES"). Storm water 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 Storm water 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 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 of the Seaholm Power Plant. In 2009, planning began to decommission Austin Energy's Holly Street Power Plant, which ceased operations in 2007. In 2011, the City Council approved the contract to begin decommissioning activities.

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 the State. 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

The City is a participant and co-owner of the South Texas Project ("STP"), a nuclear electric generation facility.

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 shared based on 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 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 because 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.

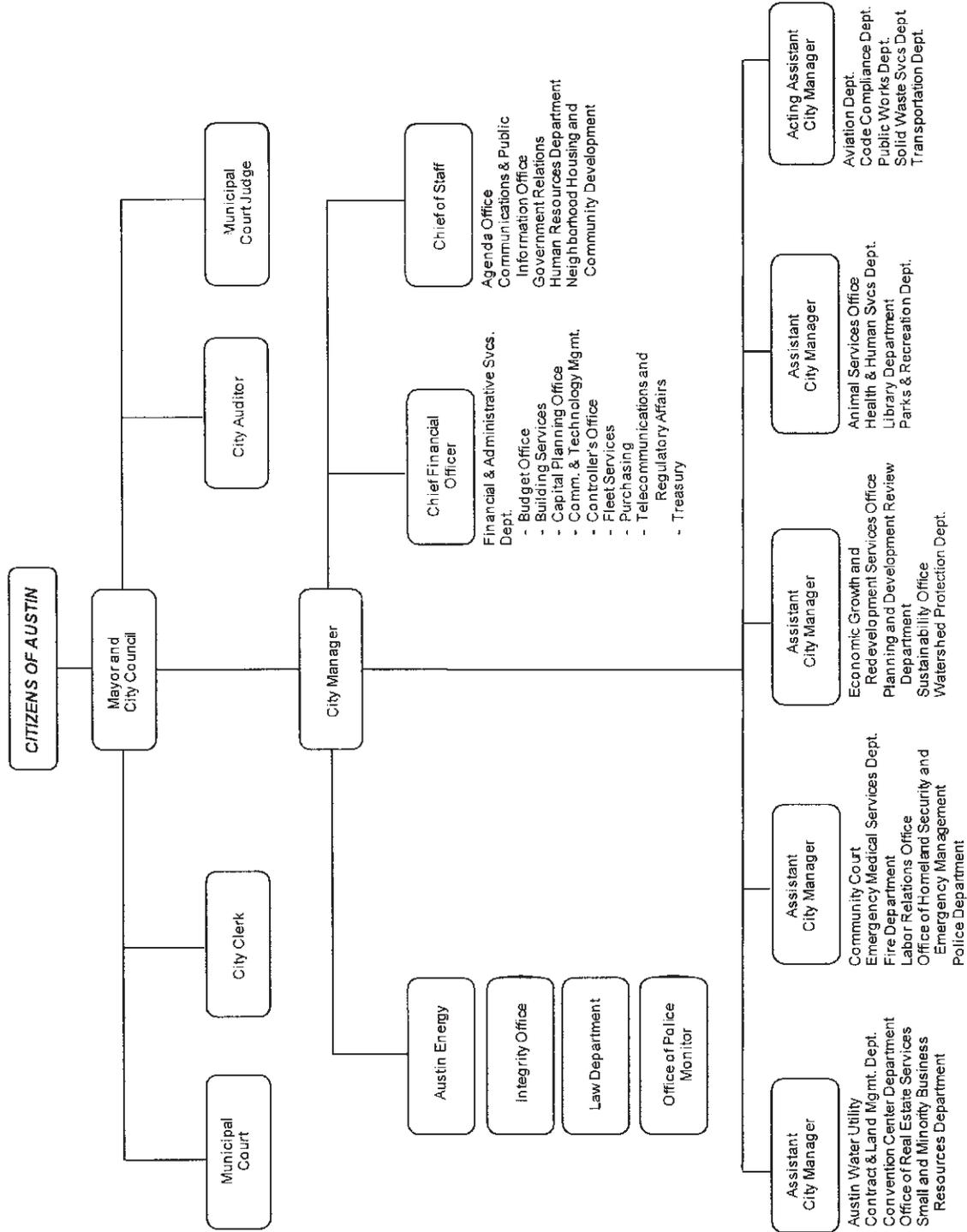
On March 11, 2011, a region of Japan sustained significant loss of life and destruction because of a major earthquake and resulting tsunami. Included in the damage areas were the Fukushima nuclear units, which lost power to components of the backup and safety control systems and began emitting radiation into the surrounding environment. Following the incident, the NRC began looking into the safety aspects of nuclear plant operations in the United States with the objective of assuring that events such as those at the Fukushima plant do not occur in this country. While the NRC's assessments are tentatively due by July 19, 2011, and because the review process is just beginning, it is unknown what the exact implications will be to safety standards at existing and proposed nuclear operations in the United States.

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 March 31, 2011, was \$168,313,175.87. For Fiscal Year 2011, 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.

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" in any investment authorized by Subtitle B, Title 9, Texas Property Code (commonly referred to as the "Texas Trust Code"). The Texas Trust Code provides that a trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. See "INVESTMENTS – Legal Investments".

CITY OF AUSTIN, TEXAS

Organization Chart



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 16 years. Ms. Browder assumed the position of Chief Financial Officer in September 2007. Prior to her appointment as Chief Financial Officer, she served as the City's Deputy Chief Financial Officer. During her tenure at the City of Austin, she has also served in other financial capacities, including the Chief Financial Officer for the airport. Ms. Browder has also been employed in Chief Financial Officer roles for Austin's Public Transportation Authority, San Diego County's Public Pension System and the City of Encinitas, California.

Services Provided by the City

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

Employees

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

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

Annexation Program

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

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

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

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

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

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

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The following table sets forth (in acres) the annual results of the City's annexations since 2000.

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
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	1,129	2,495
2011 (2)	0	0

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

(2) Annexations effective through July 18, 2011.

Recent Annexation

The 2010 annual program included full purpose annexation of several developed residential and commercial areas, planned residential areas, and public right-of-way. Together the City's full and limited purpose annexations included approximately 8,500 residents and 3,624 acres. In accordance with the terms of the amended Strategic Partnership Agreement ("SPA") between the City and the Springwoods Municipal Utility District, this area was annexed for limited and later full purposes. In addition, the city annexed the adjacent Springwoods Municipal Annexation Plan ("MAP") area. City Council also approved the creation and limited purpose annexation of two new Public Improvement District ("PIDs"), Whisper Valley and Indian Hills. Future full purpose annexation of these areas will occur in accordance with the terms of the development agreement.

In accordance with the terms of a SPA between the City and the River Place Municipal Utility District (the "River Place MUD"), all of the territory in the River Place 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 in 2010 and the City's estimated population grew to 778,560 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 areas are scheduled to be annexed under this year's annual program. However, in the next several years, special districts are scheduled for annexation under proposed or approved agreements, as described below:

- Lost Creek Municipal Utility District – 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 19.63% of payroll as of October 1, 2010. 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 19.05% as of October 1, 2010.

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 Municipal Employees Fund 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 Municipal Employees Fund prepared for the period ending December 31, 2010, current contributions to the Municipal Employees Fund are not sufficient to adequately fund the current benefit structure. Although the Municipal Employees Fund has had an infinite funding period since December 31, 2002, investment losses in 2008 of -25.9% led to a significant decrease in the actuarial funded ratio and a significant increase to the unfunded actuarial accrued liability. In 2005, a Supplemental Funding Plan ("SFP") was approved that increased the City's annual contribution rate to a maximum of 12%, but even this additional funding was not sufficient to restore the long-term financial health of the Municipal Employees Fund. In FY 2011, City Council approved an amendment to the SFP that increased the City contributions by 2% annually, with a maximum rate of 18% of pay to be contributed by 2013. The City is contributing an additional 6% in FY 2011 pursuant to the terms of the SFP. In addition, a new benefit tier for new employees hired on or after January 1, 2012, has been approved by the Municipal Employees Fund Board of Trustees, the City Council and the Texas Legislature. The new benefit tier increases the age and service criteria necessary to reach retirement eligibility. It also decreases the pension multiplier, which is used to determine the final pension amount paid to future retirees. These two actions are expected to substantially improve the long-term financial health of the Municipal Employees Fund over time.

See Note 8 to the City's Financial Statements for additional information on the City's 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 3,118 retirees was \$21.7 million in 2010 and \$19.6 million in 2009 for 3,115 retirees.

As of September 30, 2010, the City's unfunded actuarial accrued liability is approximately \$1.1 billion; the net OPEB obligation is \$270.1 million. The City has worked with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to assess the effect these would have on reducing retiree benefits or developing other cost-sharing strategies. Cost reduction strategies have also been implemented.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to fifth party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$7.5 million for claims and damages at the end of fiscal year 2010. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

CONTINUING DISCLOSURE OF INFORMATION

In each Ordinance, the City has made the following agreement for the benefit of the Holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. 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 United States Securities and Exchange Commission (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.

Disclosure Event Notices

The City shall notify the MSRB, in a timely manner not in excess of ten Business Days after the occurrence of the event, of any of the following events with respect to the Obligations: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. (Neither the Obligations nor the Ordinances make any provision for debt service reserves or liquidity enhancement.) The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Ordinances.

As used in clause 12 above, the phrase “bankruptcy, insolvency, receivership or similar event” means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and official or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. The term “Business Day” means a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions are authorized by law or executive order to close in the City or the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located.

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 Obligations 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 Obligations 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 Obligations 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 Obligations 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 Obligations. 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 Obligations in the primary offering of the Obligations. 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.

TAX MATTERS

THE FOLLOWING DISCUSSION, WHICH WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SALE OF THE OBLIGATIONS, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED BELOW. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE OBLIGATIONS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

Certain Federal Income Tax Considerations

General. The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Obligations and is based on the Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service ("IRS") and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Obligations and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to or personal holding company provisions of the Code) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Obligations as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Obligations as "capital assets" (generally, property held for investment) within the meaning of section 1221 of the Code. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

As used herein, the term "U.S. Holder" means a beneficial owner of an Obligation who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of an Obligation that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF OBLIGATIONS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE OBLIGATIONS 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 OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE OBLIGATIONS.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Obligations will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Tax-Exempt Obligations

Opinion

On the date of initial delivery of the Tax-Exempt Obligations, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) for federal income tax purposes, interest on the Tax-Exempt Obligations will be excludable from the "gross income" of the holders thereof and (2) the Tax-Exempt Obligations 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 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 Tax-Exempt Obligations. See APPENDIX C - Forms of Bond Counsel's Opinions.

In rendering its opinions, Bond Counsel will rely upon (a) certain information and representations of the Issuer, including information and representations contained in the City's federal tax certificate related to the Tax-Exempt Obligations, and (b) covenants of the City contained in the Ordinances relating to certain matters, including arbitrage and the use of the proceeds of the Tax-Exempt Obligations and the property financed or refinanced therewith. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Tax-Exempt Obligations of any series to become taxable retroactively to the 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 Tax-Exempt Obligations in order for interest on the Tax-Exempt Obligations 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 Tax-Exempt Obligations to be included in gross income retroactively to the date of issuance of the Tax-Exempt Obligations. 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 Tax-Exempt Obligations.

Bond Counsel's opinion regarding the Tax-Exempt Obligations 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 related to the Tax-Exempt Obligations 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 Tax-Exempt Obligations.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Tax-Exempt Obligations 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 bonds 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 U.S. Holder who has purchased a Tax-Exempt Obligation as an 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 U.S. Holder in excess of the basis of such Original Issue Discount Bond in the hands of such U.S. Holder (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.

All U.S. Holders 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

Interest on the Tax-Exempt Obligations 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, U.S. Holders of tax-exempt obligations, such as the Tax-Exempt Obligations, 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 Tax-Exempt Obligations, 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.

Taxable Bonds

Certain U.S. Federal Income Tax Consequences to U.S. Holders

Periodic Interest Payments and Original Issue Discount. The Taxable Bonds are not obligations described in section 103(a) of the Code. Accordingly, the stated interest paid on the Taxable Bonds or original issue discount, if any, accruing on the Taxable Bonds will be includable in “gross income” within the meaning of section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Bonds. An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Taxable Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner’s tax basis in the Taxable Bonds. Generally, a U.S. Holder’s tax basis in the Taxable Bonds will be the owner’s initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Taxable Bonds has been held for more than one year.

Defeasance of the Taxable Bonds. Defeasance of any Taxable Bond may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Taxable Bond, will not be subject to U.S. federal income or withholding tax in respect of such Taxable Bond, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Taxable Bond.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder’s allocable portion of the interest income received by the controlled foreign corporation.

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OTHER RELEVANT INFORMATION

Ratings

The Obligations 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 ad valorem 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 Obligations. The City will undertake no responsibility to notify the owners of the Obligations 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 operations or 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 Obligations 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 Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations 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 (Texas Government Code, Chapter 1201), the Obligations 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 of Texas. The Obligations 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 Texas which have adopted investment policies and guidelines in accordance with the PFLA, the Obligations 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 Obligations 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 Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Obligations for such purposes. The City has made no review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

Legal Opinions and No-Litigation Certificate

The City will furnish complete transcripts of proceedings had incident to the authorization and issuance of the Obligations including the unqualified approving legal opinions of the Attorney General of the State of Texas approving the Obligations and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on each series of the Tax Exempt Obligations will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS – Tax Exempt Obligations" herein. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Obligations or which would affect the provision made for their payment or security or in any manner questioning the validity of the Obligations will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Obligations in the Official Statement to verify that such information conforms to the provisions of the Ordinances. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of each series of the Obligations are contingent on the sale and delivery of the Obligations. The legal opinions will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System. In connection with the transactions described in this Official Statement, Bond Counsel represents only the City.

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 Obligations. The payment of the fee for services rendered by PFM with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. 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 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.

Certification of the Official Statement

At the time of payment for and delivery of each series of the Obligations, the City will furnish a certificate, executed by proper officials, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of such Obligations and the acceptance of the best bid therefor, and on the date of their delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last unaudited financial statements of the City.

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Ordinances adopted by the City Council on August 25, 2011.

/s/Lee Leffingwell
Mayor
City of Austin, Texas

ATTEST:

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

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APPENDIX A

General Information Regarding the City

The following information has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

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 778,000 in 2010. Over the past ten years, Austin's population has increased by approximately 117,000 residents, or 17.7 percent. Geographically, Austin consists of approximately 306 square miles. The current estimated median household income and per capita income for the City is \$48,460 and \$35,798, 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.

During 2010, Austin was ranked as the number one place in the United States in which to open a small business by Portfolio.com. Approximately 94 percent of small businesses located in Austin employ 50 or fewer employees, which is much larger than the national average of 86 percent. According to Portfolio.com, Austin's 19.5 percent population growth between 2003 and 2008 attributed to the region's ability to weather the recent national economic downturn. The number of small business started between 2006 and 2007 outpaced other metropolitan areas with a 5.6 percent increase.

Forbes.com ranked Austin first on its list of America's Best Cities for Young Adults, citing Austin's bustling tech community and trendsetting music scene as contributing factors. The criteria for a great city included assessment of job markets, average salaries for college-educated adults ages 20 – 29, cost of maintaining a household, median age, and evaluation of nightlife opportunities. Forbes.com also recognized Austin as being one of "America's Most Innovative Cities", stating that Austin's culture of innovation may be boosted by well-known tech credentials like the South by Southwest Web startup and music festival held annually in March, as well as the nearby headquarters of hardware industry giants Dell and Freescale Semiconductor. The article also cited the University of Texas's Cockrell School of Engineering and IBM's Austin research lab as being contributors to Austin's innovation arsenal. Austin also ranked in the top 10 "Best Places for Military Retirement" in a first-of-its-kind ranking by USAA, a leading financial services provider focused on serving the military, and Military.com, the country's largest military and veteran membership organization.

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 43.5 percent of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 27.5 percent for the U.S. as a whole. With its seven institutions of higher

learning and more than 136,000 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 13th among public universities in 2010 by US News and World Report. As of 2010, US News and World Report ranked 43 UT graduate programs and specialties in the top 10 nationally, and 53 others ranked in the top 25.

Recent Economic Performance

During 2010, Austin's economy was able to sustain and build upon the improvement that began in 2009. Newsweek compiled a list of the 10 American cities best situated for economic recovery and according to the article, "For sheer economic promise, no place beats Texas." Austin boasted the strongest job growth in Newsweek's 'Top 10, both last year and over the decade. Newsweek noted Austin's private sector growth, both from an expanding roster of homegrown firms and outside companies, including an increasing array of multinational firms such as Samsung, Nokia, Siemens, and Fujitsu. In May 2010, Kiplinger's Personal Finance magazine named Austin the "Best City for the Next Decade" because of the City's innovative and dynamic thinking that leads to job creation. In picking the top cities, Kiplinger's looked for livability and a good business environment for entrepreneurs and job seekers.

The 2010 Milken Institute Best-Performing Cities Index ranks U.S. metropolitan areas by how well they are creating and sustaining jobs and economic growth. The components include job, wage and salary, and technology growth. Five of the top ten metropolitan areas on the list were located in the State of Texas. Austin ranked second in 2010, behind the first place Metropolitan Statistical Area (MSA) of Killeen-Temple-Fort Hood, Texas. Austin previously ranked first in both 2000 and 2009, the first metropolitan area to ever be ranked number one twice on the index.

The Texas economy outperformed the U.S. economy during 2010. According to the *Monthly Review of the Texas Economy* report for June 2011 published by The Real Estate Center at Texas A&M University, the U.S. employment growth rate was 0.7 percent from May 2010 to May 2011, while Texas experienced 1.9 percent employment growth during the same period. The same report indicates the annual employment growth rate for the Austin-Round Rock metropolitan area from May 2010 to May 2011 as sixth in the State of Texas at 1.8 percent. According to the Bureau of Labor Statistics, Texas experienced no change in the unemployment rate during the same time period, at 7.9 percent, while the U.S. rate in May was 8.7 percent, a decrease from 9.3 percent in May 2010. The *Southwest Economy*, published by the Federal Reserve Bank of Dallas, attributes the performance of the Texas economy compared to the rest of the nation to Texas' business friendly environment which helped keep alive firms that might have succumbed to the recession elsewhere, a slower than the national average in state spending, high energy prices and Texas' reliance on sales taxes rather than income taxes. *Southwest Economy* states that income is impacted greater than consumption during economic downturns because people try to maintain their living standards while enduring temporary wage cuts or unemployment spells. So income tax revenue tends to fall further than sales tax revenue during recessions, leaving income-tax-reliant states facing deeper shortfalls.

The national economy continued 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 9.4 and 9.8 percent during the year, ending the year at 9.4 percent. The Texas Consumer Price Index ("CPI-U"), as reported by the Texas Comptroller, shows a slight increase of 3.8 percent from May 2010 to 2011, which compares to the increase of 3.6 percent for the same period at the national level, as reported by the U.S. Department of Labor. For the year ending December 31, 2010, the national economy experienced a 1.6 percent increase, with a sharp rise in the index for fuel oil being the largest contributor to this increase.

Home sales are an important indicator of the local and national economy. Data compiled by the Real Estate Research Center at Texas A&M shows Austin Home sales declined 4.2 percent in 2010 with an ending inventory of 6.6 months compared to a 7 percent decline in 2009, with ending inventory of 5.4 months. Texas sales also showed improvement during 2010. Annual home sales declined 4.6 percent in 2010 with an ending inventory of 7.4 months compared to a 7 percent decline in 2009 with an ending inventory of 6.3 months. National sales of existing homes experienced a 4.9 percent annual sales loss during 2010. 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 2010 was a 9.4 month supply compared to a 7.2 month supply in 2009.

Economic Outlook

The U.S. economy continued to suffer from significant job losses in 2010 with unemployment at 9.6 percent. The Federal Reserve has predicted that the pace of recovery will be slow in 2011 and will gain momentum in 2012. 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 2010.

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 2010 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 2010-2011 Approved Budget totals \$2.8 billion and includes \$650.2 million for the General Fund to provide public safety, recreation, culture, and other needed services to the Austin community. It is a structurally balanced budget, maintaining the high quality core services that our residents expect and contribute to Austin's top ranked quality of life. In keeping Austin's property tax rate the lowest of any of the major Texas cities, tough decisions made over the last two years have addressed budgetary shortfalls by making structural budget reductions instead of relying on one-time fixes.

The 2010-2011 Budget was developed in a manner true to the City's unwavering commitment to openness, transparency, and public engagement. Input was gathered and evaluated to address the many issues, concerns, and priorities identified by Austin's citizens, employees, and Council Members. Those top priorities, as identified through public engagement efforts, are addressed in the FY 2010-2011 Budget and include enhanced funding for public safety, libraries, and homeless services. Also included are moderate pay increases for employees, supplemental funding for the municipal employee retirement system to help ensure long-term viability, and additional funding to pay for rising health care costs. The FY 2010-2011 Budget also authorizes the use of approximately \$14.4 million of the budget stabilization reserves to address capital replacement and other critical needs. The Approved Budget projects budget reserves of \$33.3 million at the end of FY 2010-2011.

Austin includes several enterprise activities, including a municipal owned electric utility, water/wastewater utility, airport, and other miscellaneous operations. The City's largest enterprise department, Austin Energy, is the ninth largest community-owned electric utility in the United States in terms of customers served. Austin Energy serves more than 400,000 customers with a service territory of approximately 437 square miles and an approved budget for Fiscal Year 2010-2011 of \$1.23 billion in annual revenues. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and renewable energy sources. Austin Energy's capital improvement spending plan of \$237 million includes projects for power production and delivery of reliable energy services, completion of the scrubber installation at Fayette Power Plant, upgrades at Decker Power Plant, and replacement of the Customer Information Billing System.

The City's enterprise activities also include the Austin Water Utility, which provides water and wastewater services to more than 211,000 customers within Austin and surrounding areas. The FY 2010-2011 budget projects revenues from the sale of water and wastewater service along with miscellaneous other revenue to be \$428.9 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 help fund system capital improvements, including new service extensions and rehabilitation of aging infrastructure.

Other enterprise funds and their FY 2010-2011 expense budgets include Aviation (\$98.2 million), Convention Center (\$53.4 million), and Solid Waste Services (\$82 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. On February 17, 2011, the Austin City Council approved the award of a \$49.5 million construction contract to build the main shaft of the Waller Creek Tunnel Project. Ground breaking is planned for April 2011; project completion is expected in 2014. The tunnel project is primarily funded through the Waller Creek Tax Increment Financing Zone.

Comprehensive Plan. 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. "Imagine Austin" is a two-year process designed to help shape community input to lay out a vision for what Austin will look like in the future. The process will create the new Comprehensive Plan and 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. Phase One kicked off in August 2009 and Phase Two, which consists of the vision and plan framework, was recently approved by the City Council on March 10, 2011. Phase 3, which began in March 2011, will define specific strategies and actions to implement the framework. Stakeholders will begin meeting to develop the policies to fulfill the framework objectives and will be organized around the following areas: land use and transportation, economy, housing and neighborhoods, conservation and environmental resources, City facilities and services, society, and culture.

Accelerate Austin. Accelerate Austin, which began in April 2009, is a major transportation initiative aimed at addressing Austin's critical transportation infrastructure issues while assisting in jump-starting Austin's economy by creating up to 300 jobs locally. Accelerate Austin will bring forward \$69.1 million in road improvement projects ahead of schedule within eighteen months, accelerating the timelines called for in the 2006 bond program approved by Austin voters. Major projects recently under way include the reconstruction of Rio Grande Street from Martin Luther King Jr. Blvd. to 24th Street and the reconstruction of 32nd Street from Red River to Duval.

Affordable Housing. The Rental Housing Development Assistance (RHDA) program provides funding for nonprofit 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. The program exceeded its annual goal in Fiscal Year 2009-2010 by 12 percent. A major factor in exceeding the goal included the preservation of 130 project-based Section 8 units using Private Activity Bonds and General Obligation Bond funding. Accomplishments include completion of 262 units expending \$19.7 million in GO Bond funding and \$1.8 million in grant and other funding sources.

CityWorks Academy. In December of 2009, 28 Austin residents graduated in the inaugural class of CityWorks Academy, 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 has proven to be a huge success. The city received approximately 200 applications from residents interested in participating in a second session. Thirty-two Austinites, representing a cross-section of the community,

were chosen for the second CityWorks Academy that began September 7, 2010. The City plans to offer the academy each year in the fall.

American Recovery and Reinvestment Act (ARRA)

In 2009, the City established a Recovery Office to coordinate its efforts in applying for and reporting on funding received through ARRA. As of March 2011, the City of Austin has been awarded \$83 million in stimulus funds across multiple federal government programs and has either expended or encumbered approximately \$53 million of those awarded funds.

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 first phase of the project, the composting pad expansion, achieved substantial completion in January 2011 – one year ahead of schedule and accounted for approximately 15 – 20 full-time equivalent positions monthly.

Austin Energy was awarded \$5.8 million for its Weatherization Assistance for Low-Income Persons Program. The program's goal is to address issues with a personal residence that may impact the energy, health or safety of the dwelling and its occupants. As of February 2011, 741 total units have been reported as completed to Texas Department of Housing and Community Affairs.

The Health Department received \$1.4 million in Community Services Block Grant funds to support activities and services designed to address the needs of low income communities through neighborhood centers and community partners. In total, 230 households actively participated in the case management program; a total of 1,274 households received rent and utility assistance, 467 individuals received some level of workforce development services and 20 children received childcare services.

Other approved ARRA-funded projects include road, traffic signal and sidewalk improvements, police department technology improvements, crime victims assistance service enhancements, financial assistance for new homeowners, clean energy and energy efficiency, and homeless prevention.

Financial Policies

The City has adopted a comprehensive set of Financial Policies to ensure that the City's financial resources are managed in a prudent manner. These policies dictate that current revenue will be sufficient to support current expenditures (defined as "structural balance"). Unreserved fund balances in excess of what is required shall normally be used to fund capital items in the operating and capital budgets. The City maintains the goal of a structurally balanced budget to achieve long-term financial stability for the Austin community. 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 GAAP. The system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The annual operating budget is proposed by the City Manager and 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 2010 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

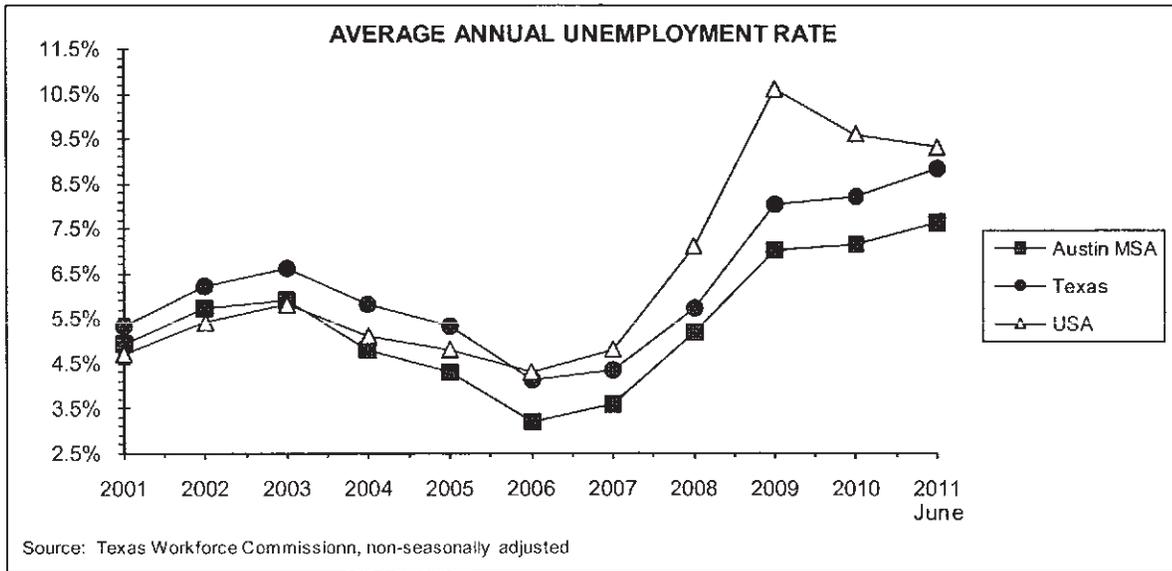
Industrial Classification	2007		2008		2009		2010		June 2011	
	Employment	% of Total								
Manufacturing	60,600	7.9%	55,000	7.0%	49,500	6.5%	47,300	6.2%	48,500	6.2%
Government	158,400	20.8%	163,700	21.0%	167,900	22.1%	170,500	22.2%	171,200	21.9%
Trade, transportation & utilities	159,800	21.0%	163,700	21.0%	152,500	20.1%	134,200	17.5%	137,900	17.6%
Services and miscellaneous	290,100	38.0%	300,500	38.5%	304,000	40.0%	333,200	43.5%	341,700	43.7%
Finance, insurance and real estate	45,200	5.9%	47,200	6.0%	43,900	5.8%	42,300	5.5%	43,300	5.5%
Natural resources, mining & construction	49,200	6.4%	50,800	6.5%	42,000	5.5%	39,000	5.1%	39,600	5.1%
Total	763,300	100.0%	780,900	100.0%	759,800	100.0%	766,500	100.00%	782,200	100.00%

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

Source: Texas Labor Market Review, July 2011, Texas Workforce Commission.

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Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
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	7.1%	8.2%	9.6%
2011 June	7.6%	8.8%	9.3%

Note: Information is updated periodically, data contained herein is latest provided.
 Source: Texas Labor Market Review, July 2011, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

<u>Period</u>	<u>Amount</u>								
1-1-07	\$11.422	1-1-08	\$11.639	1-1-09	\$10.864	1-1-10	\$10.215	1-1-11	\$11.492
2-1-07	16.371	2-1-08	16.569	2-1-09	14.289	2-1-10	15.921*	2-1-11	16.149
3-1-07	11.080	3-1-08	12.109	3-1-09	10.528	3-1-10	10.736	3-1-11	11.117
4-1-07	11.414	4-1-08	11.355	4-1-09	9.724	4-1-10	10.290	4-1-11	10.311
5-1-07	14.611	5-1-08	13.882	5-1-09	12.612	5-1-10	14.145	5-1-11	14.022
6-1-07	11.748	6-1-08	12.185	6-1-09	11.213	6-1-10	11.533	6-1-11	11.941
7-1-07	12.011	7-1-08	12.129	7-1-09	10.752	7-1-10	11.569	7-1-11	11.927
8-1-07	14.101	8-1-08	14.486	8-1-09	13.495	8-1-10	12.799		
9-1-07	11.883	9-1-08	12.349	9-1-09	10.673	9-1-10	11.427		
10-1-07	12.257	10-1-08	11.781	10-1-09	11.037	10-1-10	11.562		
11-1-07	14.774	11-1-08	13.595	11-1-09	12.419	11-1-10	13.347		
12-1-07	12.365	12-1-08	12.190	12-1-09	11.165	12-1-10	11.216		

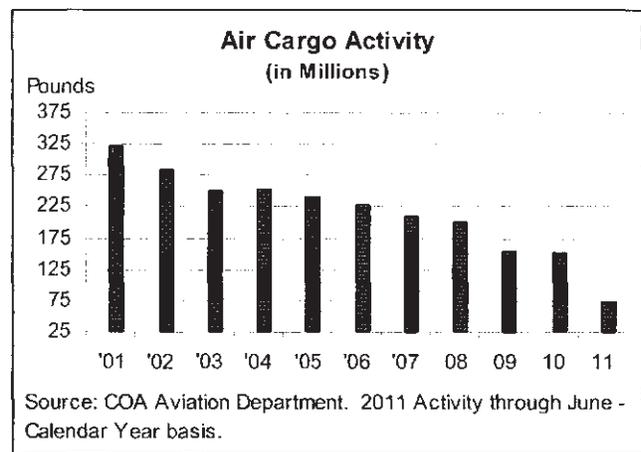
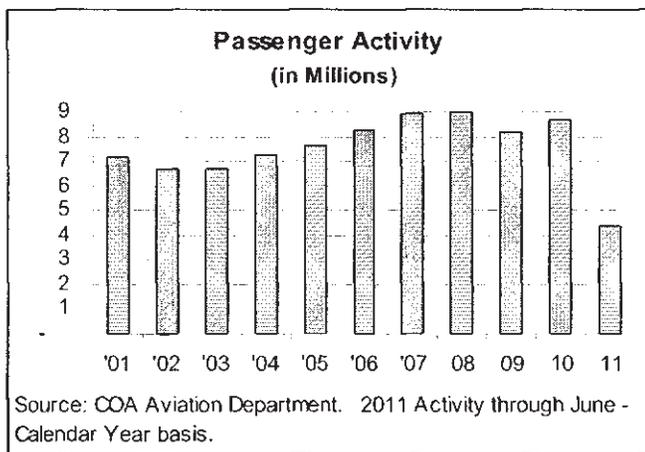
*Includes a \$1.5 million one-time sales tax correction.
 Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2010)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	State Government	38,538
The University of Texas at Austin	Education	24,864
Dell Computer Corporation	Computers	14,000
City of Austin	City Government	11,815
Austin Independent School District	Education	11,570
Seton Healthcare Network	Healthcare	11,500
Federal Government	Government	11,100
HFB Grocery	Grocery/Retail	10,904
St. David's Healthcare Partnership	Healthcare	6,600
IBM Corporation	Computers	6,239

Source: 2010 Comprehensive Annual Financial Report.

Transportation



Austin-Bergstrom International Airport

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999 and replaced Robert Mueller as the City's commercial passenger service airport, is served by eight signatory airlines: American Airlines, Continental, Delta, Frontier, JetBlue, Southwest, United and US Airways. Non-stop service is available to 36 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 in median household income and per capita personal income.

Demographic and Economic Statistics - Last Ten Years

<u>Year</u>	<u>City of Austin Population (1)</u>	<u>Area of Incorporation (Square Miles) (1)</u>	<u>Population MSA (2) (3)</u>	<u>Income (MSA) (thousands of dollars) (2)</u>	<u>Median Household Income MSA (3)</u>	<u>Capital Personal Income MSA (2)</u>	<u>Unemployment Rate (MSA) (4)</u>
2001	661,639	266	1,325,305	\$42,489,015	\$39,811	\$32,060	4.9%
2002	671,044	273	1,355,241	41,908,425	47,089	30,923	5.8%
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	4.9%
2005	695,881	294	1,464,563	51,058,588	40,335	34,863	4.5%
2006	714,237	296	1,528,958	56,105,872	40,888	36,695	4.0%
2007	732,381	297	1,594,525	59,758,105	42,263	37,477	3.9%
2008	746,105	298	1,654,100	61,800,403	46,340	37,362	4.7%
2009	770,296	302	1,705,075	60,568,377	47,520	35,522	7.2%
2010	778,560	306	1,703,994	60,999,640 (5)	48,460	38,798 (5)	6.8%
2001-2010 Change	17.67%	15.04%	28.57%	43.57%	21.73%	11.66%	

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 for all years except 2010 which will not be available until first quarter 2011.
- (3) Source: Claritas, a Nielson Company.
- (4) Source: Bureau of Labor Statistics; United State Department of Labor as of September 30.
- (5) Data not available for 2010. Figures are estimated.

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Connections and Permits

Year	Utility Connections			Building Permits		Total
	Electric	Water	Gas	Taxable	Federal, State and Municipal	
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
2010	419,355	210,901	204,823	1,413,989,503	4,252,978	1,418,242,481

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 \$983 per month, with an occupancy rate of 94.7% for the second quarter 2011, per Austin Investor Interests, LLC.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
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	19,872	4,906,445,110	246,792
2011 June	10,224	2,603,773,781	252,183

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
2002	77.1%
2003	76.7%
2004	80.8%
2005	84.2%
2006	87.5%
2007	85.6%
2008	80.6%
2009	77.7%
2010	80.0%
2011 (2 nd Qtr)	80.9%

Source: Oxford Commercial.

Education

The Austin Independent School District had an enrollment of 85,929 for the 2010/2011 school year. This reflects an increase in enrollment from the end of the 2010 school year. The District includes 110 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
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
2010/11	85,929	80,198

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. There are more than 257 hotels available within the Austin Metropolitan Area and year to date occupancy through June 2011 is 68.8%.

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

Audited Financial Statements

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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, 2010, which collectively comprise the City's basic financial statements. 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, 2010, 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 Notes 2 and 14, the City implemented GASB Statement No. 51 "Accounting and Financial Reporting for Intangible Assets" and GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments" and restated the beginning net assets of the Austin Water and Waster Fund and total Business-Type Activities to reflect the retroactive impact of implementing GASB Statement No. 51.

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 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, 2011

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, 2010.

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. 53, and No. 55 through No. 58.

FINANCIAL HIGHLIGHTS

Government-wide financial statements

The assets of the City exceeded its liabilities at the end of the fiscal year 2010, resulting in \$4.5 billion of net assets. Net assets associated with governmental activities are approximately \$1.6 billion, or 35% of the total net assets of the City. Net assets associated with business-type activities are approximately \$2.9 billion, or 65% 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 \$3.5 billion, or 79% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, are \$345.3 million, or 8% of the City's total net assets. Unrestricted net assets for governmental activities are a deficit of \$58.0 million, while unrestricted net assets for business-type activities are approximately \$403.3 million, or 14% of total business-type net assets. The deficit in governmental unrestricted net assets is largely due to the recognition of \$169.4 million in other post employment benefit liabilities for governmental activities in accordance with GASB Statement No. 45.

During fiscal year 2010, total net assets for the City of Austin decreased \$11.3 million or 0.3% before a restatement of Water and Wastewater Fund water rights and accounting for regulated operations associated with the implementation of GASB Statement No. 51 (see Note 2). Of this amount, governmental activities decreased \$25.3 million, or 1.6% from the previous year and business-type activities increased \$14 million, or 0.5% from the previous year.

Total revenues for the City decreased \$75.9 million; revenues for governmental activities decreased \$2.8 million; revenues for business-type activities decreased \$73.1 million. Total expenses for the City decreased \$2.3 million; expenses for governmental activities increased \$15.3 million; expenses for business-type activities decreased \$17.6 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	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 606,064	674,926	1,094,991	1,463,251	1,701,055	2,138,177
Capital assets	2,372,210	2,303,263	6,576,192	6,339,459	8,948,402	8,642,722
Other noncurrent assets	10,566	5,669	848,606	507,636	859,172	513,305
Deferred outflows of resources	--	--	212,884	--	212,884	--
Total assets and deferred outflows	2,988,840	2,983,858	8,732,673	8,310,346	11,721,513	11,294,204
Current liabilities	279,013	272,454	618,289	479,524	897,302	751,978
Noncurrent liabilities	1,151,279	1,127,518	5,202,364	4,944,693	6,353,643	6,072,211
Deferred inflows of resources	--	--	7,710	--	7,710	--
Total liabilities and deferred inflows	1,430,292	1,399,972	5,828,363	5,424,217	7,258,655	6,824,189
Net assets:						
Invested in capital assets, net of related debt	1,544,834	1,545,216	1,998,753	1,902,398	3,543,587	3,447,614
Restricted	71,716	95,641	502,211	488,413	573,927	584,054
Unrestricted (deficit)	(58,002)	(56,971)	403,346	495,318	345,344	438,347
Total net assets	\$ 1,558,548	1,583,886	2,904,310	2,886,129	4,462,858	4,470,015

In the current fiscal year, total assets and deferred outflows of the City increased by \$427.3 million before restatement (see Note 2). Total liabilities and deferred inflows increased by \$434.5 million. Governmental-type total assets increased by \$5.0 million and business-type increased \$422.3 million, while governmental-type liabilities increased by \$30.3 million and business-type increased \$404.2 million.

Significant factors in the increase of governmental total assets and deferred outflows include a decrease in cash and investments of \$90.1 million, an increase in capital assets of \$68.9 million, and the recognition of a net pension asset of \$4.9 million. Factors in the increase of governmental-type liabilities and deferred inflows include increases in the pension obligation payable of \$10.7 million and other post employment benefits of \$59.6 million offset by a decrease in general obligation bonds payable of \$53.2 million.

Significant factors in the increase of business-type total assets and deferred outflows include an increase in capital assets of \$236.7 million and the addition of deferred outflows of resources of \$212.9 million with the implementation of GASB Statement No. 53. Significant increases in total liabilities and deferred inflows include revenue bonds payable of \$200 million, the addition of derivative instruments of \$212.9 million with the implementation of GASB Statement No. 53, and other post employment benefits of \$35.4 million. Significant decreases include commercial paper notes payable of \$40.2 million, and capital appreciation bonds payable of \$41.6 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 \$3.5 billion, or 79% of the total amount of the City's net assets. The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion, \$573.9 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, \$345.3 million of unrestricted net assets, may be used to meet the government's future obligations. Unrestricted net assets decreased \$93.0 million in the current fiscal year. A significant portion of the decrease in unrestricted net assets is due to the recognition of \$95.0 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 \$58.0 million.

b -- Changes in net assets

Total net assets of the City decreased by \$7.2 million in the current fiscal year after restatement (see Note 2). Governmental net assets decreased \$25.3 million. The decrease is attributable to expenses exceeding revenues by \$121.4 million before transfers from other funds of \$96 million. Business-type net assets increased by \$14.0 million due to revenues exceeding expenses by \$110.1 million, before transfers to other funds of \$96 million and restatement adjustment of \$4.1 million.

	Changes in Net Assets					
	September 30					
	(in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program revenues:						
Charges for services	\$ 109,136	140,989	1,814,907	1,833,856	1,924,043	1,974,845
Operating grants and contributions	66,831	54,022	--	--	66,831	54,022
Capital grants and contributions	50,546	85,085	31,703	71,819	82,249	156,904
General revenues:						
Property tax	341,812	309,888	--	--	341,812	309,888
Sales tax	144,710	139,795	--	--	144,710	139,795
Franchise fees and gross receipts tax	87,996	85,183	--	--	87,996	85,183
Interest and other	31,960	20,827	13,935	27,938	45,895	48,765
Total revenues	<u>832,991</u>	<u>835,789</u>	<u>1,860,545</u>	<u>1,933,613</u>	<u>2,693,536</u>	<u>2,769,402</u>
Program expenses:						
General government	89,315	80,819	--	--	89,315	80,819
Public safety	455,760	442,690	--	--	455,760	442,690
Transportation, planning and sustainability	65,565	79,840	--	--	65,565	79,840
Public health	63,215	81,773	--	--	63,215	81,773
Public recreation and culture	91,732	90,307	--	--	91,732	90,307
Urban growth management	143,884	121,237	--	--	143,884	121,237
Interest on debt	44,889	42,435	--	--	44,889	42,435
Electric	--	--	1,086,470	1,089,632	1,086,470	1,089,632
Water	--	--	169,708	200,162	169,708	200,162
Wastewater	--	--	166,979	160,962	166,979	160,962
Airport	--	--	92,780	98,403	92,780	98,403
Convention	--	--	51,818	52,219	51,818	52,219
Environmental and health services	--	--	66,380	67,097	66,380	67,097
Public recreation	--	--	9,715	10,274	9,715	10,274
Urban growth management	--	--	106,618	89,306	106,618	89,306
Total expenses	<u>954,360</u>	<u>939,101</u>	<u>1,750,468</u>	<u>1,768,055</u>	<u>2,704,828</u>	<u>2,707,156</u>
Excess (deficiency) before transfers	(121,369)	(103,312)	110,077	165,558	(11,292)	62,246
Transfers	96,031	82,686	(96,031)	(82,686)	--	--
Increase (decrease) in net assets	<u>(25,338)</u>	<u>(20,626)</u>	<u>14,046</u>	<u>82,872</u>	<u>(11,292)</u>	<u>62,246</u>
Beginning net assets, as previously reported	1,583,886	1,604,512	2,886,129	2,882,151	4,470,015	4,486,663
Restatement adjustment	--	--	4,135	(78,894)	4,135	(78,894)
Beginning net assets, as restated	<u>1,583,886</u>	<u>1,604,512</u>	<u>2,890,264</u>	<u>2,803,257</u>	<u>4,474,150</u>	<u>4,407,769</u>
Ending net assets	<u>\$ 1,558,548</u>	<u>1,583,886</u>	<u>2,904,310</u>	<u>2,886,129</u>	<u>4,462,858</u>	<u>4,470,015</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

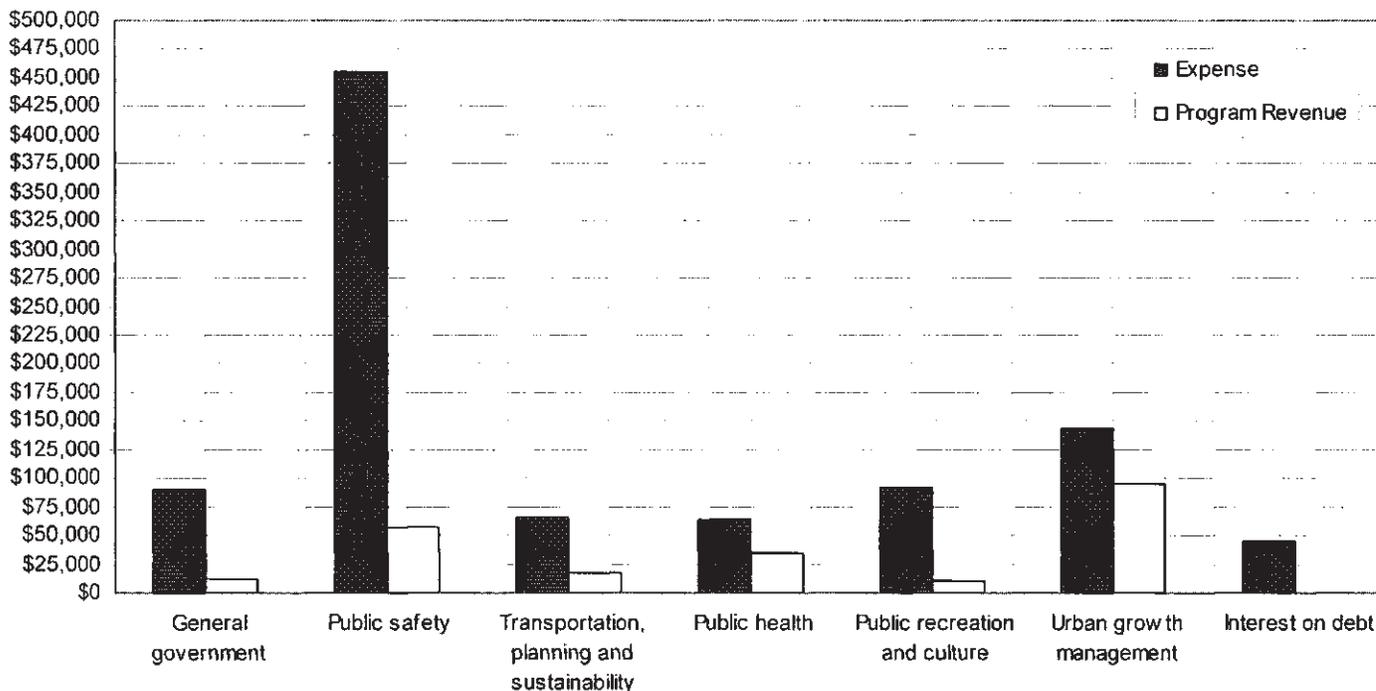
c -- Program revenues and expenses -- governmental activities

Governmental activities decreased the City's net assets by \$25.3 million in fiscal year 2010, a 1.6% decrease of governmental net assets from the previous year. Key factors for the change from fiscal year 2009 to 2010 are as follows:

- Charges for services decreased \$31.9 million primarily due to the transfer of hospital district activities to the Travis County Hospital District (\$17.6 million). Capital grants and contributions decreased \$34.5 million primarily due to decreases in contributed and annexed infrastructure.
- The City's property tax revenue increased by \$31.9 million from the previous year as a result of an increase in assessed property values and an increase in the City's tax rate from 40.12 cents to 42.09 per \$100 valuation.
- Sales tax collections for fiscal year 2010 were \$4.9 million more than fiscal year 2009. Franchise fees and gross receipts taxes increased \$2.8 million due largely to an increased service area for cable franchise fees.
- General government expenses increased \$8.5 million primarily due to increases in payments to internal service funds for services provided and public safety expenses increased \$13.1 million due to increases in salaries and contractual expenses. Transportation, planning and sustainability expenses decreased \$14.3 million, while public health expenses decreased \$18.6 million due to the transfer of hospital district activities to the Travis County Hospital District. Urban growth management expenses increased \$22.6 million.

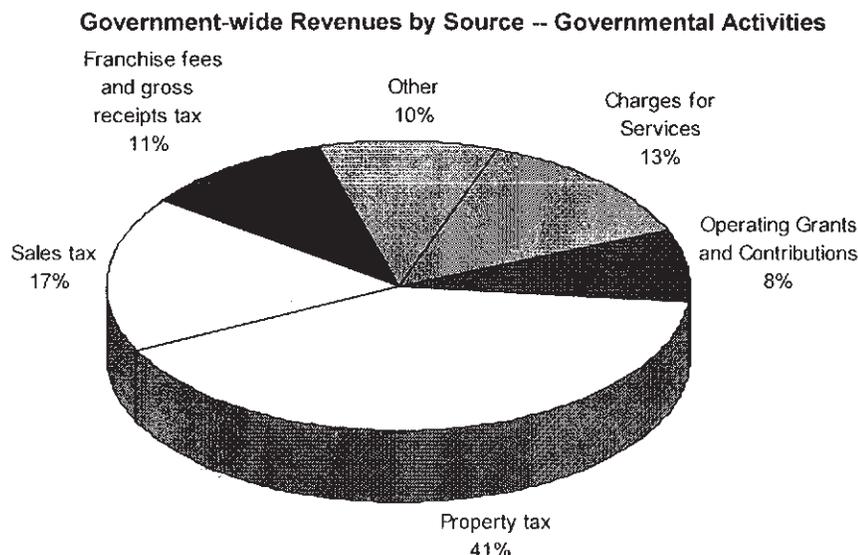
The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and interest on debt.

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.



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

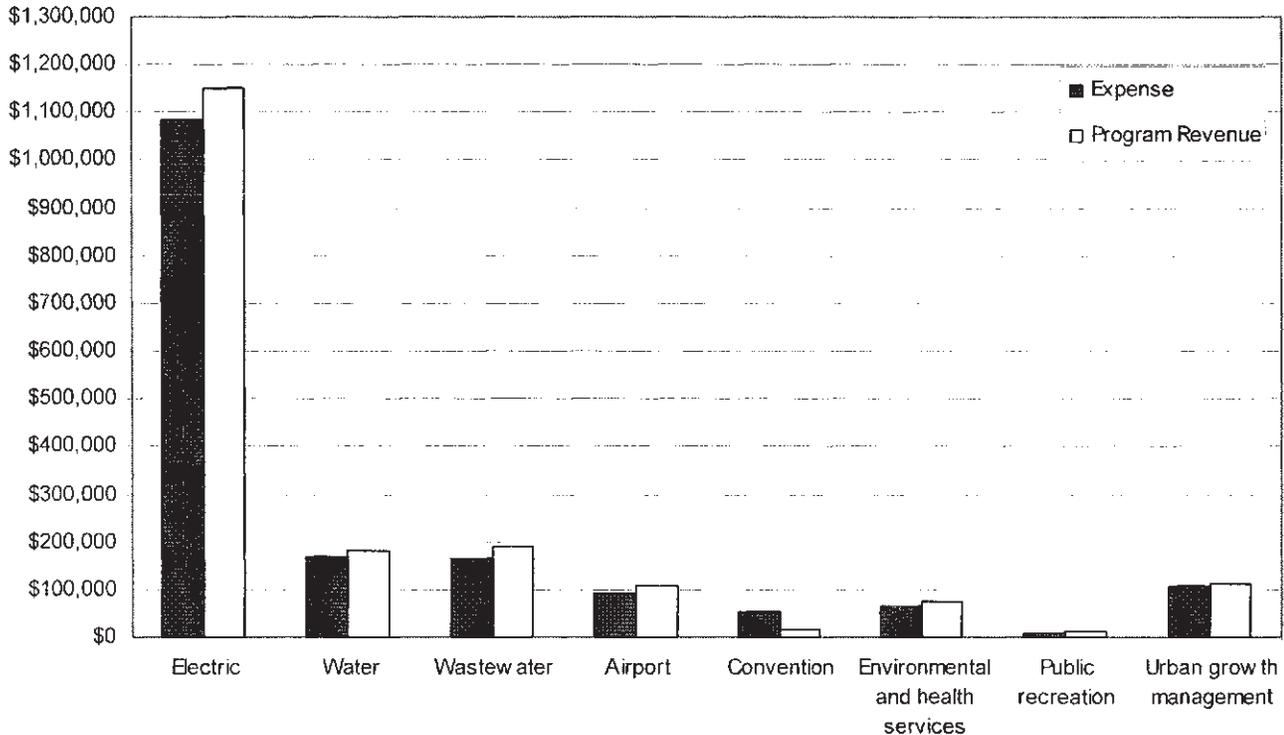
Business-type activities increased the City's net assets by approximately \$14 million, accounting for a 0.3% increase in the City's total net assets. Key factors include:

- Electric net assets decreased approximately \$25.2 million. Revenues decreased 1.3% largely due to lower fuel costs, which are passed through as fuel revenue. Expenses increased 2.1% as lower fuel costs were offset by an increase in other operating expenses.
- Water and Wastewater net assets increased approximately \$1.7 million. Revenues decreased 8.0% due primarily to greater than usual rainfall and mandatory water conservation during the period of wastewater winter averaging. Water revenue for 2010 decreased by approximately 12.3% and Wastewater revenue decreased 3.7% from the prior year.
- Airport net assets increased approximately \$16.7 million. Revenues increased 3.0% due to an increase in passenger traffic and expenses increased 6.2% due to an increase in operations and maintenance costs.
- Convention net assets decreased approximately \$1.9 million. Revenues and transfers from the Hotel Occupancy Tax Fund decreased 9.3% due primarily to fewer events and the slowed economy. 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 and Hospital Fund. Net assets increased by approximately \$8.4 million. This increase is primarily attributed to increased revenues derived from an approved rate increase and customer growth.
- Public recreation activities are comprised of nonmajor enterprise funds that include the Golf Fund and Recreation Program Fund. Net assets increased by \$3.0 million as a result of the transfer of a portion of the Golf Fund debt to governmental activities.
- Urban growth management activities are comprised of nonmajor enterprise funds that include the Drainage Fund and Transportation Fund. Net assets increased by approximately \$9.8 million. Drainage revenues increased 6.6% primarily due to an approved rate increase while Drainage expenses remained steady.

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 (\$170 million), wastewater (\$167 million), urban growth management (\$107 million), airport (\$93 million), environmental and health services (\$66 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.

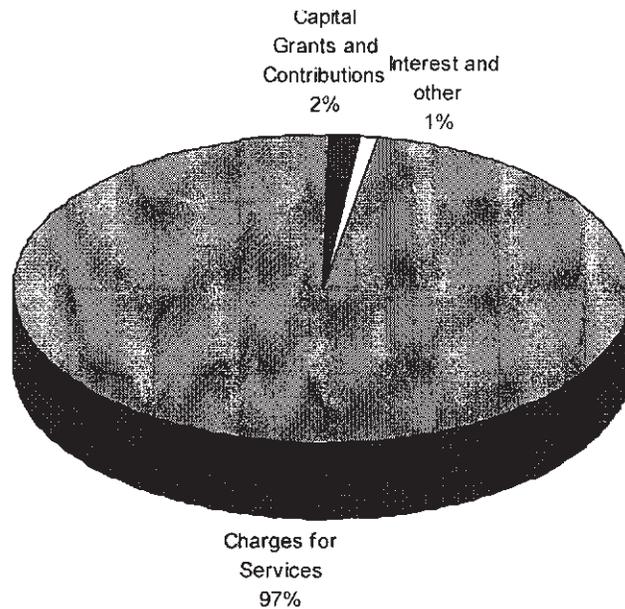
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

**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 (97%), followed by capital grants and contributions (2%), 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 \$370.4 million, a decrease of \$81.5 million from the previous year. Approximately \$191.5 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 \$40.3 million in comparison to the prior year, primarily due to an increase in the reservation for encumbrances of \$37.0 million in capital projects funds authorized in 2006.

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 \$104.6 million, while total fund balance was \$108.7 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 17.6% of total General Fund expenditures of \$595.6 million, and total fund balance represents 18.3% 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 \$58.6 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 \$16.5 million during the fiscal year, while unreserved fund balance increased \$16.9 million. Significant differences from the previous year include:

- Property tax revenues increased \$25.7 million due to an increase in assessed property values and the City's property tax rate increased from 40.12 cents to 42.09 cents per \$100 valuation.
- Sales tax revenues increased \$4.9 million, while licenses, permits and inspections decreased \$4.8 million due to a decline in building permits.

General fund expenditures increased \$24.7 million, due primarily to an increase in public safety expenditures of \$13.8 million and general government expenditures of \$13.1. The increase in public safety expenditures is primarily due to increases in salaries and contractual expenditures. The increase in general government expenditures is due to increases in payments to internal service funds for services provided.

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 \$9.0 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 2010 to increase public safety costs for the purchase of two ambulances.

During the year, revenues were \$12.9 million more than budgeted. Sales tax collections were \$12.7 million more than budgeted.

Actual General Fund budget-basis expenditures were \$13.9 million less than budgeted. Transportation, planning and sustainability expenditures exceeded budget by \$13 thousand and general city responsibilities exceeded budget by \$66 thousand; while all other General Fund departments were under budget. The total budget-basis fund balance at year-end was \$99.9 million.

b -- Capital assets

The City's capital assets for governmental and business-type activities as of September 30, 2010, total \$8.9 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 water rights. The total increase in the City's capital assets for the current fiscal year was \$307 million (3.6%), with an increase of 3.0% for governmental activities and an increase of 3.8% 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	
	2010	2009	2010	2009	2010	2009
Land and improvements	\$ 332	324	464	449	796	773
Other assets not depreciated	20	20	1	1	21	21
Building and improvements	442	450	1,363	1,392	1,805	1,842
Equipment	64	73	3,867	3,555	3,931	3,628
Vehicles	35	36	63	58	98	94
Infrastructure	1,237	1,255	--	--	1,237	1,255
Construction in progress	242	145	667	747	909	892
Nuclear fuel, net of amortization	--	--	34	33	34	33
Plant held for future use	--	--	28	28	28	28
Water rights, net of amortization	--	--	89	75	89	75
Total net capital assets	\$ 2,372	2,303	6,576	6,338	8,948	8,641

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

- Governmental capital assets increased \$69 million primarily due to additions of new and on-going projects for facility and system improvements. Construction progressed on 2006 bond funded projects, which included flood mitigation, affordable housing, recreation center and park improvements, and a training facility for fire, police and EMS personnel. Other projects included a digital video system for police, street and pedestrian improvements, a new fire station, and infrastructure additions for the Mueller redevelopment.
- Business-type activities purchased or completed construction on capital assets of \$238 million. The increase was largely due to plant and equipment additions and land acquisitions for the Electric, Water and Wastewater, Convention Center, Drainage and Transportation funds. The Electric fund added power plant improvements, improvements to electric distribution and metering systems, and various substations. The Water and Wastewater fund continued rehabilitation and replacement activities under the Austin Clean Water Program and continued work on the Water Treatment Plant #4 projects. The Water and Wastewater fund also received ARRA funds for biosolids management and compost operations projects. Wastewater improvements included service extensions to annexed areas. Work also continued on the Convention Center Waller Creek Tunnel project and the parking meter replacement program.

OTHER INFORMATION, continued

c -- Debt administration

At the end of the current fiscal year, the City reported \$5.0 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	
	2010	2009	2010	2009	2010	2009
General obligation bonds and other tax supported debt, net	\$ 900	953	125	131	1,025	1,084
Commercial paper notes, net	--	--	300	340	300	340
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	3,643	3,443	3,643	3,443
Capital lease obligations	1	--	2	2	3	2
Total	\$ 901	953	4,097	3,944	4,998	4,897

During fiscal year 2010, the City's total outstanding debt increased by \$101 million. The City issued new debt and refinanced portions of existing debt to achieve lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities decreased \$52 million due to debt service payments made during the year.
- Outstanding debt for business-type functions increased \$153 million. The City issued \$220.3 million of Electric Utility System separate lien revenue refunding bonds and \$166.6 million of Water and Wastewater Fund separate lien revenue refunding bonds to refund commercial paper (\$316 million) and existing debt (\$74 million).

During the year, the City's general obligation bonds and other tax supported debt received favorable bond rating upgrades from Moody's Investors Services, Inc and Fitch, Inc. The Water and Wastewater Utility revenue bonds received favorable bond rating upgrades from Moody's Investors Services, Inc. All other bond ratings were unchanged. Ratings of the City's obligations for various debt instruments at September 30, 2010 and 2009 are as follows:

Debt	Moody's Investors Service, Inc		Standard & Poor's		Fitch, Inc.	
	2010	2009	2010	2009	2010	2009
General obligation bonds and other tax supported debt	Aaa	Aa1	AAA	AAA	AAA	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	AA	AA-	AA-
Utility revenue bonds - separate lien:						
Electric	A1	A1	A+	A+	AA-	AA-
Water and Wastewater	Aa2	Aa3	AA	AA	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	A2	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 experienced signs of recovery in 2010; a key indicator being an increase in sales tax revenues of 3.5 percent, compared to a 9.5 percent decline in the previous year. Austin's diverse economic base and national reputation as a great place to live continues to attract talented individuals and new employment opportunities. The Austin metro area ranked highest in employment growth of the five major metro areas in Texas, which includes Dallas-Fort Worth, Houston, San Antonio, El Paso, and Austin, and experienced the third highest growth rate in the state, gaining nearly 8,200 jobs in 2010.

The City's 2011 budget was developed in a manner true to the City Manager's unwavering commitment to openness, transparency, and public engagement. Input from Council, City employees, and Citizens played a major role in the development of a variety of structural applications designed to positively affect our City's fiscal sustainability over the long term and present 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 decreased by 3.8% for 2010. The property tax rate for fiscal year 2011 is 45.71 cents per \$100 valuation, up from 42.09 cents per \$100 valuation in 2010. The tax rate consists of 32.62 cents for the General Fund and 13.09 cents for debt service.

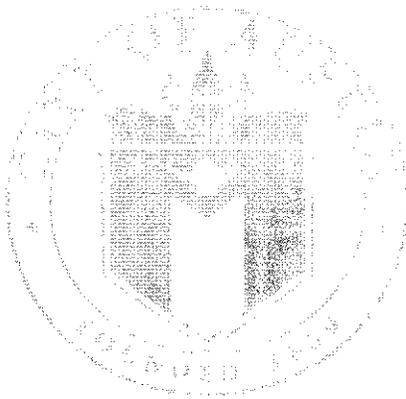
Each 1 cent of the 2010 (Fiscal Year 2011) property tax rate is equivalent to \$7,789,686 of tax levy, as compared to \$8,096,541 in the previous year. Fiscal Year 2011 rate increases for the Water and Wastewater Fund are: 5.4% for Water and 3.6% for Wastewater for a combined increase of 4.5%. Austin Energy customer base rates remain unchanged.

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/>.



BASIC FINANCIAL STATEMENTS



Statement of Net Assets
September 30, 2010
(In thousands)

City of Austin, Texas
Exhibit A-1

	Governmental Activities	Business-type Activities	Total (†)
ASSETS			
Current assets:			
Cash	\$ 76	65	141
Pooled investments and cash	443,957	309,790	753,747
Pooled investments and cash - restricted	--	159,929	159,929
Total pooled investments and cash	443,957	469,719	913,676
Investments, at fair value	21,901	8,023	29,924
Investments, at fair value - restricted	--	231,561	231,561
Cash held by trustee - restricted	2,512	101	2,613
Working capital advances	--	6,554	6,554
Property taxes receivable	14,283	--	14,283
Less allowance for uncollectible taxes	(4,298)	--	(4,298)
Net property taxes receivable	9,985	--	9,985
Accounts and other receivables	181,671	205,840	387,511
Less allowance for doubtful accounts	(82,358)	(3,797)	(86,155)
Net accounts receivable	99,313	202,043	301,356
Receivables from other governments	15,359	--	15,359
Notes receivable, net of allowance of \$22,263	12,367	--	12,367
Internal balances	(8,060)	32,663	24,603
Internal balances - restricted	(189)	(24,414)	(24,603)
Inventories, at cost	1,951	79,160	81,111
Real property held for resale	5,419	--	5,419
Prepaid items	244	2,825	3,069
Other assets	1,229	27,764	28,993
Other receivables	--	6,209	6,209
Deferred costs and expenses, net of amortization	--	52,718	52,718
Total current assets	606,064	1,094,991	1,701,055
Noncurrent assets:			
Pooled investments and cash - restricted	--	149,301	149,301
Investments, at fair value - restricted	--	161,150	161,150
Investments held by trustee - restricted	--	168,033	168,033
Interest receivable - restricted	--	1,121	1,121
Capital assets			
Land and other nondepreciable assets	352,760	465,609	818,369
Property, plant, and equipment in service	2,864,249	8,675,336	11,539,585
Less accumulated depreciation	(1,086,457)	(3,382,591)	(4,469,048)
Net property, plant, and equipment in service	1,777,792	5,292,745	7,070,537
Construction in progress	241,658	666,564	908,222
Nuclear fuel, net of amortization	--	34,355	34,355
Plant held for future use	--	27,783	27,783
Water rights, net of amortization	--	89,136	89,136
Total capital assets	2,372,210	6,576,192	8,948,402
Derivative instruments - energy risk management	--	7,710	7,710
Net pension asset	4,943	--	4,943
Other long-term assets	--	62	62
Deferred costs and expenses, net of amortization	5,623	361,229	366,852
Total noncurrent assets	2,382,776	7,424,798	9,807,574
Total assets	2,988,840	8,519,789	11,508,629
Deferred outflows of resources	--	212,884	212,884
Total assets and deferred outflows	\$ 2,988,840	8,732,673	11,721,513

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

(Continued)

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

Statement of Net Assets
September 30, 2010
(In thousands)

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

	Governmental Activities	Business-type Activities	Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 41,582	62,060	103,642
Accounts and retainage payable from restricted assets	--	45,852	45,852
Accrued payroll	32,010	17,951	49,961
Accrued compensated absences	47,127	23,021	70,148
Claims payable	17,865	--	17,865
Accrued interest payable from restricted assets	--	96,317	96,317
Interest payable on capital appreciation bonds and other debt	3,730	50,318	54,048
Commercial paper notes payable	--	44,377	44,377
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	66,233	11,493	77,726
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	4,931	4,931
Revenue bonds payable from restricted assets	--	147,804	147,804
Capital lease obligations payable	283	369	652
Customer and escrow deposits payable from restricted assets	--	36,662	36,662
Accrued landfill closure and postclosure costs	--	765	765
Deferred credits and other current liabilities	70,183	76,369	146,552
Total current liabilities	279,013	618,289	897,302
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	65,371	1,338	66,709
Claims payable	15,570	--	15,570
Capital appreciation bond interest payable	--	103,295	103,295
Commercial paper notes payable, net of discount	--	255,420	255,420
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	833,267	108,220	941,487
Revenue bonds payable, net of discount and inclusive of premium	--	3,495,307	3,495,307
Pension obligation payable	53,736	52,640	106,376
Other post employment benefits payable	169,432	100,716	270,148
Capital lease obligations payable	433	1,259	1,692
Accrued landfill closure and postclosure costs	--	7,175	7,175
Decommissioning liability payable from restricted assets	--	150,591	150,591
Derivative instruments - energy risk management	--	113,480	113,480
Derivative instruments - interest rate swaps	--	99,473	99,473
Deferred credits and other liabilities	13,470	684,519	697,989
Other liabilities payable from restricted assets	--	931	931
Total noncurrent liabilities	1,151,279	5,202,364	6,353,643
Total liabilities	1,430,292	5,820,653	7,250,945
Deferred inflows of resources	--	7,710	7,710
Total liabilities and deferred inflows	1,430,292	5,828,363	7,258,655
NET ASSETS			
Invested in capital assets, net of related debt	1,544,834	1,998,753	3,543,587
Restricted for:			
Debt service	18,228	87,404	105,632
Strategic reserve	--	148,519	148,519
Capital projects	29,559	154,435	183,994
Renewal and replacement	--	10,948	10,948
Bond Reserve	--	62,283	62,283
Passenger facility charges	--	26,808	26,808
Operating reserve	--	11,814	11,814
Perpetual Care:			
Expendable	764	--	764
Nonexpendable	1,040	--	1,040
Other purposes	22,125	--	22,125
Unrestricted (deficit)	(58,002)	403,346	345,344
Total net assets	\$ 1,558,548	2,904,310	4,462,858

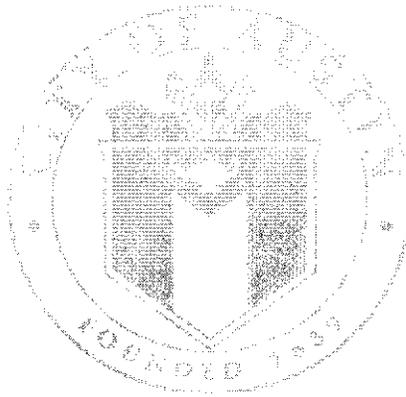
(†) After internal receivables and payables have been eliminated.

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

Statement of Activities
For the year ended September 30, 2010
(In thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 89,315	7,902	169	3,760	(77,484)	--	(77,484)
Public safety	455,760	47,530	9,593	12	(398,625)	--	(398,625)
Transportation, planning, and sustainability	65,565	3,792	--	14,136	(47,637)	--	(47,637)
Public health	63,215	7,561	23,313	3,495	(28,846)	--	(28,846)
Public recreation and culture	91,732	3,456	1,473	4,607	(82,196)	--	(82,196)
Urban growth management	143,884	38,895	32,283	24,536	(48,170)	--	(48,170)
Interest on debt	44,889	--	--	--	(44,889)	--	(44,889)
Total governmental activities	954,360	109,136	66,831	50,546	(727,847)	--	(727,847)
Business-type activities							
Electric	1,086,470	1,147,676	--	4,856	--	66,062	66,062
Water	169,708	171,457	--	9,461	--	11,210	11,210
Wastewater	166,979	189,192	--	1,433	--	23,646	23,646
Airport	92,780	100,223	--	7,799	--	15,242	15,242
Convention	51,818	14,784	--	--	--	(37,034)	(37,034)
Environmental and health services	66,380	74,399	--	634	--	8,653	8,653
Public recreation	9,715	8,864	--	3,945	--	3,094	3,094
Urban growth management	106,618	108,312	--	3,575	--	5,269	5,269
Total business-type activities	1,750,468	1,814,907	--	31,703	--	96,142	96,142
Total	\$ 2,704,828	1,924,043	66,831	82,249	(727,847)	96,142	(631,705)
General revenues:							
Property tax					341,812	--	341,812
Sales tax					144,710	--	144,710
Franchise fees and gross receipts tax					87,996	--	87,996
Interest and other					31,960	13,935	45,895
Transfers-internal activities					96,031	(96,031)	--
Total general revenues and transfers					702,509	(82,096)	620,413
Change in net assets					(25,338)	14,046	(11,292)
Beginning net assets, as restated (see Note 2)					1,583,886	2,890,264	4,474,150
Ending net assets					\$ 1,558,548	2,904,310	4,462,858

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



Governmental Funds
Balance Sheet
September 30, 2010
(in thousands)

City of Austin, Texas
Exhibit B-1

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 56	5	61
Pooled investments and cash	102,327	240,391	342,718
Investments, at fair value	--	21,901	21,901
Cash held by trustee-restricted	160	1,758	1,918
Property taxes receivable	9,025	5,258	14,283
Less allowance for uncollectible taxes	(2,789)	(1,509)	(4,298)
Net property taxes receivable	6,236	3,749	9,985
Accounts and other receivables	133,570	41,441	175,011
Less allowance for doubtful accounts	(82,099)	(259)	(82,358)
Net accounts receivable	51,471	41,182	92,653
Receivables from other governments	--	15,359	15,359
Notes receivable, net of allowance	--	12,367	12,367
Due from other funds	227	57,746	57,973
Advances to other funds	--	4,539	4,539
Inventories, at cost	916	--	916
Real property held for resale	--	5,419	5,419
Prepaid items	86	81	167
Other assets	60	1,169	1,229
Total assets	<u>161,539</u>	<u>405,666</u>	<u>567,205</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	4,768	30,699	35,467
Accrued payroll	26,028	144	26,172
Accrued compensated absences	768	--	768
Due to other funds	--	57,984	57,984
Deferred revenue	18,664	6,779	25,443
Advances from other funds	--	407	407
Deposits and other liabilities	2,601	47,928	50,529
Total liabilities	<u>52,829</u>	<u>143,941</u>	<u>196,770</u>
Fund balances			
Reserved:			
Encumbrances	3,133	129,416	132,549
Inventories and prepaid items	1,002	81	1,083
Notes receivable	--	12,367	12,367
Advances receivable	--	4,539	4,539
Real property held for resale	--	5,419	5,419
Debt service	--	21,958	21,958
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	40,000	--	40,000
Contingencies	5,958	--	5,958
Budget stabilization	58,617	--	58,617
Unreserved, undesignated:			
Special revenue	--	57,694	57,694
Capital projects	--	28,447	28,447
Permanent funds	--	764	764
Total fund balances	<u>108,710</u>	<u>261,725</u>	<u>370,435</u>
Total liabilities and fund balances	<u>\$ 161,539</u>	<u>405,666</u>	<u>567,205</u>

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

Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2010
(In thousands)

City of Austin, Texas
 Exhibit B-1.1

Total fund balances - Governmental funds \$ 370,435

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	3,381,534	
Less: accumulated depreciation	(1,048,019)	
		2,333,515

Other long-term assets are not available as current-period resources and are not reported in the funds.

Accounts and other taxes receivable	16,985	
Deferred revenue - property taxes and interest	5,804	
Deferred costs and expenses	5,619	
Net Pension Asset	4,943	
		33,351

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	(894,434)	
Pension obligation payable	(53,736)	
Other post employment benefits payable	(169,432)	
Compensated absences	(104,444)	
Interest payable	(3,710)	
Deferred credits and other liabilities	(20,730)	
		(1,246,486)

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.

67,733

Total net assets - Governmental activities

\$ 1,558,548

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

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended September 30, 2010
(In thousands)

City of Austin, Texas
Exhibit B-2

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 236,302	104,502	340,804
Sales taxes	144,710	--	144,710
Franchise fees and other taxes	41,013	47,308	88,321
Fines, forfeitures and penalties	18,692	5,879	24,571
Licenses, permits and inspections	15,716	--	15,716
Charges for services/goods	33,394	31,200	64,594
Intergovernmental	--	86,557	86,557
Property owners' participation and contributions	--	6,937	6,937
Interest and other	8,059	27,504	35,563
Total revenues	497,886	309,887	807,773
EXPENDITURES			
Current:			
General government	59,727	6,560	66,287
Public safety	417,798	4,160	421,958
Transportation, planning and sustainability	916	9,718	10,634
Public health	37,929	15,300	53,229
Public recreation and culture	61,311	12,778	74,089
Urban growth management	17,875	82,343	100,218
Debt service:			
Principal	--	70,424	70,424
Interest	--	44,590	44,590
Fees and commissions	--	17	17
Capital outlay-capital project funds	--	166,491	166,491
Total expenditures	595,556	412,381	1,007,937
Deficiency of revenues over expenditures	(97,670)	(102,494)	(200,164)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	15,000	15,000
Transfers in	130,233	67,436	197,669
Transfers out	(16,014)	(77,943)	(93,957)
Total other financing sources (uses)	114,219	4,493	118,712
Net change in fund balances	16,549	(98,001)	(81,452)
Fund balances at beginning of year	92,161	359,726	451,887
Fund balances at end of year	\$ 108,710	261,725	370,435

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

Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the year ended September 30, 2010
(In thousands)

City of Austin, Texas
 Exhibit B-2.1

Net change in fund balances - Governmental funds \$ (81,452)

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	171,734	
Depreciation expense	(93,994)	
Loss on disposal of capital assets	<u>(24,725)</u>	
		53,015

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

Property taxes	1,008	
Charges for services	287	
Interest and other	(365)	
Capital assets contribution	<u>14,999</u>	
		15,929

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	(15,000)	
Principal repayment on long-term debt	<u>70,424</u>	
		55,424

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	(3,082)	
Pension obligation	(5,741)	
Other post employment benefits	(59,581)	
Interest and other	<u>3,099</u>	
		(65,305)

Internal services. A portion of the net revenue (expense) of the internal service funds is reported with the governmental activities. (2,949)

Change in net assets - Governmental activities \$ (25,338)

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

Proprietary Funds
Statement of Net Assets
September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	\$ 18	9	8
Pooled investments and cash	133,576	27,675	1,800
Pooled investments and cash - restricted	68,041	39,199	32,363
Total pooled investments and cash	201,617	66,874	34,163
Investments, at fair value	--	--	--
Investments, at fair value - restricted	100,568	106,247	14,174
Cash held by trustee - restricted	--	101	--
Working capital advances	6,554	--	--
Accounts receivable	134,988	53,040	3,638
Less allowance for doubtful accounts	(2,270)	(514)	(648)
Net accounts receivable	132,718	52,526	2,990
Due from other funds	442	--	--
Due from other funds - restricted	--	27	--
Inventories, at cost	75,011	1,565	1,396
Prepaid expenses	2,581	15	9
Other assets	27,764	--	--
Other receivables - restricted	1,670	423	1,612
Deferred costs and expenses, net of amortization	29,656	23,062	--
Total current assets	578,599	250,849	54,352
Noncurrent assets:			
Pooled investments and cash - restricted	14,874	--	134,427
Advances to other funds	26,876	--	--
Advances to other funds - restricted	--	--	107
Investments, at fair value - restricted	161,150	--	--
Investments held by trustee - restricted	168,033	--	--
Interest receivable - restricted	1,121	--	--
Capital assets			
Land and other nondepreciable assets	65,200	212,841	95,914
Property, plant, and equipment in service	4,019,644	3,439,485	690,294
Less accumulated depreciation	(1,895,660)	(1,121,365)	(191,785)
Net property, plant, and equipment in service	2,123,984	2,318,120	498,509
Construction in progress	328,196	253,410	29,133
Nuclear fuel, net of amortization	34,355	--	--
Plant held for future use	27,783	--	--
Water rights, net of amortization	--	89,136	--
Total capital assets	2,579,518	2,873,507	623,556
Derivative instruments - energy risk management	7,710	--	--
Other long-term assets	62	--	--
Deferred costs and expenses, net of amortization	170,713	183,280	2,929
Total noncurrent assets	3,130,057	3,056,787	761,019
Total assets	3,708,656	3,307,636	815,371
Deferred outflows of resources	113,411	34,606	48,227
Total assets and deferred outflows	\$ 3,822,067	3,342,242	863,598

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
ASSETS			
Current assets:			
Cash	30	65	15
Pooled investments and cash	146,739	309,790	101,239
Pooled investments and cash - restricted	20,326	159,929	--
Total pooled investments and cash	167,065	469,719	101,239
Investments, at fair value	8,023	8,023	--
Investments, at fair value - restricted	10,572	231,561	--
Cash held by trustee - restricted	--	101	594
Working capital advances	--	6,554	--
Accounts receivable	14,174	205,840	2,015
Less allowance for doubtful accounts	(365)	(3,797)	--
Net accounts receivable	13,809	202,043	2,015
Due from other funds	717	1,159	11
Due from other funds - restricted	--	27	--
Inventories, at cost	1,188	79,160	1,035
Prepaid expenses	220	2,825	77
Other assets	--	27,764	--
Other receivables - restricted	2,504	6,209	--
Deferred costs and expenses, net of amortization	--	52,718	--
Total current assets	204,128	1,087,928	104,986
Noncurrent assets:			
Pooled investments and cash - restricted	--	149,301	--
Advances to other funds	30	26,906	34
Advances to other funds - restricted	55	162	--
Investments, at fair value - restricted	--	161,150	--
Investments held by trustee - restricted	--	168,033	--
Interest receivable - restricted	--	1,121	--
Capital assets			
Land and other nondepreciable assets	91,654	465,609	751
Property, plant, and equipment in service	525,913	8,675,336	74,782
Less accumulated depreciation	(173,781)	(3,382,591)	(38,438)
Net property, plant, and equipment in service	352,132	5,292,745	36,344
Construction in progress	55,825	666,564	1,600
Nuclear fuel, net of amortization	--	34,355	--
Plant held for future use	--	27,783	--
Water rights, net of amortization	--	89,136	--
Total capital assets	499,611	6,576,192	38,695
Derivative instruments - energy risk management	--	7,710	--
Other long-term assets	--	62	--
Deferred costs and expenses, net of amortization	4,307	361,229	4
Total noncurrent assets	504,003	7,451,866	38,733
Total assets	708,131	8,539,794	143,719
Deferred outflows of resources	16,640	212,884	--
Total assets and deferred outflows	724,771	8,752,678	143,719

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

(Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 52,528	3,082	1,724
Accounts and retainage payable from restricted assets	11,425	27,521	3,763
Accrued payroll	8,181	4,011	1,179
Accrued compensated absences	10,681	5,520	1,500
Claims payable	--	--	--
Due to other funds	--	--	--
Accrued interest payable from restricted assets	49,594	42,698	1,851
Interest payable on capital appreciation bonds and other debt	29,690	20,000	1
Commercial paper notes payable	8,603	35,774	--
General obligation bonds payable and other tax supported debt	--	--	28
General obligation bonds payable and other tax supported debt payable from restricted assets	152	4,779	--
Revenue bonds payable from restricted assets	75,084	50,660	13,515
Capital lease obligations payable	38	--	331
Customer and escrow deposits payable from restricted assets	24,686	8,405	417
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	51,003	24,252	1,071
Total current liabilities	321,665	226,702	25,380
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	895	--	61
Claims payable	--	--	--
Advances from other funds	--	3,505	--
Advances from other funds payable from restricted assets	--	24,603	--
Capital appreciation bond interest payable	18,717	84,578	--
Commercial paper notes payable, net of discount	76,552	178,868	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	1,040	22,600	234
Revenue bonds payable, net of discount and inclusive of premium	1,251,199	1,761,237	281,768
Pension obligation payable	23,617	11,823	3,570
Other post employment benefits payable	41,078	25,386	7,477
Capital lease obligations payable	1,259	--	--
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning liability payable from restricted assets	150,591	--	--
Derivative instruments - energy risk management	113,480	--	--
Derivative instruments - interest rate swaps	--	34,606	48,227
Deferred credits and other liabilities	214,709	465,587	--
Other liabilities payable from restricted assets	--	307	62
Total noncurrent liabilities	1,893,137	2,613,100	369,399
Total liabilities	2,214,802	2,839,802	394,779
Deferred inflows of resources	7,710	--	--
Total liabilities and deferred inflows	\$ 2,222,512	2,839,802	394,779

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

(Continued)

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
LIABILITIES			
Current liabilities:			
Accounts payable	4,726	62,060	6,115
Accounts and retainage payable from restricted assets	3,143	45,852	--
Accrued payroll	4,580	17,951	5,838
Accrued compensated absences	5,320	23,021	6,725
Claims payable	--	--	17,865
Due to other funds	1,023	1,023	163
Accrued interest payable from restricted assets	2,174	96,317	--
Interest payable on capital appreciation bonds and other debt	627	50,318	20
Commercial paper notes payable	--	44,377	--
General obligation bonds payable and other tax supported debt	11,465	11,493	480
General obligation bonds payable and other tax supported debt payable from restricted assets	--	4,931	--
Revenue bonds payable from restricted assets	8,545	147,804	--
Capital lease obligations payable	--	369	283
Customer and escrow deposits payable from restricted assets	3,154	36,662	--
Accrued landfill closure and postclosure costs	765	765	--
Deferred credits and other liabilities	43	76,369	5,095
Total current liabilities	45,565	619,312	42,584
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	382	1,338	561
Claims payable	--	--	15,570
Advances from other funds	2,640	6,145	486
Advances from other funds payable from restricted assets	--	24,603	--
Capital appreciation bond interest payable	--	103,295	--
Commercial paper notes payable, net of discount	--	255,420	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	84,346	108,220	4,586
Revenue bonds payable, net of discount and inclusive of premium	201,103	3,495,307	--
Pension obligation payable	13,630	52,640	--
Other post employment benefits payable	26,775	100,716	--
Capital lease obligations payable	--	1,259	433
Accrued landfill closure and postclosure costs	7,175	7,175	--
Decommissioning liability payable from restricted assets	--	150,591	--
Derivative instruments - energy risk management	--	113,480	--
Derivative instruments - interest rate swaps	16,640	99,473	--
Deferred credits and other liabilities	4,223	684,519	--
Other liabilities payable from restricted assets	562	931	--
Total noncurrent liabilities	357,476	5,233,112	21,636
Total liabilities	403,041	5,852,424	64,220
Deferred inflows of resources	--	7,710	--
Total liabilities and deferred inflows	403,041	5,860,134	64,220

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

(Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
NET ASSETS			
Invested in capital assets, net of related debt	\$ 1,118,770	379,995	302,606
Restricted for:			
Debt service	50,974	20,721	13,634
Strategic reserve	141,695	--	--
Capital projects	33,534	--	110,397
Renewal and replacement	64	--	10,000
Bond reserve	19,455	42,828	--
Passenger facility charges	--	--	26,808
Operating reserve	--	--	9,158
Unrestricted	235,063	58,896	(3,784)
Total net assets	<u>\$ 1,599,555</u>	<u>502,440</u>	<u>468,819</u>
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	5,309	2,480	1,006
Total net assets - Business-type activities	<u>\$ 1,604,864</u>	<u>504,920</u>	<u>469,825</u>

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

(Continued)

	<u>Business-Type Activities</u>		<u>Governmental Activities- Internal Service Funds</u>
	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	
NET ASSETS			
Invested in capital assets, net of related debt	197,382	1,998,753	32,917
Restricted for:			
Debt service	2,075	87,404	--
Strategic reserve	6,824	148,519	--
Capital projects	10,504	154,435	1,952
Renewal and replacement	884	10,948	--
Bond reserve	--	62,283	--
Passenger facility charges	--	26,808	--
Operating reserve	2,656	11,814	--
Unrestricted	101,405	391,580	44,630
Total net assets	<u>321,730</u>	<u>2,892,544</u>	<u>79,499</u>
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,971	11,766	
Total net assets - Business-type activities	<u>324,701</u>	<u>2,904,310</u>	

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, 2010
(In thousands)

	<u>Business-Type Activities</u>		
	<u>Electric</u>	<u>Water and Wastewater</u>	<u>Airport</u>
OPERATING REVENUES			
Utility services	\$ 1,147,676	360,649	--
User fees and rentals	--	--	83,277
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	<u>1,147,676</u>	<u>360,649</u>	<u>83,277</u>
OPERATING EXPENSES			
Operating expenses before depreciation	887,152	171,171	60,843
Depreciation and amortization	121,570	85,705	19,154
Total operating expenses	<u>1,008,722</u>	<u>256,876</u>	<u>79,997</u>
Operating income (loss)	<u>138,954</u>	<u>103,773</u>	<u>3,280</u>
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	9,740	287	1,452
Interest on revenue bonds and other debt	(80,029)	(94,468)	(14,396)
Interest capitalized during construction	--	--	1,370
Passenger facility charges	--	--	16,946
Amortization of bond issue cost	(1,027)	(717)	(229)
Cost (recovered) to be recovered in future years	(428)	18,375	--
Other nonoperating revenue (expense)	1,593	(4,057)	235
Total nonoperating revenues (expenses)	<u>(70,151)</u>	<u>(80,580)</u>	<u>5,378</u>
Income (loss) before contributions and transfers	68,803	23,193	8,658
Capital contributions	4,856	10,894	7,799
Transfers in	--	--	--
Transfers out	(101,000)	(33,429)	--
Change in net assets	<u>(27,341)</u>	<u>658</u>	<u>16,457</u>
Total net assets - beginning, as restated (See Note 2)	1,626,896	501,782	452,362
Total net assets - ending	<u>\$ 1,599,555</u>	<u>502,440</u>	<u>468,819</u>
Reconciliation to government-wide Statement of Activities			
Change in net assets	(27,341)	658	16,457
Adjustment to consolidate internal service activities	2,143	1,056	237
Change in net assets - Business-type activities	<u>\$ (25,198)</u>	<u>1,714</u>	<u>16,694</u>

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
OPERATING REVENUES			
Utility services	--	1,508,325	--
User fees and rentals	206,359	289,636	--
Billings to departments	--	--	291,411
Employee contributions	--	--	36,888
Operating revenues from other governments	--	--	2,643
Other operating revenues	--	--	3,478
Total operating revenues	206,359	1,797,961	334,420
OPERATING EXPENSES			
Operating expenses before depreciation	195,132	1,314,298	312,912
Depreciation and amortization	22,054	248,483	8,516
Total operating expenses	217,186	1,562,781	321,428
Operating income (loss)	(10,827)	235,180	12,992
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	2,456	13,935	409
Interest on revenue bonds and other debt	(14,367)	(203,260)	(299)
Interest capitalized during construction	2,559	3,929	--
Passenger facility charges	--	16,946	--
Amortization of bond issue cost	(304)	(2,277)	8
Cost (recovered) to be recovered in future years	--	17,947	--
Other nonoperating revenue (expense)	(6,834)	(9,063)	(6,921)
Total nonoperating revenues (expenses)	(16,490)	(161,843)	(6,803)
Income (loss) before contributions and transfers	(27,317)	73,337	6,189
Capital contributions	8,154	31,703	3,580
Transfers in	41,928	41,928	--
Transfers out	(3,530)	(137,959)	(7,681)
Change in net assets	19,235	9,009	2,088
Total net assets - beginning, as restated (See Note 2)	302,495	2,883,535	77,411
Total net assets - ending	321,730	2,892,544	79,499
Reconciliation to government-wide Statement of Activities			
Change in net assets	19,235	9,009	
Adjustment to consolidate internal service activities	1,601	5,037	
Change in net assets - Business-type activities	20,836	14,046	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2010
(In thousands)

	<u>Business-Type Activities</u>		
	<u>Electric</u>	<u>Water and Wastewater</u>	<u>Airport</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,203,742	359,640	85,838
Cash payments to suppliers for goods and services	(728,298)	(81,894)	(34,843)
Cash payments to employees for services	(151,914)	(77,059)	(22,427)
Cash payments to claimants/beneficiaries	--	--	--
Taxes collected and remitted to other governments	(35,269)	--	--
Net cash provided by operating activities	<u>288,261</u>	<u>200,687</u>	<u>28,568</u>
CASH FLOWS FROM NONCAPITAL			
FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(101,000)	(33,429)	--
Interest paid on revenue notes and other debt	(221)	--	--
Increase in deferred assets	(970)	--	--
Loans to other funds	(12)	--	--
Loans from other funds	--	24,603	--
Loan repayments to other funds	--	(380)	--
Loan repayments from other funds	442	27	11
Collections from other governments	--	--	724
Net cash provided (used) by noncapital financing activities	<u>(101,761)</u>	<u>(9,179)</u>	<u>735</u>
CASH FLOWS FROM CAPITAL AND RELATED			
FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	94,130	181,350	--
Proceeds from the sale of revenue bonds	--	10,840	--
Principal paid on long-term debt	(66,073)	(59,753)	(13,449)
Purchased interest received	1,157	710	--
Interest paid on revenue bonds and other debt	(99,910)	(104,438)	(13,632)
Passenger facility charges	--	--	16,946
Acquisition and construction of capital assets	(205,299)	(199,435)	(13,885)
Contributions to municipality	--	--	--
Contributions in aid of construction	4,856	5,635	7,799
Bond issuance costs	(2,205)	(1,476)	--
Bond discounts	(59)	--	--
Bond premiums	7,620	6,695	--
Bonds issued for advanced refundings of debt	220,245	166,575	--
Cash paid for bond refunding escrow	(226,150)	(171,795)	--
Cash paid for nuclear fuel inventory	(14,801)	--	--
Net cash provided (used) by capital and related financing activities	<u>\$ (286,489)</u>	<u>(165,092)</u>	<u>(16,221)</u>

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

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	206,260	1,855,480	334,943
Cash payments to suppliers for goods and services	(102,647)	(947,682)	(71,230)
Cash payments to employees for services	(90,335)	(341,735)	(107,114)
Cash payments to claimants/beneficiaries	--	--	(130,783)
Taxes collected and remitted to other governments	--	(35,269)	--
Net cash provided by operating activities	13,278	530,794	25,816
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	41,928	41,928	--
Transfers out	(3,530)	(137,959)	(7,681)
Interest paid on revenue notes and other debt	(4)	(225)	--
Increase in deferred assets	--	(970)	--
Loans to other funds	(7)	(19)	--
Loans from other funds	40	24,643	--
Loan repayments to other funds	(898)	(1,278)	(253)
Loan repayments from other funds	85	565	--
Collections from other governments	24	748	--
Net cash provided (used) by noncapital financing activities	37,638	(72,567)	(7,934)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	275,480	--
Proceeds from the sale of revenue bonds	--	10,840	--
Principal paid on long-term debt	(18,608)	(157,883)	280
Purchased interest received	--	1,867	--
Interest paid on revenue bonds and other debt	(13,206)	(231,186)	(301)
Passenger facility charges	--	16,946	--
Acquisition and construction of capital assets	(39,048)	(457,667)	(8,619)
Contributions to municipality	(15)	(15)	--
Contributions in aid of construction	1,897	20,187	--
Bond issuance costs	--	(3,681)	--
Bond discounts	--	(59)	--
Bond premiums	--	14,315	--
Bonds issued for advanced refundings of debt	--	386,820	--
Cash paid for bond refunding escrow	--	(397,945)	--
Cash paid for nuclear fuel inventory	--	(14,801)	--
Net cash provided (used) by capital and related financing activities	(68,980)	(536,782)	(8,640)

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	\$ (464,157)	(158,182)	(30,298)
Proceeds from sale and maturities of investment securities	391,201	131,957	30,692
Interest on investments	8,269	287	1,452
Net cash provided (used) by investing activities	(64,687)	(25,938)	1,846
Net increase (decrease) in cash and cash equivalents	(164,676)	478	14,928
Cash and cash equivalents, October 1	381,185	66,506	153,670
Cash and cash equivalents, September 30	216,509	66,984	168,598
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	138,954	103,773	3,280
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	121,570	84,717	19,154
Amortization	--	988	--
Change in assets and liabilities:			
Increase in working capital advances	(3,161)	--	--
(Increase) decrease in accounts receivable	(982)	(226)	1,736
Increase (decrease) in allowance for doubtful accounts	55	(201)	121
Decrease in due from other funds	--	--	--
(Increase) decrease in inventory	13,693	219	213
Decrease in prepaid expenses and other assets	5,668	(2)	19
(Increase) decrease in deferred costs and other expenses	(8,491)	25	--
(Increase) decrease in other long-term assets	5	--	--
Increase (decrease) in accounts payable	(5,482)	4	(379)
Increase in accrued payroll and compensated absences	885	197	135
Decrease in claims payable	--	--	--
Increase in pension obligations payable	5,793	2,843	835
Increase in other post employment benefits payable	14,445	8,927	2,629
Increase (decrease) in deferred credits and other liabilities	2,154	(1,766)	846
Increase (decrease) in customer deposits	3,155	1,189	(21)
Total adjustments	149,307	96,914	25,288
Net cash provided by operating activities	\$ 288,261	200,687	28,568

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

(Continued)

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(20,810)	(673,447)	--
Proceeds from sale and maturities of investment securities	19,294	573,144	--
Interest on investments	2,456	12,464	409
Net cash provided (used) by investing activities	940	(87,839)	409
Net increase (decrease) in cash and cash equivalents	(17,124)	(166,394)	9,651
Cash and cash equivalents, October 1	184,219	785,580	92,197
Cash and cash equivalents, September 30	167,095	619,186	101,848
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(10,827)	235,180	12,992
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	22,054	247,495	8,516
Amortization	--	988	--
Change in assets and liabilities:			
Increase in working capital advances	--	(3,161)	--
(Increase) decrease in accounts receivable	(118)	410	138
Increase (decrease) in allowance for doubtful accounts	74	49	(222)
Decrease in due from other funds	--	--	11
(Increase) decrease in inventory	(758)	13,367	179
Decrease in prepaid expenses and other assets	488	6,173	461
(Increase) decrease in deferred costs and other expenses	--	(8,466)	276
(Increase) decrease in other long-term assets	--	5	--
Increase (decrease) in accounts payable	(13)	(5,870)	(622)
Increase in accrued payroll and compensated absences	284	1,501	655
Decrease in claims payable	--	--	3,158
Increase in pension obligations payable	3,210	12,681	--
Increase in other post employment benefits payable	9,416	35,417	--
Increase (decrease) in deferred credits and other liabilities	(10,564)	(9,330)	274
Increase (decrease) in customer deposits	32	4,355	--
Total adjustments	24,105	295,614	12,824
Net cash provided by operating activities	13,278	530,794	25,816

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2010
(In thousands)

	Business-Type Activities		
	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	\$ (9,807)	6,142	--
Capital appreciation bonds interest accreted	7,304	11,970	--
Capital assets contributed from other funds	--	--	--
Increase in contributed facilities	--	5,259	--
Increase (decrease) in the fair value of investments	(1,238)	(406)	427
Amortization of bond issue costs	1,027	(717)	(229)
Amortization of bond discounts and premiums	(5,077)	(3,709)	260
Amortization of deferred gain (loss) on refundings	9,986	3,804	(1,085)
Gain (loss) on disposal of assets	1,593	(4,057)	(490)
Deferred gain (loss) on bond refunding	(2,792)	--	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	1,357	--	--
Deferred costs (recovered) to be recovered	3,487	18,375	--
Increase (decrease) in deferred credits and other liabilities	150,705	(32,999)	--
Capital lease obligations	1,258	--	486
Bonds assumed with debt transfer	--	(8,046)	--
Contributions	--	--	--
Debt obligations transferred to other funds	--	--	--

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

(Continued)

	Business-Type Activities		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
(Increase) decrease in deferred assets/expenses	221	(3,444)	--
Capital appreciation bonds interest accreted	--	19,274	--
Capital assets contributed from other funds	173	173	2,254
Increase in contributed facilities	--	5,259	--
Increase (decrease) in the fair value of investments	(967)	(2,184)	--
Amortization of bond issue costs	(304)	(223)	4
Amortization of bond discounts and premiums	(789)	(9,315)	--
Amortization of deferred gain (loss) on refundings	1,612	14,317	--
Gain (loss) on disposal of assets	(2,748)	(5,702)	(102)
Deferred gain (loss) on bond refunding	--	(2,792)	--
Bond issuance costs, discounts, premiums, and accrued interest written off due to refunding	--	1,357	--
Deferred costs (recovered) to be recovered	--	21,862	--
Increase (decrease) in deferred credits and other liabilities	--	117,706	323
Capital lease obligations	--	1,744	--
Bonds assumed with debt transfer	(4,522)	(12,568)	--
Contributions	375	375	--
Debt obligations transferred to other funds	3,339	3,339	--

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

Fiduciary Funds
Statement of Fiduciary Net Assets
September 30, 2010
(In thousands)

City of Austin, Texas
Exhibit D-1

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	\$ 1,410	3,644
Other assets	121	--
Total assets	1,531	3,644
LIABILITIES		
Accounts payable	--	11
Due to other governments	--	2,799
Deposits and other liabilities	663	834
Total liabilities	663	3,644
NET ASSETS		
Held in trust	868	
Total net assets	\$ 868	

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

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended September 30, 2010
(In thousands)

City of Austin, Texas
Exhibit D-2

	<u>Private-purpose</u> <u>Trust</u>
ADDITIONS	
Contributions	\$ 431
Interest and other	19
Total additions	<u>450</u>
DEDUCTIONS	
Benefit payments	<u>396</u>
Total deductions	<u>396</u>
Net additions (deductions)	<u>54</u>
Total net assets - beginning	814
Total net assets - ending	<u>\$ 868</u>

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The City of Austin's charter requires an annual audit by an independent certified public accountant. These financial statements have been prepared in accordance with 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. 53, and No. 55 through No. 58. In fiscal year 2010, the City implemented GASB Statement No. 51 entitled "Accounting and Financial Reporting for Intangible Assets" (see Note 2 for impact), GASB Statement No. 53 entitled "Accounting and Financial Reporting for Derivative Instruments" (see Note 14 for impact), GASB Statement No. 57 entitled "OPEB Measurements by Agent Employers and Agent Multiple Employer Plans", and GASB Statement No. 58 entitled "Accounting and Financial Reporting for Chapter 9 Bankruptcies". Implementation of the GASB Statement No. 57 and No. 58 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 Mental 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); 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 applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 and solid waste services activities.

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

Urban growth management: 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 carry 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, 2010. 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, 2010 (in thousands):

	Charges			Other		Total
	for Services	Fines	Taxes	Govern- ments	Other	
Governmental activities						
General Fund	\$ 79,001	25,907	33,307	--	--	138,215
Nonmajor governmental funds	599	16	11,751	28,356	719	41,441
Internal service funds	2,015	--	--	--	--	2,015
Allowance for doubtful accounts	(70,487)	(11,612)	--	(259)	--	(82,358)
Total	\$ 11,128	14,311	45,058	28,097	719	99,313

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	\$ 141,695	--	--	--	141,695
Capital projects	44,960	31,038	121,054	10,154	207,206
Customer and escrow deposits	24,686	8,405	417	3,154	36,662
Debt service	100,568	106,247	13,634	2,130	222,579
Federal grants	--	307	1,612	2,480	4,399
Plant decommissioning	184,029	--	--	--	184,029
Revenue bond reserve	19,455	--	--	8,497	27,952
Operating reserve account	--	--	9,158	6,158	15,316
Passenger facility charge account	--	--	26,808	--	26,808
Renewal and replacement account	64	--	10,000	884	10,948
	<u>\$ 515,457</u>	<u>145,997</u>	<u>182,683</u>	<u>33,457</u>	<u>877,594</u>

Capital assets -- Capital assets, which primarily include land and improvements, buildings and improvements, plant and equipment, vehicles, water rights, and infrastructure assets, are reported in the proprietary funds and the applicable governmental or business-type activity columns of the government-wide statement of net assets; related depreciation or amortization 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, internally generated, 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
Plant and 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
Water rights	--	--	101	--	--
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.

Water rights represent the amortized cost of a \$100 million contract, net of accumulated amortization of \$10.9 million between the City and the Lower Colorado River Authority (LCRA) for a fifty-one 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 101.25 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 debt issuance costs, pension, other post employment benefits, interest, decommission, fuel recovery, etc. Deferred expenses will be recovered in these future periods by setting rates sufficient to provide funds for the 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.

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

Deferred (Inflows) Outflows of Resources -- In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, derivative instruments are reported in the statement of net assets at fair value, as either assets or liabilities. Changes in fair value of hedging derivative instruments are recognized through the application of hedge accounting as either deferred inflows or outflows in the statement of net assets, as an offset to the related hedging derivative instrument.

Compensated Absences -- The amounts owed to employees for unpaid vacation, exception 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.

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
Exception vacation (4)	0-40	160	160	176
	42	160	N/A	N/A
	48	160	N/A	N/A
	53	N/A	N/A	264
Sick leave	0-40	720	1,400	720
	42	756	N/A	N/A
	48	926	N/A	N/A
	53	N/A	N/A	1080

- (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.
- (4) Exception vacation hours are hours accumulated by an employee when the employee works on a City holiday.

Other Post Employment Benefits -- The City provides certain health care benefits for its retired employees and their families as more fully described in Note 16. The City implemented GASB Statement No. 45 and reports the actuarially determined cost of these post-employment benefits, other than pensions. At September 30, 2010, the City's total actuarial accrued liability for these retiree benefits was approximately \$1.1 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.

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

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.

For proprietary funds and for governmental activities in the government-wide financial statements, the City defers and amortizes gains and losses realized on refundings of debt 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 and 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.

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 report revenues net of bad debt expense, as follows (in thousands):

	Bad Debt Expense
Electric	\$ 4,166
Water and Wastewater	1,469
Airport	120
Nonmajor Enterprise	1,184

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 a fuel cost adjustment clause that permits recovery of fuel costs in the month incurred or in future months. The City reports fuel costs on the same basis as it recognizes revenue. Unbilled revenue is recorded in the Electric Fund by estimating the daily power generation and allocating by each billing district meter read dates as of September 30, 2010. The amount of unbilled revenue recorded, as of September 30, 2010, for the Electric Fund was \$40.4 million. The Water and Wastewater Fund records unbilled revenue as earned based upon the percentage of October's billing that represented water usage through September 30, 2010. The amount of unbilled revenue recorded as of September 30, 2010 was \$11.2 million for water and \$10.7 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 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.

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

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

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

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

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

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

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 15).

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 AS A RESULT OF THE IMPLEMENTATION OF A NEW ACCOUNTING STANDARD

During fiscal year 2010, the City implemented a new accounting standard, GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which established standards of accounting and reporting for intangible assets. GASB Statement No. 51 requires a restatement of prior financial statements for prior period impacts of implementation. The statement addresses the basis of the useful life of an intangible asset. The City assessed the useful life of the Water and Wastewater Fund's water rights agreement and determined that the useful life should be adjusted from 40 years to 101.25 years to reflect the time period of the contract, including the renewal period. In accordance with accounting for regulated operations, the City also assessed the effect of the implementation of GASB Statement No. 51 on the regulatory accounting for the portion of the water rights funded by debt. The City has restated the beginning net assets in 2010 for the Water and Wastewater Fund and Business-type activities to reflect this implementation as follows:

	<u>Exhibit A-2</u>	<u>Exhibit C-2</u>	
	<u>Business-Type</u>	<u>Water and</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Wastewater</u>	<u>Activities</u>
Net assets at September 30, 2009, as previously reported	\$ 2,886,129	497,647	2,879,400
Adjustments to properly record:			
Implementation of GASB Statement No. 51	15,125	15,125	15,125
Implementation effect on accounting for regulated operations	(10,990)	(10,990)	(10,990)
Net assets at September 30, 2009, as restated	<u>\$ 2,890,264</u>	<u>501,782</u>	<u>2,883,535</u>

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2010, the following funds reported deficits in fund balances/net assets (in thousands). Management intends to recover these deficits through future operating revenues, transfers, or debt issues.

<u>Nonmajor Governmental</u>	<u>Deficit</u>
Special Revenue Funds:	
Medicaid Administrative Claims	\$ 696
PARD Police Asset Forfeitures	2
Senior Nutrition	10
Performance Contracting	1,051
City Hall	117
Mueller Tax Increment Financing	212
One Texas Center	600
RMMA Reimbursement	18
Rutherford Lane Facility	792
Capital Projects Funds:	
Street & traffic signals	8
Parks and recreation facilities	288
Libraries	17
Radio Trunking	537
Affordable Housing	22,038
Central Library	225
TPSD general improvements	1,916
Build Austin	281
CMTA Mobility	458
Police and courts	5,584
Public Works	184
Watershed Protection	663
City Hall, plaza, parking garage	7,055
Conservation Land	15
Nonmajor Enterprise	
Parks and recreation	326

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2010 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	\$ 102,327	--
Nonmajor governmental funds	240,391	--
Electric	133,576	82,915
Water and Wastewater	27,675	39,199
Airport	1,800	166,790
Nonmajor enterprise funds	146,739	20,326
Internal service funds	101,239	--
Fiduciary funds	5,054	--
Subtotal pooled investments and cash	<u>758,801</u>	<u>309,230</u>
Total pooled investments and cash	<u>\$ 1,068,031</u>	

5 – INVESTMENTS AND DEPOSITS

a -- Investments

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

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

The City Treasurer submits an investment report each quarter to the investment committee. 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 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;

5 – INVESTMENTS AND DEPOSITS, continued
a -- Investments, continued

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.

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, 2010, TexPool, TexasDAILY, and TexStar had a weighted average maturity of 30 days, 52 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 2010.

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, 2010 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Non-pooled investments:				
Local Government Investment Pools	\$ 21,901	291,270	--	313,171
Money Market Funds	--	54,276	--	54,276
US Treasury Notes	--	79,344	--	79,344
US Agency Bonds	--	138,882	--	138,882
US Agency Bonds-Step	--	4,995	--	4,995
Total non-pooled investments	<u>21,901</u>	<u>568,767</u>	<u>--</u>	<u>590,668</u>
Pooled investments:				
Local Government Investment Pools	204,394	284,992	2,327	491,713
US Agency Bonds	239,453	333,921	2,680	576,054
US Agency Bonds-Step	4,156	5,794	47	9,997
Total pooled investments	<u>448,003</u>	<u>624,707</u>	<u>5,054</u>	<u>1,077,764</u>
Total investments	<u>\$ 469,904</u>	<u>1,193,474</u>	<u>5,054</u>	<u>1,668,432</u>

5 – INVESTMENTS AND DEPOSITS, continued
a – Investments, continued

Concentration of Credit Risk

At September 30, 2010, 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 (\$176.6 or 11%), Federal Home Loan Bank (\$166.6 or 10%), Federal Home Loan Mortgage Corporation (\$205.3 or 12%), and Federal National Mortgage Association (\$181.4 or 11%).

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.

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, 2010, the City operating funds had the following investments:

Investment Type	Fair Value (in thousands)			Total	Weighted Average Maturity (days)
	Governmental Activities	Business-type Activities	Fiduciary Funds		
Local Government Investment Pools	\$ 204,394	284,992	2,327	491,713	1
US Agency Bonds	239,453	333,921	2,680	576,054	538
US Agency Bonds-Step	4,156	5,794	47	9,997	1,057
Total	\$ 448,003	624,707	5,054	1,077,764	296

Credit Risk

None of the portfolio consists of direct obligations of the US government. As of September 30, 2010, Standard and Poor's issued the following ratings for other investments:

Local Government Investment Pools	46%	AAAm
US Agencies	54%	AAA

Concentration of Credit Risk

At September 30, 2010, the operating funds held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank (\$141.5 or 13%), Federal Home Loan Bank (\$117.1 or 11%), Federal Home Loan Mortgage Corporation (\$166.2 or 15%), and Federal National Mortgage Association (\$161.3 or 15%).

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, 2010, less than half of the Investment Pool was invested in AAAm rated LGIPS (2(a) 7-like pools), with the remainder invested in short-to-medium term US Agency obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity of all securities was 296 days, which was less than the threshold of 365 days.

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

Debt Service Funds

As of September 30, 2010, the City's debt service funds had the following investments:

Investment Type	Fair Value (in thousands)		Final Maturity
	Governmental Activities	Business-type Activities	
General Obligation Debt Service			
Local Government Investment Pools	\$ 21,901	--	N/A
Enterprise-Utility (1)			
Local Government Investment Pools	--	182,213	N/A
Enterprise-Airport			
Local Government Investment Pools	--	14,097	N/A
Nonmajor Enterprise-Convention Center			
Local Government Investment Pools	--	18,596	N/A
Total	<u>\$ 21,901</u>	<u>214,906</u>	

(1) Includes combined pledge debt service

Credit Risk

As of September 30, 2010, 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.

Special Project Fund

Airport Construction

As of September 30, 2010, the City's special project fund had the following investments:

Investment Type	Fair Value (in thousands)		Final Maturity
	Business-type Activities		
Local Government Investment Pools	\$ 76		N/A

Credit Risk

As of September 30, 2010, 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.

Special Purpose Funds

Austin Energy Strategic Reserve Fund

As of September 30, 2010, 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	\$ 32,231	1
US Treasury Notes	32,719	1,030
US Agency Bonds	71,747	1,002
US Agency Bonds-Step	4,998	990
Total	<u>\$ 141,695</u>	<u>773</u>

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

Credit Risk

At September 30, 2010, 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.

Concentration of Credit Risk

At September 30, 2010, the Austin Energy Strategic Reserve Fund held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank (\$15.2 or 11%), Federal Home Loan Bank (\$21.4 or 15%), Federal Home Loan Mortgage Corporation (\$20.0 or 14%), and Federal National Mortgage Association (\$20.1 or 14%).

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, 2010, 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 773 days (2.12 years).

Austin Energy Nuclear Decommissioning Trust Funds

As of September 30, 2010, the City's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

<u>Investment Type</u>	<u>Fair Value (in thousands)</u>	<u>Weighted Average Maturity (years)</u>
US Treasury Notes	\$ 46,625	4.06
US Agency Bonds	67,132	3.14
Money Market Funds	54,276	1 day
Total	<u>\$ 168,033</u>	<u>2.52</u>

Credit Risk

As of September 30, 2010, 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.

Concentration of Credit Risk

At September 30, 2010, the NDTF held investments with more than five percent of the total in securities of the following issuers (in millions): Federal Farm Credit Bank (\$19.8 or 12%), Federal Home Loan Bank (\$28.2 or 17%), and Federal Home Loan Mortgage Corporation (\$19.1 or 11%).

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, 2010, the dollar weighted average maturity was 2.52 years.

Combined Utility Reserve

As of September 30, 2010, the City's special project fund had the following investments:

<u>Investment Type</u>	<u>Fair Value (in thousands) Business-type Activities</u>	<u>Final Maturity</u>
Local Government Investment Pools	\$ 44,057	N/A

Credit Risk

As of September 30, 2010, Standard and Poor's rated TexPool AAAM.

5 – INVESTMENTS AND DEPOSITS, continued

b -- Investment categories, continued

Interest Rate Risk

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

c -- Investments and Deposits

Investments and deposits portfolio balances at September 30, 2010, are as follows (in thousands):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Non-pooled investments and cash	\$ 24,489	568,933	--	593,422
Pooled investments and cash	451,379	629,415	5,054	1,085,848
Total investments and cash	<u>475,868</u>	<u>1,198,348</u>	<u>5,054</u>	<u>1,679,270</u>
Unrestricted cash	76	65	--	141
Restricted cash	2,512	101	--	2,613
Pooled investments and cash	451,379	629,415	5,054	1,085,848
Investments	21,901	568,767	--	590,668
Total investments and cash	<u>\$ 475,868</u>	<u>1,198,348</u>	<u>5,054</u>	<u>1,679,270</u>

A difference of \$17.8 million exists between portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

Deposits

The September 30, 2010, carrying amount of deposits at the bank and cash on hand are as follows (in thousands):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash			
Unrestricted	\$ 76	65	141
Cash held by trustee			
Restricted	2,512	101	2,613
Pooled cash	3,376	4,708	8,084
Total deposits	<u>\$ 5,964</u>	<u>4,874</u>	<u>10,838</u>

All bank accounts were either insured or collateralized with securities held by the City or its agents in the City's name at September 30, 2010.

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, 2009, upon which the 2010 levy was based, was \$80,960,540,976.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2010, 98.97% of the current tax levy (October 1, 2009) 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.

6 – PROPERTY TAXES, continued

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District, the Williamson Central Appraisal District, and the Hays Central 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 and the Hays Central Appraisal District have chosen to review the value of property in their respective districts every two years, while the Williamson Central 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, Williamson, and Hays Counties bill and collect property taxes for the City.

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2010, was \$.2950 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$.7050 per \$100 assessed valuation, and could levy approximately \$570,771,814 in additional taxes from the assessed valuation of \$80,960,540,976 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 2010 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

<u>Enterprise Funds</u>	
Major fund:	
Airport	\$ 1,370
Nonmajor enterprise funds:	
Convention Center	962
Drainage	1,278
Golf	3
Solid Waste Services	220
Transportation	96

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, 2010, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 324,546	13,262	(5,351)	332,457
Arts and treasures	5,724	201	(11)	5,914
Library collections	14,069	340	(20)	14,389
Total	<u>344,339</u>	<u>13,803</u>	<u>(5,382)</u>	<u>352,760</u>
Depreciable property, plant, and equipment in service				
Building and improvements	633,147	14,719	(3,221)	644,645
Plant and equipment	153,341	9,427	(6,187)	156,581
Vehicles	94,017	6,730	(7,485)	93,262
Infrastructure	1,930,110	39,833	(182)	1,969,761
Total	<u>2,810,615</u>	<u>70,709</u>	<u>(17,075)</u>	<u>2,864,249</u>
Less accumulated depreciation for				
Building and improvements	(183,644)	(18,901)	5	(202,540)
Plant and equipment	(80,293)	(17,933)	5,188	(93,038)
Vehicles	(57,522)	(8,096)	7,089	(58,529)
Infrastructure	(674,838)	(57,580)	68	(732,350)
Total	<u>(996,297)</u>	<u>(102,510) (2)</u>	<u>12,350</u>	<u>(1,086,457)</u>
Net property, plant, and equipment in service	<u>1,814,318</u>	<u>(31,801)</u>	<u>(4,725)</u>	<u>1,777,792</u>
Other capital assets				
Construction in progress	144,606	170,095	(73,043)	241,658
Total capital assets	<u>\$ 2,303,263</u>	<u>152,097</u>	<u>(83,150)</u>	<u>2,372,210</u>

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

(2) Depreciation expense was charged to functions and internal service funds as follows (in thousands):

Governmental activities:

General government	\$ 5,489
Public safety	12,574
Transportation, planning, and sustainability	48,704
Public health	1,327
Public recreation and culture	9,974
Urban growth management	15,926
Internal service funds	8,516
Total increases in accumulated depreciation	<u>\$ 102,510</u>

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 64,007	1,193	--	65,200
Total	<u>64,007</u>	<u>1,193</u>	<u>--</u>	<u>65,200</u>
Depreciable property, plant, and equipment in service				
Building and improvements	652,394	2,981	(102)	655,273
Plant and equipment	3,111,288	251,791	(27,877)	3,335,202
Vehicles	28,190	3,081	(2,102)	29,169
Total	<u>3,791,872</u>	<u>257,853</u>	<u>(30,081)</u>	<u>4,019,644</u>
Less accumulated depreciation for				
Building and improvements	(343,288)	(17,826)	98	(361,016)
Plant and equipment	(1,438,308)	(101,136)	21,756	(1,517,688)
Vehicles	(16,385)	(2,608)	2,037	(16,956)
Total	<u>(1,797,981)</u>	<u>(121,570) (1)</u>	<u>23,891</u>	<u>(1,895,660)</u>
Net property, plant, and equipment in service	<u>1,993,891</u>	<u>136,283</u>	<u>(6,190)</u>	<u>2,123,984</u>
Other capital assets				
Construction in progress	385,600	201,877	(259,281)	328,196
Nuclear fuel, net of amortization	33,117	14,800	(13,562)	34,355
Plant held for future use	27,783	--	--	27,783
Total capital assets	<u>\$ 2,504,398</u>	<u>354,153</u>	<u>(279,033)</u>	<u>2,579,518</u>

(1) Components of accumulated depreciation increases:

Current year depreciation \$ 121,570

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 205,569	7,375	(103)	212,841
Total	<u>205,569</u>	<u>7,375</u>	<u>(103)</u>	<u>212,841</u>
Depreciable property, plant, and equipment in service				
Building and improvements	536,428	11,089	(180)	547,337
Plant and equipment	2,629,053	235,230	(5,173)	2,859,110
Vehicles	30,923	3,738	(1,623)	33,038
Total	<u>3,196,404</u>	<u>250,057</u>	<u>(6,976)</u>	<u>3,439,485</u>
Less accumulated depreciation for				
Building and improvements	(174,704)	(12,041)	--	(186,745)
Plant and equipment	(848,338)	(70,038)	2,782	(915,594)
Vehicles	(17,879)	(2,638)	1,491	(19,026)
Total	<u>(1,040,921)</u>	<u>(84,717) (2)</u>	<u>4,273</u>	<u>(1,121,365)</u>
Net property, plant, and equipment in service	<u>2,155,483</u>	<u>165,340</u>	<u>(2,703)</u>	<u>2,318,120</u>
Other capital assets				
Construction in progress	288,694	210,681	(245,965)	253,410
Water rights, net of amortization	90,124	--	(988) (3)	89,136
Total capital assets	<u>\$ 2,739,870</u>	<u>383,396</u>	<u>(249,759)</u>	<u>2,873,507</u>

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

(2) Components of accumulated depreciation increases:

Current year depreciation

Water	\$ 35,566
Wastewater	49,151
	<u>\$ 84,717</u>

(3) Components of water rights, net of amortization decreases:

Current year amortization - Water	<u>\$ 988</u>
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7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 94,155	937	--	95,092
Arts and treasures	822	--	--	822
Total	<u>94,977</u>	<u>937</u>	<u>--</u>	<u>95,914</u>
Depreciable property, plant, and equipment in service				
Building and improvements	649,650	12,473	--	662,123
Plant and equipment	23,341	1,476	(2,187)	22,630
Vehicles	5,678	473	(610)	5,541
Total	<u>678,669</u>	<u>14,422</u>	<u>(2,797)</u>	<u>690,294</u>
Less accumulated depreciation for				
Building and improvements	(160,720)	(17,175)	--	(177,895)
Plant and equipment	(10,160)	(1,587)	886	(10,861)
Vehicles	(3,108)	(392)	471	(3,029)
Total	<u>(173,988)</u>	<u>(19,154) (1)</u>	<u>1,357</u>	<u>(191,785)</u>
Net property, plant, and equipment in service	<u>504,681</u>	<u>(4,732)</u>	<u>(1,440)</u>	<u>498,509</u>
Other capital assets				
Construction in progress	27,054	15,315	(13,236)	29,133
Total capital assets	<u>\$ 626,712</u>	<u>11,520</u>	<u>(14,676)</u>	<u>623,556</u>
(1) Components of accumulated depreciation increases:				
Current year depreciation	<u>\$ 19,154</u>			

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 84,922	6,120	--	91,042
Arts and treasures	612	--	--	612
Total	<u>85,534</u>	<u>6,120</u>	<u>--</u>	<u>91,654</u>
Depreciable property, plant, and equipment in service				
Building and improvements	320,777	301	(315)	320,763
Plant and equipment	121,709	13,321	(2,247)	132,783
Vehicles	65,682	10,674	(3,989)	72,367
Total	<u>508,168</u>	<u>24,296</u>	<u>(6,551)</u>	<u>525,913</u>
Less accumulated depreciation for				
Building and improvements	(88,058)	(9,392)	134	(97,316)
Plant and equipment	(33,151)	(5,615)	519	(38,247)
Vehicles	(34,840)	(7,047)	3,669	(38,218)
Total	<u>(156,049)</u>	<u>(22,054) (2)</u>	<u>4,322</u>	<u>(173,781)</u>
Net property, plant, and equipment in service	<u>352,119</u>	<u>2,242</u>	<u>(2,229)</u>	<u>352,132</u>
Other capital assets				
Construction in progress	45,950	37,578	(27,703)	55,825
Total capital assets	<u>\$ 483,603</u>	<u>45,940</u>	<u>(29,932)</u>	<u>499,611</u>

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	\$ 8,307
Environmental and health services	6,157
Public recreation	669
Urban growth management	6,921
Total increases in accumulated depreciation	<u>\$ 22,054</u>

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Total

Capital asset activity for the year ended September 30, 2010, was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	\$ 448,653	15,625	(103)	464,175
Arts and treasures	1,434	--	--	1,434
Total	<u>450,087</u>	<u>15,625</u>	<u>(103)</u>	<u>465,609</u>
Depreciable property, plant, and equipment in service				
Building and improvements	2,159,249	26,844	(597)	2,185,496
Plant and equipment	5,885,391	501,803	(37,469)	6,349,725
Vehicles	130,473	17,951	(8,309)	140,115
Total	<u>8,175,113</u>	<u>546,598</u>	<u>(46,375)</u>	<u>8,675,336</u>
Less accumulated depreciation for				
Building and improvements	(766,770)	(56,434)	232	(822,972)
Plant and equipment	(2,329,957)	(178,376)	25,943	(2,482,390)
Vehicles	(72,212)	(12,685)	7,668	(77,229)
Total	<u>(3,168,939)</u>	<u>(247,495) (2)</u>	<u>33,843</u>	<u>(3,382,591)</u>
Net property, plant, and equipment in service	<u>5,006,174</u>	<u>299,103</u>	<u>(12,532)</u>	<u>5,292,745</u>
Other capital assets				
Construction in progress	747,298	465,451	(546,185)	666,564
Nuclear fuel, net of amortization	33,117	14,800	(13,562)	34,355
Plant held for future use	27,783	--	--	27,783
Water rights, net of amortization	90,124	--	(988) (3)	89,136
Total capital assets	<u>\$ 6,354,583</u>	<u>794,979</u>	<u>(573,370)</u>	<u>6,576,192</u>

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

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

Business-type activities:

Electric	\$ 121,570
Water	35,566
Wastewater	49,151
Airport	19,154
Convention Center	8,307
Environmental and health services	6,157
Public recreation	669
Urban growth management	6,921
Total increases in accumulated depreciation	<u>\$ 247,495</u>

(3) Components of water rights, net of amortization decreases:

Current year amortization - Water	<u>\$ 988</u>
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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, 2009. Membership in the plans at December 31, 2009, 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	5,061	534	539	6,134
Current employees	8,142	1,651	1,025	10,818
Total	13,203	2,185	1,564	16,952

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

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)	12% (1)	18.63% (2)	18.05% (3)

(1) The City contribution includes an 8% employee match plus a subsidy contribution of 4%. The City contributes two-thirds of the cost of prior service benefit payments.

(2) A rate of 18.63% was effective October 1, 2009. This rate increased to 19.63% effective October 1, 2010.

(3) This rate increased to 19.05% effective October 1, 2010.

8 – RETIREMENT PLANS, continued
b -- Funding Policy, continued

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, 2010, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	\$ 50,877	22,878	13,621	87,376
Employees	33,784	15,959	11,847	61,590
Total contributions	\$ 84,661	38,837	25,468	148,966

c -- Annual Pension Cost and Net Pension Obligation (Asset)

The City's annual pension cost of \$109,226,000 for fiscal year ended September 30, 2010, was \$21,850,000 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):				
2008	\$ 56,848	19,872	14,835	91,555
2009	59,067	19,909	10,102	89,078
2010	78,559	20,609	10,058	109,226
Percentage of APC contributed:				
2008	65%	100%	87%	N/A
2009	69%	97%	135%	N/A
2010	69%	112%	133%	N/A
Net Pension Obligation (Asset):				
2008	\$ 63,740	--	3,709	67,449
2009	82,146	646	218	83,010
2010	106,376	(1,799)	(3,144)	101,433

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
Annual required contribution	\$ 77,163	20,600	10,051
Interest in net pension obligation	6,099	37	32
Adjustment to annual required contribution	(4,703)	(28)	(25)
Annual pension cost	78,559	20,609	10,058
Employer contributions	(54,329)	(23,054)	(13,420)
Change in net pension obligation	24,230	(2,445)	(3,362)
Beginning net pension obligation	82,146	646	218
Net pension obligation (asset)	\$ 106,376	(1,799)	(3,144)

8 – RETIREMENT PLANS, continued
c -- Annual Pension Cost and Net Pension Obligation, continued

The latest actuarial valuations for the City Employees' Retirement and Pension Fund, the Police Officers' Retirement and Pension Fund, and the Austin Fire Fighters' Relief and Retirement Fund were completed as of December 31, 2009. 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	Entry Age Normal
Asset Valuation Basis	5-year smoothed market	5-year adjusted market value	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	1% to 13.1%
Post retirement benefit increase	None	None	1% per year
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	30 years	30 years

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 2009	\$ 1,672,470	2,330,937	658,467	71.8%	442,539	148.8%
Police Officers 2009	518,112	733,635	215,523	70.6%	122,928	175.3%
Fire Fighters (2) 2009	589,261	664,185	74,924	88.7%	78,980	94.9%

(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.

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 \$60.7 million in 2010. 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 2010, the Airport Fund revenues included minimum concession guarantees of \$8,458,468.

The following is a schedule by year of minimum future rentals on noncancelable operating leases with remaining terms of up to fifteen years for the Airport Fund as of September 30, 2010 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Receipts
2011	\$ 11,568
2012	11,425
2013	11,420
2014	8,745
2015	3,559
2016-2020	5,152
2021-2023	209
Totals	<u>\$ 52,078</u>

Projection of minimum future rentals for the Austin-Bergstrom Landhost Enterprises, Inc. is based on the current adjusted minimum rent for the period May 1, 2009 through April 30, 2014. The minimum rent is adjusted every five years commensurate with the percentage increase in the Consumer Price Index – Urban Wage Earners and Clerical Workers, U.S. Owner Average, (CPI) published by the U.S. Department of Labor Bureau of Labor Statistics over the five-year period.

10 – DEBT AND NON-DEBT LIABILITIES

a -- Long-Term Liabilities

Payments on bonds for governmental activities will be made from the general obligation debt service funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, and internal service funds. Claims payable will be liquidated by internal service funds. Deferred revenue and other liabilities that pertain to governmental activities will be liquidated by the General Fund, special revenue funds, general governmental capital improvement projects funds, and internal service funds.

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

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included in governmental activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued
a -- Long-Term Liabilities, continued

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2010 (in thousands):

Description	October 1, 2009	Increases	Decreases	September 30, 2010	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	\$ 845,741	--	(56,122)	789,619	53,247
Certificates of obligation, net	78,525	--	(6,939)	71,586	7,750
Contractual obligations, net	28,456	15,000	(5,161)	38,295	5,236
General obligation bonds and other tax supported debt total	952,722	15,000	(68,222)	899,500	66,233
Capital lease obligations	468	248	--	716	283
Debt service requirements total	953,190	15,248	(68,222)	900,216	66,516
Other long-term obligations					
Accrued compensated absences	109,460	3,258	(220)	112,498	47,127
Claims payable	30,277	4,162	(1,004)	33,435	17,865
Pension obligation payable	43,052	10,684	--	53,736	--
Other post employment benefits	109,851	59,581	--	169,432	--
Other liabilities	90,266	1,644	(8,257)	83,653	70,183
Governmental activities total	1,336,096	94,577	(77,703)	1,352,970	201,691
Business-type activities:					
Electric activities					
General obligation bonds, net	1,186	--	(73)	1,113	73
Contractual obligations	231	--	(152)	79	79
General obligation bonds and other tax supported debt total	1,417	--	(225)	1,192	152
Commercial paper notes, net	140,707	94,448	(150,000)	85,155	8,603
Revenue bonds, net	1,236,140	220,245	(130,102)	1,326,283	75,084
Capital lease obligations	1,164	133	--	1,297	38
Debt service requirements total	1,379,428	314,826	(280,327)	1,413,927	83,877
Other long-term obligations					
Accrued compensated absences	11,644	776	(844)	11,576	10,681
Decommissioning expense payable	167,001	--	(16,410)	150,591	--
Pension obligation payable	17,824	5,793	--	23,617	--
Other post employment benefits	26,633	14,445	--	41,078	--
Deferred credits and other liabilities	231,569	58,829	--	290,398	75,689
Electric activities total	1,834,099	394,669	(297,581)	1,931,187	170,247
Water and Wastewater activities					
General obligation bonds, net	1,682	--	(503)	1,179	569
Contractual obligations, net	15,312	--	(2,941)	12,371	3,189
Other tax supported debt, net	6,650	8,122	(943)	13,829	1,021
General obligation bonds and other tax supported debt total	23,644	8,122	(4,387)	27,379	4,779
Commercial paper notes, net	199,292	181,350	(166,000)	214,642	35,774
Revenue bonds, net	1,682,182	177,415	(47,700)	1,811,897	50,660
Contract revenue bonds, net	914	--	(914)	--	--
Debt service requirements total	1,906,032	366,887	(219,001)	2,053,918	91,213
Other long-term obligations					
Accrued compensated absences	5,701	464	(645)	5,520	5,520
Pension obligation payable	8,980	2,843	--	11,823	--
Other post employment benefits	16,459	8,927	--	25,386	--
Deferred credits and other liabilities	515,393	17,621	(34,463)	498,551	32,657
Water and Wastewater activities total	2,452,565	396,742	(254,109)	2,595,198	129,390

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

a -- Long-Term Liabilities, continued

Business-type activities (continued):

Description	October 1, 2009	Increases	Decreases	September 30, 2010	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	289	--	(27)	262	28
General obligation bonds and other tax supported debt total	289	--	(27)	262	28
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	307,365	--	(12,082)	295,283	13,515
Capital lease obligations	817	--	(486)	331	331
Debt service requirements total	336,471	--	(12,595)	323,876	13,874
Other long-term obligations					
Accrued compensated absences	1,572	114	(125)	1,561	1,500
Pension obligation payable	2,736	834	--	3,570	--
Other post employment benefits	4,848	2,629	--	7,477	--
Deferred credits and other liabilities	746	846	(42)	1,550	1,488
Airport activities total	346,373	4,423	(12,762)	338,034	16,862
Nonmajor activities					
General obligation bonds, net	18,353	--	(4,674)	13,679	1,546
Certificates of obligation, net	42,877	--	(2,708)	40,169	2,319
Contractual obligations	44,652	--	(7,038)	37,614	7,360
Other tax supported debt, net	--	4,564	(215)	4,349	240
General obligation bonds and other tax supported debt total	105,882	4,564	(14,635)	95,811	11,465
Revenue bonds, net	216,655	--	(7,007)	209,648	8,545
Debt service requirements total	322,537	4,564	(21,642)	305,459	20,010
Other long-term obligations					
Accrued compensated absences	5,811	265	(374)	5,702	5,320
Accrued landfill closure and postclosure costs	18,212	--	(10,272)	7,940	765
Pension obligation payable	10,418	3,212	--	13,630	--
Other post employment benefits	17,360	9,415	--	26,775	--
Deferred credits and other liabilities	7,682	698	(398)	7,982	3,197
Nonmajor activities total	382,020	18,154	(32,686)	367,488	29,292
Total business-type activities					
General obligation bonds, net	21,510	--	(5,277)	16,233	2,216
Certificates of obligation, net	42,877	--	(2,708)	40,169	2,319
Contractual obligations, net	60,195	--	(10,131)	50,064	10,628
Other tax supported debt, net	6,650	12,686	(1,158)	18,178	1,261
General obligation bonds and other tax supported debt total	131,232	12,686	(19,274)	124,644	16,424
Commercial paper notes, net	339,999	275,798	(316,000)	299,797	44,377
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,442,342	397,660	(196,891)	3,643,111	147,804
Contract revenue bonds, net	914	--	(914)	--	--
Capital lease obligations	1,981	133	(486)	1,628	369
Debt service requirements total	3,944,468	686,277	(533,565)	4,097,180	208,974
Other long-term obligations					
Accrued compensated absences	24,728	1,619	(1,988)	24,359	23,021
Accrued landfill closure and postclosure costs	18,212	--	(10,272)	7,940	765
Decommissioning expense payable	167,001	--	(16,410)	150,591	--
Pension obligation payable	39,958	12,682	--	52,640	--
Other post employment benefits	65,300	35,416	--	100,716	--
Deferred credits and other liabilities	755,390	77,994	(34,903)	798,481	113,031
Business-type activities total	5,015,057	813,988	(597,138)	5,231,907	345,791
Total liabilities (2)	\$ 6,351,153	908,565	(674,841)	6,584,877	547,482

(2) This schedule excludes select short-term liabilities of \$77,322 for governmental activities; and for business-type activities, select short-term liabilities of \$272,498, capital appreciation bond interest payable of \$103,295, and derivative instruments of \$212,953.

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, 2010, 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	\$ 33,135	18,790	6,691 (1)(3)(4)	3.00 - 7.00%	9/01/2011-2026
Series 2000	September 2000	6,060	295	15 (1)	5.00%	9/1/2011
Series 2001 Refunding	June 2001	123,445	18,825	3,222 (1)	4.75 - 5.50%	9/1/2011-2022
Series 2001	August 2001	79,650	8,530	656 (1)	5.00 - 5.25%	9/1/2011-2012
Series 2001	August 2001	65,335	18,920	4,412 (1)	4.38 - 5.00%	9/1/2011-2021
Series 2002 Refunding	June 2002	12,190	9,745	1,571 (1)	4.13 - 5.00%	3/1/2011-2017
Series 2002	August 2002	99,615	61,800	19,972 (1)	3.63 - 5.00%	9/1/2011-2022
Series 2002	August 2002	34,095	17,500	4,952 (1)	3.63 - 5.38%	9/1/2011-2022
Series 2003 Refunding	May 2003	62,585	10,005	881 (1)	5.00%	9/1/2011-2013
Series 2003 Refunding	September 2003	68,855	56,395	20,732 (1)	3.75 - 5.00%	9/1/2011-2023
Series 2003A Refunding	September 2003	2,530	995	100 (1)	4.75 - 5.00%	9/1/2011-2013
Series 2003	September 2003	4,450	3,335	1,159 (1)	4.00 - 4.80%	9/1/2011-2023
Series 2003	September 2003	8,610	705	12 (2)	3.38%	11/1/2010
Series 2004 Refunding	September 2004	67,835	57,040	21,008 (1)	3.50 - 5.00%	9/1/2011-2024
Series 2004A Refunding	September 2004	2,430	1,315	172 (1)	4.40 - 4.75%	9/1/2011-2014
Series 2004	September 2004	25,000	18,400	7,575 (1)	4.63 - 5.00%	9/1/2011-2024
Series 2004	September 2004	21,830	5,505	186 (2)	3.10 - 3.35%	11/1/2010-2011
Series 2005 Refunding	February 2005	145,345	137,785	37,827 (1)	5.00%	9/1/2011-2020
Series 2005 Refunding	August 2005	19,535	14,240	6,876 (1)	4.00 - 4.50%	9/1/2011-2025
Series 2005	August 2005	7,185	6,010	2,212 (1)	3.50 - 5.85%	9/1/2011-2025
Series 2005	August 2005	14,940	5,550	308 (2)	3.50 - 3.75%	11/1/2010-2012
Series 2006	August 2006	31,585	31,385	16,670 (1)	4.00 - 5.38%	9/1/2011-2026
Series 2006	August 2006	24,150	21,005	8,629 (1)	4.00 - 5.00%	9/1/2011-2026
Series 2006	August 2006	14,120	7,635	642 (2)	4.00 - 4.25%	11/1/2010-2013
Series 2006	August 2006	12,000	11,080	4,685 (1)(5)	4.00 - 6.00%	9/1/2011-2026
Series 2007	August 2007	97,525	93,425	58,801 (1)	4.64%	9/1/2011-2027
Series 2007	August 2007	3,820	3,460	1,717 (1)	4.88%	9/1/2011-2027
Series 2007	August 2007	9,755	7,090	855 (2)	3.66%	11/1/2010-2017
Series 2008 Refunding	January 2008	172,505	137,675	37,167 (1)	5.00%	9/1/2011-2021
Series 2008	August 2008	76,045	65,045	40,069 (1)	3.50 - 5.00%	9/1/2011-2028
Series 2008	August 2008	10,700	10,070	4,926 (1)	3.00 - 5.00%	9/1/2011-2028
Series 2008	August 2008	26,715	21,785	2,291 (2)	3.00% - 3.50%	11/1/2010-2015
Series 2009A	September 2009	20,905	11,450	1,960 (1)	3.00 - 5.00%	9/1/2011-2016
Series 2009B	September 2009	78,460	78,460	52,545 (1)	4.15 - 5.31%	9/1/2017-2029
Series 2009	September 2009	12,500	11,935	6,794 (1)	3.00 - 4.75%	9/1/2011-2039
Series 2009	September 2009	13,800	13,150	1,639 (2)	2.00% - 3.25%	11/1/2010-2019
Series 2009	October 2009	15,000	15,000	6,693 (1)(5)	2.50 - 4.25%	9/1/2011-2029
			<u>\$ 1,011,335</u>			

(1) Interest is paid semiannually on March 1 and September 1.

(2) Interest is paid semiannually on May 1 and November 1.

(3) Interest is paid semiannually on May 15 and November 15.

(4) Includes Water and Wastewater principal (\$13,806) and interest (\$4,726) and Drainage principal (\$4,321) and interest (\$1,822).

(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 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. The 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. These bonds will be amortized serially on September 1 of each year from 2011 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 2.5% to 4.25%, are \$7,221,066.

General obligation bonds authorized and unissued amounted to \$369,180,000 at September 30, 2010. Bond ratings at September 30, 2010, were Aaa (Moody's Investor Services, Inc.), AAA (Standard & Poor's), and AAA (Fitch).

Build America Bonds. The City issued \$78,460,000 of Public Improvement Bonds, Taxable Series 2009B in August 2009. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. Upon the City's request each year, the U.S. Treasury Department will make a direct payment to the City in an amount equal to 35% of the interest payment on the BABs, lowering the City's net borrowing cost. In 2010, the City recorded \$1,290,686 of tax credits for subsidies received from the U.S. Treasury Department. In order for the City to continue to receive the subsidy, the bonds have to maintain their Build America Bonds status, the City has to comply with the investment of the proceeds and the use of the property financed there from, and the City has to file the necessary tax return no later than 45 days prior to the interest payment date. The City was in compliance with these requirements as of September 30, 2010.

c -- Business-Type Activities Long-Term Liabilities

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

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

The total combined utility systems revenue bond obligations at September 30, 2010, exclusive of discounts, premiums, and loss on refundings consists of \$168,211,746 prior lien bonds and \$236,454,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$397,046,479 at September 30, 2010. Revenue bonds authorized and unissued amount to \$1,492,642,660 at that date. Bond ratings at September 30, 2010, 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 shorter of the life of the refunding bonds or the life of the bonds refunded by the straight-line method. However, a gain or loss on refunded bonds is recognized when funds from current operations are used.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Combined Utility Systems Debt -- 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 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 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 to Austin Energy was created for Austin Water's portion.

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2010 (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)(3)	7.35%	11/15/2014-2017
1992 Refunding	March 1992	265,806	21,752	59,348 (1)(3)	6.85%	11/15/2010-2012
1992A Refunding	May 1992	351,706	22,530	57,105 (1)(3)	6.80%	11/15/2010-2011
1993 Refunding	January 1993	203,166	36,564	6,038 (1)(3)	6.13 - 6.30%	11/15/2010-2013
1993A Refunding	June 1993	263,410	1,763	3,121 (1)(3)	5.95%	11/15/2010
1994 Refunding	September 1994	142,559	26,894	96,961 (1)(3)	6.60%	05/15/2017-2019
1998 Refunding	July 1996	180,000	55,040	5,739 (1)(2)	6.75%	11/15/2010-2012
1998 Refunding	October 1998	139,965	135,980	75,175 (1)	5.25%	5/15/2011-2025
1998A Refunding	October 1998	105,350	95,125	72,235 (1)(3)	4.25 - 5.00%	5/15/2011-2028
1998B	August 1998	10,000	5,350	822 (1)	3.35 - 3.75%	11/15/2010-2017
			<u>\$ 404,666</u>			

- (1) Interest is paid semiannually on May 15 and November 15.
- (2) Series 1998 Refunding had a delayed delivery.
- (3) Interest requirements include accreted interest.

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 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, 2010, 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.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

At September 30, 2010, the Electric Fund had outstanding commercial paper notes of \$51,615,000 and the Water and Wastewater Fund had \$214,642,000 of commercial paper notes outstanding. Interest rates on the notes range from 0.29% to 0.36%, 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. The notes have the following terms:

Note Series	Liquidity Provider	Commitment Fee Rate	Credit Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
various	JP Morgan Chase	1.15%	1.25%	Goldman Sachs	0.075%	\$ 108,981	3/28/2011
various	Bank of America	1.15%	1.25%	Goldman Sachs	0.075%	68,381	3/28/2011
various	State Street	1.15%	1.25%	Goldman Sachs	0.075%	88,895	3/28/2011
						<u>\$ 266,257</u>	

These notes are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by the respective liquidity providers 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 interest or the maximum rate.

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, 2010, 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, 2010, the Electric Fund had outstanding taxable commercial paper notes of \$33,568,000 (net of discount of \$28,266), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 0.33% to 0.43%. The City intends to refinance maturing commercial paper notes by issuing long-term debt. The notes have the following terms:

Note Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
various	Landesbank Hessen-Thüringen Girozentrale	0.50%	Goldman Sachs	0.075%	<u>\$ 33,568</u>	12/31/2015

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 Landesbank Hessen-Thüringen Girozentrale and become bank notes with principal due immediately. 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 Notes are secured by a direct-pay Letter of Credit issued by Landesbank Hessen-Thüringen Girozentrale which permits draws for the payment of the Notes. Draws made under the Letter of Credit are immediately due and payable by the City from the resources more fully described in the Ordinance. No term loan feature is provided by the Agreement.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2010, were A1 (Moody's Investor Services, Inc.), A+ (Standard & Poor's), and AA- (Fitch).

Electric Utility System Revenue Debt -- Revenue Bond Refunding Issues - In June 2010, the City issued \$119,255,000 of Electric Utility System Revenue Refunding Bonds, Series 2010A. Proceeds from the bond refunding were used to refund \$50,000,000 of the City's outstanding commercial paper issued for the electric utility system; Combined Utility System Revenue Refunding Bonds, Series 1993 in the amount of \$5,190,000; and Electric Utility System Revenue Refunding Bonds, Series 2001 in the amount of \$69,200,000. The debt service requirements on the refunding bonds are \$208,317,117, with interest rates ranging from 2% to 5%. The City realized an economic gain of \$4,014,573 on this transaction. The change in net cash flows that resulted was a decrease of \$6,179,632. An accounting loss of \$2,791,807, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on the refunding.

In June 2010, the City issued \$100,990,000 of Electric Utility System Revenue Refunding Bonds, Series 2010B. Proceeds from the bond refunding were used to refund \$100,000,000 of the City's outstanding commercial paper issued for the electric utility system. The debt service requirements on the refunding bonds are \$221,496,231, with interest rates ranging from 4.54% to 5.72%. No change in net cash flows resulted from this transaction, and no gain or loss was recognized on this refunding. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. Upon the City's request each year, the U.S. Treasury Department will make a direct payment to the City in an amount equal 35% of the interest payment on the BABs, lowering the City's net borrowing cost. The City did not receive subsidies for Series 2010B from the U.S. Treasury Department during the fiscal year. In order for the City to receive the subsidy, the bonds have to maintain their Build America Bonds status, the City has to comply with the investment of the proceeds and the use of the property financed there from, and the City has to file the necessary tax return no later than 45 days prior to the interest payment date. The City was in compliance with these requirements as of September 30, 2010.

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, 2010 (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	3,100	112 (1)	7.25%	11/15/2010
2002 Refunding	February 2002	74,750	52,770	8,022 (1)	4.00 - 5.50%	11/15/2010-2014
2002A Refunding	July 2002	172,880	91,135	21,389 (1)	4.00 - 5.50%	11/15/2010-2016
2003 Refunding	February 2003	182,100	144,300	79,448 (1)	5.00 - 5.25%	11/15/2010-2028
2006 Refunding	May 2006	150,000	144,100	110,668 (1)	5.00%	11/15/2010-2035
2006A Refunding	October 2006	137,800	120,730	35,444 (1)	5.00%	11/15/2010-2022
2007 Refunding	August 2007	146,635	143,320	32,849 (1)	5.00%	11/15/2010-2020
2008 Refunding	March 2008	50,000	48,915	41,971 (1)	3.23 - 6.26%	11/15/2010-2032
2008A Refunding	July 2008	175,000	175,000	177,742 (1)	4.00 - 6.00%	11/15/2010-2038
2010A Refunding	June 2010	119,255	119,255	89,062 (1)	2.00 - 5.00%	11/15/2012-2040
2010B Refunding	June 2010	100,990	100,990	120,506 (1)	4.54 - 5.72%	11/15/2019-2040
			<u>\$ 1,143,615</u>			

(1) Interest is paid semiannually on May 15 and November 15.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Electric Utility System Revenue Debt -- Pledged Revenues - The net revenue of the Electric Fund was pledged to service the outstanding principal and interest payments for revenue debt outstanding. The table below represents the pledged amounts at September 30, 2010 (in thousands):

	Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
\$	1,159,295	866,914	292,381	165,609	176.5%

(1) Gross revenue includes revenues from operations and interest income.

(2) Excludes depreciation.

(3) Excludes unfunded other post employment benefit and pension obligation expenses.

Water and Wastewater System Debt -- 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 Districts 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.

\$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 3.9% to 4.262%. 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.

Of the \$12,762,403 total debt assumed, 64.02% is allocated to water and wastewater systems and 35.98% is allocated to drainage. Water and wastewater systems allocation by series is \$70,422 for Series 2001, \$1,418,043 for Series 2004, \$4,915,073 for Series 2006, and \$1,766,952 for Series 2009. The debt service requirement on the bonds for water and wastewater systems is \$11,672,921.

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 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%. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

In January 2010, the City issued \$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. The debt service requirements on the bonds are \$31,815,000. Principal payments are due November 15 of each year from 2012 to 2041. As of September 30, 2010, the City has drawn \$10,840,000 on the bonds.

Bond ratings at September 30, 2010, were Aa2 (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, 2010 (in thousands):

Series	Date Issued	Original Amount Issued	Principal Outstanding	Aggregate Interest Requirements Outstanding	Interest Rates of Debt Outstanding	Maturity Dates of Serial Debt
2001A Refunding	April 2001	\$ 152,180	13,055	7,692 (1)	4.50 - 5.75%	11/15/2010-2031 (3)
2001B Refunding	April 2001	73,200	9,595	6,731 (1)	5.13 - 5.75%	5/15/2011-2031
2001C Refunding	November 2001	95,380	14,610	2,311 (1)	4.20 - 5.38%	11/15/2010-2015 (3)
2002A Refunding	July 2002	139,695	71,705	18,397 (1)	4.00 - 5.50%	11/15/2010-2016
2003 Refunding	February 2003	121,500	79,400	48,700 (1)	4.00 - 5.25%	11/15/2010-2028
2004 Refunding	August 2004	132,475	115,375	28,750 (2)	0.19% - .40%	5/16/2011-2024
2004A Refunding	September 2004	165,145	152,580	88,473 (1)	5.00%	11/15/2010-2029
2005 Refunding	May 2005	198,485	198,485	96,890 (1)	4.00 - 5.00%	5/15/2012-2030
2005A Refunding	October 2005	142,335	127,375	92,807 (1)	4.00 - 5.00%	5/15/2011-2035
2006 Refunding	August 2006	63,100	51,440	22,867 (1)	5.00%	11/15/2010-2025
2006A Refunding	November 2006	135,000	130,650	94,136 (1)	3.50 - 5.00%	11/15/2010-2036
2007 Refunding	November 2007	135,000	132,765	111,985 (1)	4.00-5.25%	11/15/2010-2037
2008 Refunding	May 2008	170,605	166,875	68,466 (2)	0.16% - 0.45%	11/15/2010-2031 (3)
2009 Refunding	January 2009	175,000	175,000	102,243 (1)	3.00-5.13%	11/15/2011-2029
2009A Refunding	November 2009	166,575	166,575	146,973 (1)	4.00-5.00%	11/15/2011-2039
2010	January 2010	10,840	10,840	-	0.00%	11/15/2012-2022
			<u>\$ 1,616,325</u>			

(1) Interest is paid semiannually on May 15 and November 15.

(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.

(3) Series matures on May 15th of the final year

The Series 2004 and 2008 refunding bonds are variable rate demand bonds. The bonds have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2004	Landesbank Baden-Wurtemberg	0.75%	JP Morgan	0.075%	\$ 115,375	12/29/2015
2008	DEXIA	0.35%	Goldman Sachs	0.050%	166,875	5/15/2011
					<u>\$ 282,250</u>	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by the respective liquidity providers and become bank bonds with principal to be paid in equal semi-annual instalments 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.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2010 (in thousands):

	Gross Revenue (1)	Operating Expense (2)(3)	Net Revenue	Debt Service Requirement	Revenue Bond Coverage
\$	361,342	159,402	201,940	155,678	129.7%

(1) Gross revenue includes revenues from operations and interest income.

(2) Excludes depreciation.

(3) Excludes unfunded other post employment benefit and pension obligation expenses.

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, 2010, the total airport system obligation for prior lien bonds is \$308,530,000 exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior lien bonds are \$110,255,210 at September 30, 2010. Revenue bonds authorized and unissued amount to \$735,795,000.

The bond rating at September 30, 2010, 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, 2010 (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	48,680	14,513 (1)	4.00 - 5.25%	11/15/2010-2018
2008 Remarketing	April 2008	281,300	259,850	95,742 (2)	0.18 - 0.50%	11/15/2010-2025
			<u>\$ 308,530</u>			

(1) Interest is paid semiannually on May 15 and November 15.

(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is calculated utilizing the rate in effect at the end of the fiscal year.

The Series 2008 remarketing bonds are variable rate demand bonds. These bonds are separated into 4 subseries with a total principal amount of \$259,850,000. The bonds have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2005-1	DEXIA	0.60%	Morgan Stanley	0.10%	\$ 64,950	5/2/2011
2005-2	DEXIA	0.60%	Morgan Stanley	0.10%	64,925	5/2/2011
2005-3	DEXIA	0.60%	Morgan Stanley	0.10%	64,975	5/2/2011
2005-4	DEXIA	0.60%	Morgan Stanley	0.10%	65,000	5/2/2011
					<u>\$ 259,850</u>	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by Dexia and become bank bonds with principal to be paid in annual installments over the remaining life of the bond series. Bank bonds bear an interest rate based on the bank rate which is the lesser of the base rate plus any applicable excess interest or the maximum rate.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

Airport Debt -- Variable Rate Revenue Notes - The City is authorized by ordinance to issue airport system variable rate revenue notes. At September 30, 2010, the airport system had outstanding variable rate revenue notes of \$28,000,000. The debt service fund required by the bond ordinance held assets of \$10,935,526 including accrued interest, at September 30, 2010, and was restricted within the airport system. During fiscal year 2010, interest rates on the notes ranged from 0.16% to 0.33%, adjusted weekly at market rates; subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the airport system.

The Series 1998 revenue notes are variable rate demand notes. The notes have the following terms (in thousands):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
1998	State Street	1.75%	Citi	0.125%	\$ 28,000	2/20/2012

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, 2010, for the airport variable rate notes was A- (Standard & Poor's).

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, 2010 (in thousands):

Gross Revenue (1)	Other available funds (2)	Operating Expense (3)(4)	Net Revenue and Other Available Funds	Debt Service Requirement (5)	Revenue Bond Coverage
\$ 85,156	7,930	57,379	35,707	14,690	243.1%

(1) Gross revenue includes revenues from operations and interest income.

(2) In addition to gross revenue, the Airport is authorized by bond ordinance to use "other available funds" in the calculation of revenue bond coverage.

(3) Excludes depreciation.

(4) Excludes unfunded other post employment benefit and pension obligation expenses.

(5) Excludes debt service amounts paid with passenger facility charge revenues.

Nonmajor fund:

Drainage -- 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). 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.

Of the \$12,762,403 total debt assumed, 64.02% is allocated to water and wastewater systems and 35.98% is allocated to drainage. Drainage allocation by series is \$39,578 for Series 2001, \$796,957 for Series 2004, \$2,762,330 for Series 2006, and \$993,048 for Series 2009. The debt service requirement on the bonds for drainage is \$6,560,320.

10 – DEBT AND NON-DEBT LIABILITIES, continued
c -- Business-Type Activities Long-Term Liabilities, continued

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, 2010, the total convention center obligation for prior and subordinate lien bonds is \$224,015,000, exclusive of discounts, premiums, and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are \$89,903,235 at September 30, 2010. Revenue bonds authorized and unissued amount to \$760,000 at September 30, 2010.

Bond ratings at September 30, 2010, 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, 2010 (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	21,450	13,707 (1)	5.05 - 5.50%	11/15/2010-2029
2004 Refunding	February 2004	52,715	43,890	11,831 (1)	3.00 - 5.00%	11/15/2010-2019
2005 Refunding	May 2005	36,720	36,720	21,796 (1)	3.30 - 5.00%	11/15/2011-2029
2008AB Refunding	August 2008	125,280	121,955	42,570 (2)	0.15% - 0.55%	11/15/2010-2029
			<u>\$ 224,015</u>			

(1) Interest is paid semiannually on May 15 and November 15.

(2) Interest is paid monthly and is based on a variable rate. Aggregate interest requirement is 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):

Bond Sub-Series	Liquidity Provider	Commitment Fee Rate	Remarketing Agent	Remarketing Fee Rate	Outstanding	Expiration
2008-A	DEXIA	0.70%	Morgan Keegan	0.060%	\$ 60,975	8/15/2011
2008-B	DEXIA	0.70%	BofA/Merrill Lynch	0.050%	60,980	8/15/2011
					<u>\$ 121,955</u>	

These bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with proper notice and delivery to the corresponding remarketing agent. If the remarketing agent is unable to successfully remarket the bonds, the bonds will be purchased by Dexia and become bank bonds with principal to be paid in 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.

10 – DEBT AND NON-DEBT LIABILITIES, continued
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
	2011	\$ 53,247	36,603	7,750	3,136	5,236
2012	48,423	34,147	7,839	2,785	3,735	1,276
2013	50,349	31,877	3,549	2,437	2,165	1,169
2014	48,685	29,478	5,116	2,302	2,161	1,097
2015	50,519	27,190	3,529	2,100	2,688	1,009
2016-2020	256,556	100,423	18,956	8,125	8,551	3,809
2021-2025	165,772	45,989	19,898	3,489	8,400	2,199
2026-2030	103,555	10,200	4,830	350	5,060	484
	<u>777,106</u>	<u>315,907</u>	<u>71,467</u>	<u>24,724</u>	<u>37,996</u>	<u>12,487</u>
Less: Unamortized bond discounts	(932)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(12,001)	--	--	--	--	--
Add: Unamortized bond premiums	25,446	--	119	--	299	--
Net debt service requirements	<u>789,619</u>	<u>315,907</u>	<u>71,586</u>	<u>24,724</u>	<u>38,295</u>	<u>12,487</u>

Fiscal Year Ended September 30	Capital Lease Obligations		Total Governmental Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
	2011	283	11	66,516	41,194
2012	274	8	60,271	38,216	98,487
2013	159	3	56,222	35,486	91,708
2014	--	--	55,962	32,877	88,839
2015	--	--	56,736	30,299	87,035
2016-2020	--	--	284,063	112,357	396,420
2021-2025	--	--	194,070	51,677	245,747
2026-2030	--	--	113,445	11,034	124,479
	<u>716</u>	<u>22</u>	<u>887,285</u>	<u>353,140</u>	<u>1,240,425</u>
Less: Unamortized bond discounts	--	--	(932)	--	(932)
Unamortized gain(loss) on bond refundings	--	--	(12,001)	--	(12,001)
Add: Unamortized bond premiums	--	--	25,864	--	25,864
Net debt service requirements	<u>\$ 716</u>	<u>22</u>	<u>900,216</u>	<u>353,140</u>	<u>1,253,356</u>

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

Electric Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Commercial Paper Notes (1)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2011	\$ 73	53	79	1	85,183
2012	79	49	--	--	--	--
2013	125	46	--	--	--	--
2014	131	39	--	--	--	--
2015	139	33	--	--	--	--
2016-2020	509	71	--	--	--	--
2021-2025	4	--	--	--	--	--
	<u>1,060</u>	<u>291</u>	<u>79</u>	<u>1</u>	<u>85,183</u>	<u>35</u>
Less: Unamortized bond discount	(2)	--	--	--	(28)	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	55	--	--	--	--	--
Net debt service requirements	<u>1,113</u>	<u>291</u>	<u>79</u>	<u>1</u>	<u>85,155</u>	<u>35</u>

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Electric Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
	2011	75,084	98,704	38	78	160,457	98,871
2012	75,773	92,959	40	76	75,892	93,084	168,976
2013	105,092	69,013	42	74	105,259	69,133	174,392
2014	123,006	53,912	44	72	123,181	54,023	177,204
2015	79,754	50,964	47	69	79,940	51,066	131,006
2016-2020	227,490	208,792	272	308	228,271	209,171	437,442
2021-2025	227,345	144,169	349	231	227,698	144,400	372,098
2026-2030	194,010	87,416	448	133	194,458	87,549	282,007
2031-2035	136,130	43,521	17	2	136,147	43,523	179,670
2036-2040	91,860	12,586	--	--	91,860	12,586	104,446
2041-2045	8,325	232	--	--	8,325	232	8,557
	<u>1,343,869</u>	<u>862,268</u>	<u>1,297</u>	<u>1,043</u>	<u>1,431,488</u>	<u>863,638</u>	<u>2,295,126</u>
Less: Unamortized bond discounts	(2,734)	--	--	--	(2,764)	--	(2,764)
Unamortized gain(loss) on bond refundings	(54,402)	--	--	--	(54,402)	--	(54,402)
Add: Unamortized bond premiums	39,550	--	--	--	39,605	--	39,605
Net debt service requirements	<u>\$ 1,326,283</u>	<u>862,268</u>	<u>1,297</u>	<u>1,043</u>	<u>1,413,927</u>	<u>863,638</u>	<u>2,277,565</u>

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1.

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

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Contractual Obligations		Other Tax Supported Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
	2011	\$ 569	138	3,189	393	1,021
2012	533	107	3,011	282	1,069	582
2013	593	79	2,627	182	1,128	532
2014	165	47	1,909	90	1,327	475
2015	174	39	805	38	1,389	410
2016-2020	548	89	725	22	4,453	1,582
2021-2025	55	3	--	--	2,840	494
2026-2030	--	--	--	--	629	24
	<u>2,637</u>	<u>502</u>	<u>12,266</u>	<u>1,007</u>	<u>13,856</u>	<u>4,725</u>
Less: Unamortized bond discounts	(13)	--	--	--	(27)	--
Unamortized gain(loss) on bond refundings	(1,538)	--	--	--	--	--
Add: Unamortized bond premiums	93	--	105	--	--	--
Net debt service requirements	<u>1,179</u>	<u>502</u>	<u>12,371</u>	<u>1,007</u>	<u>13,829</u>	<u>4,725</u>

Fiscal Year Ended September 30	Commercial Paper Notes (1)		Revenue Bonds (2)(3)		Total Water and Wastewater Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
	2011	214,642	52	50,660	101,110	270,081	102,319
2012	--	--	67,296	97,761	71,909	98,732	170,641
2013	--	--	81,481	88,321	85,829	89,114	174,943
2014	--	--	103,799	73,610	107,200	74,222	181,422
2015	--	--	95,237	78,079	97,605	78,566	176,171
2016-2020	--	--	397,891	400,962	403,617	402,655	806,272
2021-2025	--	--	405,624	195,854	408,519	196,351	604,870
2026-2030	--	--	389,600	102,414	390,229	102,438	492,667
2031-2035	--	--	128,010	40,831	128,010	40,831	168,841
2036-2040	--	--	101,140	10,468	101,140	10,468	111,608
	<u>214,642</u>	<u>52</u>	<u>1,820,738</u>	<u>1,189,410</u>	<u>2,064,139</u>	<u>1,195,696</u>	<u>3,259,835</u>
Less: Unamortized bond discounts	--	--	(7,808)	--	(7,848)	--	(7,848)
Unamortized gain(loss) on bond refundings	--	--	(46,510)	--	(48,048)	--	(48,048)
Add: Unamortized bond premiums	--	--	45,477	--	45,675	--	45,675
Net debt service requirements	<u>\$ 214,642</u>	<u>52</u>	<u>1,811,897</u>	<u>1,189,410</u>	<u>2,053,918</u>	<u>1,195,696</u>	<u>3,249,614</u>

- (1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1.
- (2) Portions of these bonds are variable rate bonds with rates of 0.16% to 0.45%.
- (3) The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1. This schedule reflects the debt schedules as of September 30, 2010.

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

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation		Revenue Notes (1)		Revenue Bonds (2)	
	Bonds		Principal	Interest	Principal	Interest
	Principal	Interest				
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	8	--	980	15,610	10,699
2015	27	6	--	980	16,345	10,043
2016-2020	98	14	28,000	2,450	98,450	38,040
2021-2025	3	--	--	--	110,900	15,159
2026-2030	--	--	--	--	24,750	206
	<u>251</u>	<u>62</u>	<u>28,000</u>	<u>7,350</u>	<u>308,530</u>	<u>110,255</u>
Less: Unamortized bond discounts	(1)	--	--	--	(840)	--
Unamortized gain(loss) on bond refundings	1	--	--	--	(14,419)	--
Add: Unamortized bond premiums	11	--	--	--	2,012	--
Net debt service requirements	<u>262</u>	<u>62</u>	<u>28,000</u>	<u>7,350</u>	<u>295,283</u>	<u>110,255</u>

Fiscal Year Ended September 30	Capital Lease		Total Airport		
	Obligations		Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
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	11,687	27,323
2015	--	--	16,372	11,029	27,401
2016-2020	--	--	126,548	40,504	167,052
2021-2025	--	--	110,903	15,159	126,062
2026-2030	--	--	24,750	206	24,956
	<u>331</u>	<u>4</u>	<u>337,112</u>	<u>117,671</u>	<u>454,783</u>
Less: Unamortized bond discounts	--	--	(841)	--	(841)
Unamortized gain(loss) on bond refundings	--	--	(14,418)	--	(14,418)
Add: Unamortized bond premiums	--	--	2,023	--	2,023
Net debt service requirements	<u>\$ 331</u>	<u>4</u>	<u>323,876</u>	<u>117,671</u>	<u>441,547</u>

(1) These are variable rate notes with rates ranging from 0.16% to 0.33%.

(2) Portions of these bonds are variable rate bonds with rates ranging from 0.18% to 0.50%.

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
2011	\$ 1,546	689	2,319	1,803	7,360	1,176
2012	1,458	610	2,436	1,698	7,358	926
2013	1,595	537	1,936	1,587	6,653	681
2014	1,383	456	2,684	1,501	5,460	466
2015	1,314	387	2,131	1,382	4,737	296
2016-2020	5,994	910	11,024	5,597	5,590	271
2021-2025	432	22	11,861	2,441	--	--
2026-2030	--	--	2,245	940	--	--
2031-2035	--	--	1,405	543	--	--
2036-2040	--	--	1,420	173	--	--
	<u>13,722</u>	<u>3,611</u>	<u>39,461</u>	<u>17,665</u>	<u>37,158</u>	<u>3,816</u>
Less: Unamortized bond discounts	(46)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,010)	--	--	--	--	--
Add: Unamortized bond premiums	1,013	--	708	--	456	--
Net debt service requirements	<u>13,679</u>	<u>3,611</u>	<u>40,169</u>	<u>17,665</u>	<u>37,614</u>	<u>3,816</u>

Fiscal Year Ended September 30	Other Tax Supported Debt		Revenue Bonds (1)(2)		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	240	173	8,545	8,817	20,010	12,658	32,668
2012	248	164	9,450	8,483	20,950	11,881	32,831
2013	255	155	10,555	8,077	20,994	11,037	32,031
2014	263	144	11,000	7,635	20,790	10,202	30,992
2015	272	134	11,455	7,164	19,909	9,363	29,272
2016-2020	1,123	760	65,040	27,929	88,771	35,467	124,238
2021-2025	1,595	278	48,700	16,196	62,588	18,937	81,525
2026-2030	353	14	59,270	5,603	61,868	6,557	68,425
2031-2035	--	--	--	--	1,405	543	1,948
2036-2040	--	--	--	--	1,420	173	1,593
	<u>4,349</u>	<u>1,822</u>	<u>224,015</u>	<u>89,904</u>	<u>318,705</u>	<u>116,818</u>	<u>435,523</u>
Less: Unamortized bond discounts	--	--	(679)	--	(725)	--	(725)
Unamortized gain(loss) on bond refundings	--	--	(16,948)	--	(17,958)	--	(17,958)
Add: Unamortized bond premiums	--	--	3,260	--	5,437	--	5,437
Net debt service requirements	<u>\$ 4,349</u>	<u>1,822</u>	<u>209,648</u>	<u>89,904</u>	<u>305,459</u>	<u>116,818</u>	<u>422,277</u>

(1) A portion of these bonds are variable rate bonds with rates ranging from 0.15 to 0.55%.

(2) The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1. This schedule reflects the debt schedules as of September 30, 2010.

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

Fiscal Year Ended September 30	Business-Type Activities (in thousands)					
	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 2,216	893	2,319	1,803	10,628	1,570
2012	2,100	777	2,436	1,698	10,369	1,208
2013	2,352	672	1,936	1,587	9,280	863
2014	1,705	550	2,684	1,501	7,369	556
2015	1,654	465	2,131	1,382	5,542	334
2016-2020	7,149	1,084	11,024	5,597	6,315	293
2021-2025	494	25	11,861	2,441	--	--
2026-2030	--	--	2,245	940	--	--
2031-2035	--	--	1,405	543	--	--
2036-2040	--	--	1,420	173	--	--
	<u>17,670</u>	<u>4,466</u>	<u>39,461</u>	<u>17,665</u>	<u>49,503</u>	<u>4,824</u>
Less: Unamortized bond discounts	(62)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(2,547)	--	--	--	--	--
Add: Unamortized bond premiums	1,172	--	708	--	561	--
Net debt service requirements	<u>16,233</u>	<u>4,466</u>	<u>40,169</u>	<u>17,665</u>	<u>50,064</u>	<u>4,824</u>

Fiscal Year Ended September 30	Other Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2011	1,261	799	299,825	87	--
2012	1,317	746	--	--	--	980
2013	1,383	687	--	--	--	980
2014	1,590	619	--	--	--	980
2015	1,661	544	--	--	--	980
2016-2020	5,576	2,342	--	--	28,000	2,450
2021-2025	4,435	772	--	--	--	--
2026-2030	982	38	--	--	--	--
2031-2035	--	--	--	--	--	--
2036-2040	--	--	--	--	--	--
	<u>18,205</u>	<u>6,547</u>	<u>299,825</u>	<u>87</u>	<u>28,000</u>	<u>7,350</u>
Less: Unamortized bond discounts	(27)	--	(28)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premiums	--	--	--	--	--	--
Net debt service requirements	<u>\$ 18,178</u>	<u>6,547</u>	<u>299,797</u>	<u>87</u>	<u>28,000</u>	<u>7,350</u>

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt. The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1.

(2) These are variable rate notes with rates ranging from 0.16% to 0.33%.

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

Fiscal Year Ended September 30	Business-Type Activities (in thousands)						
	Revenue Bonds (3)(4)		Capital Lease Obligations		Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	\$ 147,804	221,240	369	82	464,422	227,454	691,876
2012	166,684	211,236	40	76	182,946	216,721	399,667
2013	211,923	176,877	42	74	226,916	181,740	408,656
2014	253,415	145,856	44	72	266,807	150,134	416,941
2015	202,791	146,250	47	69	213,826	150,024	363,850
2016-2020	788,871	675,723	272	308	847,207	687,797	1,535,004
2021-2025	792,569	371,378	349	231	809,708	374,847	1,184,555
2026-2030	667,630	195,639	448	133	671,305	196,750	868,055
2031-2035	264,140	84,352	17	2	265,562	84,897	350,459
2036-2040	193,000	23,054	--	--	194,420	23,227	217,647
2041-2045	8,325	232	--	--	8,325	232	8,557
	<u>3,697,152</u>	<u>2,251,837</u>	<u>1,628</u>	<u>1,047</u>	<u>4,151,444</u>	<u>2,293,823</u>	<u>6,445,267</u>
Less: Unamortized bond discounts	(12,061)	--	--	--	(12,178)	--	(12,178)
Unamortized gain(loss) on bond refundings	(132,279)	--	--	--	(134,826)	--	(134,826)
Add: Unamortized bond premiums	90,299	--	--	--	92,740	--	92,740
Net debt service requirements	<u>\$ 3,643,111</u>	<u>2,251,837</u>	<u>1,628</u>	<u>1,047</u>	<u>4,097,180</u>	<u>2,293,823</u>	<u>6,391,003</u>

(3) A portion of these bonds are variable rate bonds with rates ranging from 0.15 to 0.55%.

(4) The underlying liquidity agreement expires within one year; therefore, the financial statements reflect amounts due in one year in accordance with GASB Interpretation No. 1. This schedule reflects the debt schedules as of September 30, 2010.

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, 2010, defeased bonds remaining unredeemed or unmatured are provided below (in thousands):

Refunded Bonds	Escrow Maturity	Balance
General Obligation		
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
Electric		
Series 2001	11/15/2010	117,700
Series 2003	5/15/2013	18,800
Water and Wastewater		
Series 2001A	5/15/2011	118,265
Series 2001B	5/15/2011	53,605
Series 2003	5/15/2013	29,100
		<u>\$ 423,640</u>

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997, the City issued several series of bonds. The aggregate principal amount outstanding 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 million in various series of housing revenue bonds that have an outstanding balance of \$101.4 million as of September 30, 2010.

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, 2010, \$350.3 million in revenue and revenue refunding bonds was outstanding that had an original issue value of \$382.2 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, payables, and advances at September 30, 2010, are as follows (in thousands):

Receivable Fund	Payable Fund	Amount	
		Current	Long-Term
Governmental funds:			
General Fund	Nonmajor governmental funds	\$ 227	--
Nonmajor governmental funds	Nonmajor governmental funds	57,746	--
	Water and Wastewater	--	3,505
	Nonmajor enterprise funds	--	1,006
	Internal service funds	--	28
	Internal Service funds	Nonmajor governmental funds	11
Business-type funds:			
Electric	Internal service funds	136	458
	Nonmajor enterprise funds	306	1,634
	Water and Wastewater	--	24,603
	Nonmajor governmental funds	--	181
	Water and Wastewater (restricted)	Internal service funds	27
Airport (restricted)	Nonmajor governmental funds	--	107
Nonmajor enterprise funds (restricted)	Nonmajor governmental funds	--	55
Nonmajor enterprise funds	Nonmajor governmental funds	--	30
	Nonmajor enterprise funds	717	--
		<u>\$ 59,170</u>	<u>31,641</u>

Interfund receivables, payables, and advances reflect loans between funds. Of the above current amount, \$15.1 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 \$42.6 million in interfund loans between capital project funds to cover deficit pooled investments and cash.

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund transfers during fiscal year 2010 were as follows (in thousands):

<u>Transfers Out</u>	<u>Transfers In</u>			
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise</u>	<u>Total</u>
General Fund	\$ --	9,716	6,298	16,014
Nonmajor governmental funds	--	42,313	35,630	77,943
Electric	101,000	--	--	101,000
Water and Wastewater	28,967	4,462	--	33,429
Nonmajor enterprise funds	266	3,264	--	3,530
Internal service funds	--	7,681	--	7,681
Total transfers out	<u>\$ 130,233</u>	<u>67,436</u>	<u>41,928</u>	<u>239,597</u>

Interfund transfers are authorized through City Council approval. Significant transfers include the electric and water and wastewater transfers to the General Fund, which are comparable to a return on investment to owners, and the transfer of hotel occupancy and vehicle rental tax collections from the Hotel-Motel Occupancy Tax and the Vehicle Rental Tax funds to other nonmajor governmental funds and the Convention Center Fund.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and city management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2010. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – DERIVATIVE INSTRUMENTS

The City has derivatives in two hedging programs: Energy Risk Management Program and Variable Rate Debt Management Program.

The City implemented Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, in fiscal year 2010, which addresses the recognition, measurement, and disclosure related to derivative instruments. In accordance with GASB Statement No. 53, the City is required to report the fair value of all derivative instruments on the statement of net assets. In addition, GASB Statement No. 53 requires that all derivatives be categorized into two basis types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net assets; and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

a -- 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.

14 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

Hedging Derivative Instruments

Natural Gas Derivatives

Austin Energy purchases financial contracts on the New York Mercantile Exchange (NYMEX) to provide a hedge against the physical delivery price of natural gas from its various hubs. Austin Energy enters into basis swaps to protect delivery price differences between Henry Hub and its natural gas delivery points, Western Area Hub Association (WAHA), Katy, and the Houston Ship Channel (HSC).

The fair value of futures, swaps, and basis swap contracts is determined using the 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. The fair value of the options are calculated using the Black/Scholes valuation method utilizing 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 forward price of the underlier as of the last day of the reporting period.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2010, \$12.7 million in premiums was deferred. As of September 30, 2010, the fair value of Austin Energy's futures, options, swaptions, and swaps, was an unrealized loss of \$105.7 million, of which \$113.4 million is reported as derivative instruments in liabilities and \$7.7 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

Congestion Rights Derivatives

Preassigned Congestion Rights (PCRs) and Transmission Congestion Rights (TCRs) function as financial hedges against the cost of resolving zonal congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow Austin Energy to hedge expected future congestion that may arise during a certain period. TCRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRs annually at 15% of the cost of TCRs. The instruments exhibit all three characteristics - settlement, leverage, and net settlement - to classify them as derivative instruments.

As of September 30, 2010, PCRs had a fair value of \$247 thousand and TCRs had a fair value of \$1.3 million and are reported as derivative instruments. The market value for TCRs and PCRs is calculated using the implied market value (the difference between future zonal prices of the applicable zones) multiplied by the number of open positions. The difference in the zonal prices represents what the expected cost of congestion will be for that given point in time.

14 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

On September 30, 2010, Austin Energy had the following outstanding hedging derivative instruments (in thousands):

Type of Transaction	Reference Index	Maturity Dates	Fair Value at September 30, 2010		Change in Fair Value	Premiums Deferred
			Notional Volumes	Fair Value		
Long OTC Call Options	Henry Hub	Oct 2010 - Oct 2013	20,445,013 (1)	\$ 1,819	(8,555)	19,159
Long Options	Henry Hub	Apr 2013 - Oct 2013	2,140,000 (1)	373	(875)	-
Long Basis Swaps	WAHA	Oct 2010 - Dec 2013	8,980,000 (1)	3,939	1,482	-
n/a Congestion Rights	ICE (2)	Oct 2010 - Dec 2010	560,117 (3)	1,579	(364)	-
Derivative instruments (assets)				7,710	(8,312)	19,159
Short OTC Call Options	Henry Hub	Oct 2010 - Jun 2012	(6,410,000) (1)	(702)	1,874	-
Short OTC Put Options	Henry Hub	Oct 2010 - Dec 2014	(24,885,000) (1)	(49,286)	(27,115)	(6,440)
Long Futures	Henry Hub	Apr 2011 - Jul 2013	1,375,000 (1)	(4,050)	(2,300)	-
Short Options	Henry Hub	Apr 2013 - Oct 2014	(2,140,000) (1)	(4,827)	(2,012)	-
Long OTC Swaps	Henry Hub	Oct 2010 - Jun 2015	35,427,500 (1)	(47,600)	(46,446)	-
Short OTC Swaptions	Henry Hub	Apr 2011 - Oct 2011	(3,210,000) (1)	(6,946)	(4,054)	-
Derivative instruments (liabilities)				(113,411)	(80,053)	(6,440)
Total				\$ (105,701)	(88,365)	12,719

(1) Volume in MMBTUs

(2) IntercontinentalExchange

(3) Volume in MWHs

Austin Energy routinely purchases derivative instruments. The outstanding hedging derivative instruments were purchased at various dates.

The realized gains and losses related to the hedging activity derivative instruments are netted to fuel expense in the period realized.

Risks

Credit Risk. Credit risk is the risk of loss due to a counterparty defaulting on its obligations. Austin Energy's fuel derivative contracts expose Austin Energy to custodial credit risk on Exchange Traded derivative positions. In the event of default or nonperformance by brokers or the exchange, Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit ratings and the strict and deep credit requirements upheld by NYMEX, which these brokerage houses are members. At September 30, 2010, the brokerages had credit ratings of A and BBB.

The over-the-counter agreements expose Austin Energy to credit risk. In the event of default Austin Energy's operations will not be materially affected. However, Austin Energy does not expect the counterparties to fail to meet their obligations given their high credit rating. At September 30, 2010, the two counterparties had credit ratings of AA- and A. The contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to these contracts include collateral provisions. At September 30, 2010 no collateral was required under these provisions.

The congestion rights expose Austin Energy to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default of nonperformance Austin Energy's operations will not be materially affected. However, Austin Energy does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

14 – DERIVATIVE INSTRUMENTS, continued
a -- Energy Risk Management Program, continued

Termination Risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. 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. Austin Energy's exposure to termination risk for over-the counter agreements 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. Termination risk is associated with all of Austin Energy's derivatives up to the fair value of the instrument.

Netting Arrangements. Austin Energy enters into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by or owed to the non-defaulting party.

Basis Risk. Austin Energy is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub). As of September 30, 2010, the NYMEX price was \$3.81 per MMBTU, the WAHA Hub price was \$3.67 per MMBTU, Katy was \$3.785 per MMBTU, and the HSC Hub price was \$3.83 per MMBTU.

Investment Derivative Instruments

In fiscal year 2010, some derivative instruments were closed out resulting in an ineffective hedge classification, accordingly a loss of \$69 thousand was reported. However, this loss was deferred under the accounting requirements for regulated operations.

On September 30, 2010, Austin Energy had the following closed out investment derivative instruments (in thousands):

Type of Transaction		Reference Index	Fair Value at September 30, 2010			Change in Fair Value
			Maturity Dates	Volumes in MMBTU	Fair Value	
Long	OTC Call Options	Henry Hub	Apr 2011 - Oct 2011	3,210,000	\$ --	--
Short	OTC Call Options	Henry Hub	Apr 2011 - Oct 2011	(3,210,000)	--	890
Long	Futures	Henry Hub	Aug 2013 - Oct 2013	230,000	(846)	(397)
Short	Futures	Henry Hub	Aug 2013 - Oct 2013	(230,000)	777	397
Long	OTC Swaps	Henry Hub	Apr 2011	300,000	(750)	(692)
Short	OTC Swaps	Henry Hub	Apr 2011	(300,000)	750	692
					\$ (69)	890

At September 30, 2010, Austin Energy recorded an unrealized loss of \$49 thousand on outstanding emission investment instruments.

Risks

As of September 30, 2010, Austin Energy was not exposed to credit, interest or foreign currency risk on its investment derivative instruments.

b -- Variable Rate Debt Management Program

Hedging Derivative Instruments

The intention of the City's swap portfolio is to change variable interest rate bonds to synthetically fixed rate bonds. As a means to lower its borrowing costs when compared against fixed rate bonds at the time of issuance, the City executed pay-fixed, receive-variable swaps in connection with its issuance of variable rate bonds.

14 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

As of September 30, 2010, the City has 4 outstanding swap transactions with initial and outstanding notional amounts totaling \$734.6 million and \$664.1 million, respectively. The mark-to-market or fair value for each swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London Interbank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

On September 30, 2010, the City had the following outstanding interest rate swap hedging derivative instruments (in thousands):

Item	Related Variable Rate Bonds	Terms	Effective Date	Maturity Date	Notional Amount	Fair Value
Business-Type Activities - Hedging derivatives:						
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	Pay 3.657%, receive 68% of LIBOR	8/27/2004	5/15/2024	\$ 115,375	(16,476)
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Pay 3.600%, receive SIFMA swap index	5/15/2008	5/15/2031	166,875	(18,130)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	Pay 4.051%, receive 71% of LIBOR	8/17/2005	11/15/2025	259,850	(48,227)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Pay 3.251%, receive SIFMA swap index until 11/15/09 and 67% of LIBOR thereafter	8/14/2008	11/15/2029	121,955	(16,640)
					<u>\$ 664,055</u>	<u>(99,473)</u>

All swaps are pay-fixed interest rate swaps. All were entered into with the objective of hedging changes in the cash flows on the related variable rate debt.

The fair value of the City's interest rate swap hedging derivative instruments is reported as derivative instruments in liabilities with an offsetting adjustment to deferred outflow of resources. The table below provides for the fair value and changes in fair value of the City's interest rate swap agreements as of September 30, 2010 (in thousands).

Item	Outstanding Notional Amount	Fair Value and Classification as of September 30, 2010		Change in fair value for the year ended September 30, 2010	
		Amount	Classification	Deferred Outflows	Deferred Inflows
Business-Type Activities:					
Hedging derivative instruments (cash flow hedges):					
WW1	\$ 115,375	(16,476)	Non-current liability	(4,368)	--
WW2	166,875	(18,130)	Non-current liability	(7,918)	--
AIR1	259,850	(48,227)	Non-current liability	(12,034)	--
HOT1	121,955	(16,640)	Non-current liability	(6,060)	--
	<u>\$ 664,055</u>	<u>(99,473)</u>		<u>(30,380)</u>	<u>--</u>

Due to the continued decline in interest rates during fiscal year 2010, the City's interest rate swap hedging derivative instruments had negative fair values as of September 30, 2010. 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.

14 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Risks

Credit risk. As of September 30, 2010, the City was not exposed to credit risk on any of its outstanding swap agreements because each swap had a negative fair value. However, should interest rates change and the fair value of a swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The counterparty credit ratings for the City's interest rate swap hedging derivative instruments at September 30, 2010 are included in the table below.

Item	Related Variable Rate Bonds	Counterparty Ratings		
		Moody's Investors Service, Inc	Standard & Poor's	Fitch, Inc
Business-Type Activities:				
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	Aa1	AA-	AA-
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	Aa3	A	A+
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	A2	A	A
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	Aa3	A+	AA-

Swap agreements for all four swaps contain collateral agreements with the counterparties. These swap agreements require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreements. For Swap WW1, 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/Standard & Poor's (S&P). For Swap AIR1, 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. For Swap HOT1, the credit support provider of MKFP is Deutsche Bank AG, New York Branch (DBAG). This swap requires collateralization of the fair value of the swap should DBAG's credit rating fall below the applicable thresholds in the agreement.

Swap payments and associated debt. The net cash flows for the City's interest rate swap hedging derivative instruments for the year ended September 30, 2010 are included in table below (in thousands).

Item	Related Variable Rate Bonds	Counterparty Swap Interest			Interest to Bondholders	Net Interest Payments
		Pay	Receive	Net		
Business-Type Activities:						
WW1	Water & Wastewater Revenue Refunding Bonds, Series 2004	\$ (4,219)	213	(4,006)	(367)	(4,373)
WW2	Water & Wastewater Revenue Refunding Bonds, Series 2008	(6,023)	438	(5,585)	(498)	(6,083)
AIR1	Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005	(10,551)	503	(10,048)	(857)	(10,905)
HOT1	Hotel Occupancy Tax Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2008	(3,982)	246	(3,736)	(370)	(4,106)
		<u>\$ (24,775)</u>	<u>1,400</u>	<u>(23,375)</u>	<u>(2,092)</u>	<u>(25,467)</u>

14 – DERIVATIVE INSTRUMENTS, continued
b -- Variable Rate Debt Management Program, continued

Basis and interest rate 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 does not bear basis risk on Swap WW2. At September 30, 2010, the City bears basis risk on the three remaining swaps. These swaps have basis risk since the City receives a percentage of LIBOR to offset the actual variable rate the City pays on the related bonds. The City is exposed to basis risk should the floating rate that it receives on a swap drop below 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 will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

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 Swap WW1, 71% of LIBOR on AIR1, and 67% of LIBOR on Swap HOT1 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 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 Swap WW1 and Swap AIR1 to further reduce the possibility of termination risk.

Rollover risk. The City is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the City will be re-exposed to the risks being hedged by the hedging derivative instrument. The City is currently not exposed to rollover risk on its hedging derivative instruments.

Investment Derivative Instruments

At September 30, 2010, the City did not have any investment derivative instruments related to interest rate swaps.

c -- Swap Payments and Associated Debt

As of September 30, 2010, debt service requirements of the City's variable rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows (as rates vary, variable rate bond interest payments and net swap payments will vary):

Fiscal Year Ended September 30	Variable-Rate Bonds (in thousands)		Interest Rate Swaps, Net	Total Interest
	Principal	Interest		
2011	\$ 22,890	624	23,387	24,011
2012	29,905	597	22,418	23,015
2013	23,750	574	21,507	22,081
2014	54,920	538	20,017	20,555
2015	43,465	490	17,539	18,029
2016-2020	154,910	1,833	72,418	74,251
2021-2025	210,235	869	41,434	42,303
2026-2030	110,000	85	10,892	10,977
2031	13,980	2	333	335
Total	\$ 664,055	5,612	229,945	235,557

15 – 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.

FPP's Flexible Air permit received from the Texas Commission on Environmental Quality in 2002 requires that Austin Energy and LCRA install new SO2 scrubbers on FPP Units 1 and 2 by 2012. It is estimated that the project cost will be in the range of \$225 million for Austin Energy's share. The scrubber on Unit 1 began operation in January 2011 and the Unit 2 scrubber is expected to go online in the spring of 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 \$209.9 million as of September 30, 2010. The increase in the pro-rata interest from 2009 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.

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, 2010, Austin Energy's investment in the STP was approximately \$469 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

Austin Energy began collecting in rates and accumulating funds for decommissioning STP in 1989 in an external trust. The Decommissioning Trust assets are reported as restricted cash and restricted investments held by trustee. The related liability is reported as decommissioning liability payable. Excess or unfunded liabilities related to decommissioning STP will be adjusted in future rates so that there are sufficient funds in place to pay for decommissioning. At September 30, 2010, the trust's assets were in excess of the estimated liability by \$23.8 million which is reported as part of deferred revenue and other liabilities (in thousands):

Decommissioning trust assets	\$ 159,602
Pro rata decommissioning liability	<u>(135,765)</u>
	<u>\$ 23,837</u>

15 – COMMITMENTS AND CONTINGENCIES, continued
c -- South Texas Project Decommissioning, continued

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. The most recent annual calculation of financial assurance filed on December 31, 2008 showed that the trust assets exceeded the minimum required assurance by \$38.6 million.

d -- Purchased Power

Austin Energy has commitments totaling \$3.2 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 2032, and solar through 2035.

e -- Decommissioning and Environmental/Pollution Remediation Contingencies

Austin Energy may incur costs for 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, 2010. Austin Energy anticipates payment of these costs in 2011 and future years. The amount is based on 2010 cost estimates to perform remediation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Austin Water closed the Green Water Treatment Plant (GWTP) on September 23, 2008. The estimated decommissioning cost to close the GWTP is \$11 million. The financial statements include a liability of approximately \$2.1 million at September 30, 2010. The amount is based on 2010 cost estimates. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Plant decommissioning reached substantial completion in February 2011, with final completion expected to occur in fiscal year 2011.

f -- Texas Water Development Board

In November 2009, the City delivered \$31,815,000 of initial Water and Wastewater System Revenue Bonds, Series 2010 as a private placement with the Texas Water Development Board (TWDB). This zero-interest issuance is part of the American Recovery and Reinvestment Act. As part of that program, the initial bonds, in \$5,000 increments, are replaced with definitive bonds as the City requests reimbursement for expenditures related to the approved project: green infrastructure improvements at the Hornsby Bend Biosolids Management plant. The City recognizes a liability once the definitive bonds have been issued. The remaining commitment will be recognized as future definitive bonds are issued. At year end, the liability recognized by the Water and Wastewater System Revenue Bonds, Series 2010 and the remaining commitment are as follows (in thousands):

Total bonds authorized	\$ 31,815
Definitive bonds issued to date	(10,840)
Remaining commitment	<u>\$ 20,975</u>

The City intends to issue definitive bonds for the remaining commitment. If the full amount of bonds authorized is not converted to definitive bonds, the TWDB and the City would agree to cancel any remaining initial bonds authorized but not converted. The City's liability in the financial statements represents the amount of definitive bonds outstanding.

g -- 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, 2010, was \$139 thousand for governmental activities, \$7 thousand for water and wastewater, and \$19 thousand for other nonmajor enterprise activities.

15 – COMMITMENTS AND CONTINGENCIES, continued
h -- 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.

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 2010 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, transportation infrastructure, public recreation and culture activities, and urban growth management activities. Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	(in thousands)	Remaining Commitment
Governmental activities:		
General government		\$ 11,509
Transportation		25,034
Public recreation and culture		106,387
Urban growth management		1,134
Business-type activities:		
Electric		299,047
Water		585,811
Wastewater		426,193
Airport		189,325
Environmental and health services		42,402
Urban growth management		245,121
Total		<u>\$ 1,931,963</u>

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, a portion of these future closure and postclosure care costs are reported as an operating expense in each period as incurred in the Solid Waste Services Fund, a nonmajor enterprise fund. Closure is expected to occur in May 2011. The amount of costs reported, based on landfill capacity as of the City's fiscal year-end, is as follows (in thousands):

	Closure	Postclosure	Total
Total estimated costs	\$ 10,035	7,297	17,332
% capacity used through FY10	99.04%	99.04%	99.04%
Cumulative liability accrued through FY10	9,938	7,227	17,165
Costs incurred through FY10	(9,225)	--	(9,225)
Closure and post-closure liability at 9/30/10	713	7,227	7,940
Estimated FY11 costs	713	52	765
Estimated costs for remaining years	<u>\$ --</u>	<u>7,175</u>	<u>7,175</u>

These amounts are based on the 2010 cost estimates to perform closure and postclosure care. 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.

15 – COMMITMENTS AND CONTINGENCIES, continued
k -- Risk-Related Contingencies

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

<u>Fund name</u>	<u>Description</u>
Employee Benefits	City employees and retirees may choose a self-insured PPO or HMO for health coverage. Approximately 30% of city employees and 41% of retirees use the HMO option; approximately 70% of city employees and 59% 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 the number of full-time equivalent (FTE) employees per fund.

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 2010, six claims exceeded the stop-loss limit of \$500,000; during fiscal year 2009, five claims exceeded the stop-loss limit of \$500,000; during fiscal year 2008, 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 \$33.4 to \$47.5 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

Changes in the balances of claims liability are as follows (in thousands):

	<u>Employee Benefits</u>		<u>Liability Reserve</u>		<u>Workers' Compensation</u>	
	2010	2009	2010	2009	2010	2009
Liability balances, beginning of year	\$ 9,260	4,796	6,965	7,848	14,052	13,818
Claims and changes in estimates	9,480	9,807	3,270	2,784	3,908	3,391
Claim payments	(8,182)	(5,343)	(2,659)	(3,667)	(2,659)	(3,157)
Liability balances, end of year	<u>\$ 10,558</u>	<u>9,260</u>	<u>7,576</u>	<u>6,965</u>	<u>15,301</u>	<u>14,052</u>

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of \$4.9 million discounted at 4.22% in 2010 and \$5.0 million discounted at 4.45% in 2009.

15 – COMMITMENTS AND CONTINGENCIES, continued
l -- 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 into a mixed-use urban village near downtown Austin. Catellus will develop and market the property. The Mueller Local Government Corporation (MLGC), created by the City for this development, 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.

In September 2006, the MLGC issued debt in the amount of \$12 million. 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 October 2009, the MLGC issued debt in the amount of \$15 million. Proceeds of the debt have been used to reimburse the developer for additional eligible infrastructure for the residential portion of the development. Debt service payments will be funded through an economic development grant from the City of Austin, and supported by property tax proceeds from the development.

The development contains Class A office space which hosts over 40 employers providing more than 3,000 jobs at Mueller. The development has more than 350,000 sq. ft. of retail space. From the start of home sales in 2007, the community has been well received. As of September 30, 2010, approximately 661 single-family homes were either complete or under construction. In addition, 477 apartment units were complete. Catellus also completed the infrastructure for an additional 49 single-family homes and initiated the development of 52 multi-family residences.

m -- 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, 2010, was \$21.8 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements to finance 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, 2010, under capital lease obligations (in thousands):

Capital Assets	Governmental Activities	Business-type Activities		
		Electric	Airport	Total
Building and improvements	\$ --	1,405	--	1,405
Equipment	1,051	--	2,320	2,320
Accumulated depreciation	(297)	(281)	(1,753)	(2,034)
Net capital assets	<u>\$ 754</u>	<u>1,124</u>	<u>567</u>	<u>1,691</u>

16 – 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's other post-employment benefits plan is a single employer plan.

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 3,118 retirees was \$21.7 million in 2010 and \$19.6 million in 2009 for 3,115 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, 2010, is as follows (in thousands):

	<u>OPEB</u>
Annual required contribution	\$ 119,299
Interest on net OPEB obligation	7,374
Adjustment to annual required contribution	<u>(9,969)</u>
Annual OPEB cost	116,704
Contributions made	<u>(21,707)</u>
Change in net OPEB obligation	94,997
Beginning net OPEB obligation	175,151
Net OPEB obligation	<u>\$ 270,148</u>

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
2010	\$ --	1,134,864	1,134,864	0.0%	620,526	182.9%

(1) UAAL – Unfunded Actuarial Accrued Liability

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.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years 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
2010	116,704	18%	270,148

16 – OTHER POST-EMPLOYMENT BENEFITS, continued

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

	<u>OPEB</u>
Actuarial Valuation Date	October 1, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization method	Level Percentage Open
Remaining Amortization Period	30 years
Inflation Rate	N/A
Salary Increase	None
Payroll Increase	None
Assumed Rate of Return on Investments	4.21%
Health Care Cost Trend Rate	10% in 2009, decreasing 1% per year for five years to an ultimate trend of 5% in 2014

17 – SUBSEQUENT EVENTS

a -- General Obligation Bond Issue

In October 2010, the City issued \$79,528,000 of Public Improvement Bonds, Series 2010A. The proceeds from the issue will be used as follows: street improvements (\$16,998,000), streets and signals (\$15,800,000), drainage improvements (\$24,000,000), park improvements (\$20,130,000), cultural arts (\$100,000), central library (\$1,000,000), and public safety facility (\$1,500,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 2.00% to 4.00%, are \$37,170,378.

In October 2010, the City issued \$26,400,000 of Public Improvement Bonds, Taxable Series 2010B. The proceeds from the issue will be used as follows: affordable housing (\$26,400,000). These bonds will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these bonds, at rates ranging from 3.00% to 4.65%, are \$16,225,123.

In October 2010, the City issued \$22,300,000 of Certificates of Obligation, Series 2010. The proceeds from this issue will be used as follows: public safety facilities (\$3,850,000), solid waste services landfill closure (\$8,100,000), public works transportation projects (\$9,000,000), and improvements (\$1,350,000). These certificates of obligation will be amortized serially on September 1 of each year from 2011 to 2030. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2011. Total interest requirements for these certificates of obligation, at rates ranging from 2.00% to 3.50%, are \$8,237,625.

In October 2010, the City issued \$16,450,000 of Public Property Finance Contractual Obligations, Series 2010. The proceeds from this issue will be used as follows: solid waste services capital equipment (\$8,600,000), parking meter pay stations (\$2,600,000), golf capital equipment (\$1,070,000), public works transportation capital equipment (\$2,505,000), wastewater utility capital equipment (\$1,016,000), and water utility capital equipment (\$659,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2011 to 2017. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2011. Total interest requirements for these obligations, at rates ranging from 1.00% to 1.75%, are \$897,315.

17 – SUBSEQUENT EVENTS, continued

b -- Public Improvement Refunding Bond Issue

In November 2010, the City issued \$91,560,000 of Public Improvement Refunding Bonds, Series 2010. The net proceeds of \$108,587,889 (after issue costs, discounts, and premiums) from the refunding were used to refund \$41,500,000 of Public Improvement Bonds, Series 2002; \$31,785,000 of Public Improvement Refunding Bonds, Series 2003; \$20,010,000 of Certificates of Obligation, Series 2001 and 2002; \$2,090,000 of Circle C MUD #3 and Circle C MUD #4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1996; \$4,040,000 of Davenport Ranch MUD #1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1997 and Series 1997B; and \$70,000 of Northwest Austin MUD #1 Unlimited Tax Bonds, Series 2001. The refunding resulted in future interest requirements to service the debt of \$40,480,158 with interest rates ranging from 4% to 5%. An economic gain of \$9,426,174 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$11,427,089.

c -- Water and Wastewater System Revenue Bond Refunding Issue

In November 2010, the City issued \$76,855,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010A. Proceeds from the bond refunding were used to refund \$75,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are \$153,171,897, with interest rates ranging from 4% to 5.125%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2013 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

In November 2010, the City issued \$100,970,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2010B. These bonds are Build America Bonds (BABs) and are part of the Federal American Recovery and Reinvestment Act of 2009. Proceeds from the bond refunding were used to refund \$100,000,000 of the City's outstanding tax-exempt commercial paper issued for the water and wastewater utility system. The debt service requirements on the refunding bonds are \$213,428,131, with interest rates ranging from 2.494% to 6.018%. Interest payments are due May 15 and November 15 of each year from 2011 to 2040. Principal payments are due November 15 of each year from 2013 to 2040. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

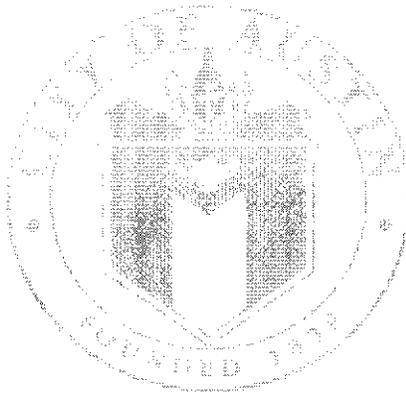
d -- Texas Water Development Board

As of January 28, 2011, the City has converted an additional \$9,130,000 of initial bonds to definitive Water and Wastewater System Revenue Bonds, Series 2010 over six separate draw requests. With these issuances, the outstanding commitment with the TWDB is now reduced to \$11,845,000.



**REQUIRED SUPPLEMENTARY
INFORMATION**





General Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2010
(In thousands)

City of Austin, Texas
RSI

	Actual	Adjustments (1) (2)	Actual- Budget Basis	Budget		Variance (3) Positive (Negative)
				Original	Final	
REVENUES						
Taxes	\$ 387,061	--	387,061	371,138	371,138	15,923
Franchise fees	34,964	--	34,964	34,082	34,082	882
Fines, forfeitures and penalties	18,692	(1)	18,691	18,999	18,999	(308)
Licenses, permits and inspections	15,716	--	15,716	18,028	18,028	(2,312)
Charges for services/goods	33,394	(84)	33,310	36,590	36,590	(3,280)
Interest and other	8,059	(1,191)	6,868	4,910	4,910	1,958
Total revenues	497,886	(1,276)	496,610	483,747	483,747	12,863
EXPENDITURES						
General government						
Municipal Court	11,768	(41)	11,727	11,954	11,954	227
Public safety						
Police	235,223	(1,403)	233,820	241,176	241,176	7,356
Fire	119,575	(831)	118,744	120,246	120,246	1,502
Emergency Medical Services	44,132	(30)	44,102	43,777	44,107	5
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	363	--	363	350	350	(13)
Public health:						
Health	37,464	172	37,636	38,974	38,974	1,338
Public recreation and culture						
Parks and Recreation	35,945	(140)	35,805	36,810	36,810	1,005
Austin Public Library	24,095	9	24,104	24,543	24,543	439
Urban growth management						
Neighborhood Planning and Zoning	17,588	(74)	17,514	19,604	19,604	2,090
Development Services and						
Watershed Protection	(53)	53	--	--	--	--
General city responsibilities (4)	69,456	(52,630)	16,826	16,760	16,760	(66)
Total expenditures	595,556	(54,915)	540,641	554,194	554,524	13,883
Excess (deficiency) of revenues over expenditures	(97,670)	53,639	(44,031)	(70,447)	(70,777)	26,746
OTHER FINANCING SOURCES (USES)						
Transfers in	130,233	1,182	131,415	131,167	131,167	248
Transfers out	(16,014)	(56,052)	(72,066)	(68,424)	(68,424)	(3,642)
Total other financing sources (uses)	114,219	(54,870)	59,349	62,743	62,743	(3,394)
Excess (deficiency) of revenues and other sources over expenditures and other uses	16,549	(1,231)	15,318	(7,704)	(8,034)	23,352
Fund balance at beginning of year	92,161	(7,560)	84,601	49,948	46,994	37,607
Fund balance at end of year	\$ 108,710	(8,791)	99,919	42,244	38,960	60,959

- (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 (\$340,000), accrued payroll (\$2,599,000), expenditures for workers' compensation (\$5,006,746), liability reserve (\$1,740,000), and public safety (\$2,325,759).

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):

	<u>General Fund</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	\$ 16,549
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(76)
Net compensated absences accrual	30
Outstanding encumbrances established in current year	(2,442)
Payments against prior year encumbrances	1,952
Other	(695)
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	<u>\$ 15,318</u>

c -- Budget Amendments

The original expenditure budget of the General Fund was amended during fiscal year 2010 primarily for increased public safety costs. The original and final budget is presented in the accompanying financial statements.

RETIREMENT PLANS-TREND INFORMATION

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

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
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%
2009	1,672,470	2,330,937	658,467	71.8%	442,539	148.8%
Police Officers						
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%
2009	518,112	733,635	215,523	70.6%	122,928	175.3%
Fire Fighters (2)						
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%
2009	589,261	664,185	74,924	88.7%	78,980	94.9%

(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%
2010	October 1, 2008	--	1,134,864	1,134,864	0.0%	620,526	182.9%

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APPENDIX C

Forms of Bond Counsel's Opinions

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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 BONDS,
SERIES 2011A,
IN THE PRINCIPAL AMOUNT OF \$78,090,000**

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 \$78,090,000. 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 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 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. 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 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 under 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,

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 BONDS,
TAXABLE SERIES 2011B,
IN THE PRINCIPAL AMOUNT OF \$8,450,000**

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 \$8,450,000. 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 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 OUR OPINION THAT THE BONDS ARE NOT OBLIGATIONS DESCRIBED IN SECTION 103(a) OF THE INTERNAL REVENUE CODE OF 1986.

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 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.

Respectfully,

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 Certificates of Obligation,
assuming no material changes in facts or law.*

**CITY OF AUSTIN, TEXAS
CERTIFICATES OF OBLIGATION,
SERIES 2011,
IN THE PRINCIPAL AMOUNT OF \$51,150,000**

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the certificates of obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which Certificates are issued in the aggregate principal amount of \$51,150,000. The Certificates bear interest from the date and mature on the dates specified on the face of the Certificates, and are subject to redemption prior to maturity on the dates and in the manner specified on the face of the Certificates, all in accordance with the ordinance of the City authorizing the issuance of the Certificates (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 Certificates, including one of the executed Certificates (Certificate No. R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been authorized, issued and delivered in accordance with the Constitution and laws of the State of Texas, and the Certificates 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 Certificates, have been pledged for such purpose, within the limits prescribed by the Constitution and the charter of the City and that the principal of and interest on the Certificates of Obligation are additionally secured by and payable from the surplus revenues received by the City from the operation of the City's solid waste disposal system; provided, that the amount of such pledge of surplus revenues shall not exceed \$1,000.00. 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 Certificates 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 Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates 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 Certificates and the use of the property financed therewith. 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 Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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 Certificates.

WE CALL YOUR ATTENTION TO THE FACT that interest on tax-exempt obligations, such as the Certificates, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations under 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 Certificates, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates 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 Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates 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 Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates 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 Certificates 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 Certificates. 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 Certificates as includable in gross income for federal income tax

purposes.

Respectfully,

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 Contractual Obligations,
assuming no material changes in facts or law.*

**CITY OF AUSTIN, TEXAS
PUBLIC PROPERTY FINANCE
CONTRACTUAL OBLIGATIONS,
SERIES 2011,
IN THE PRINCIPAL AMOUNT OF \$26,725,000**

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the public property finance contractual obligations described above (the "Contractual Obligations"), we have examined into the legality and validity of the Contractual Obligations, which Contractual Obligations are issued in the aggregate principal amount of \$26,725,000. The Contractual Obligations bear interest from the date and mature on the dates specified on the face of the Contractual Obligations, all in accordance with the ordinance of the City authorizing the issuance of the Contractual Obligations (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 Contractual Obligations, including one of the executed Contractual Obligations (Contractual Obligation No. R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Contractual Obligations have been authorized, issued and delivered in accordance with the Constitution and laws of the State of Texas, and the Contractual Obligations 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 Contractual Obligations, 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 Contractual Obligations 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 Contractual Obligations are not "specified private activity bonds" and that, accordingly, interest on the Contractual Obligations 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 Contractual Obligations and the use of the property

financed therewith. 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 Contractual Obligations may become includable in gross income retroactively to the date of issuance of the Contractual Obligations.

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 Contractual Obligations.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Contractual Obligations, 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 Contractual Obligations, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Contractual Obligations 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 Contractual Obligations under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Contractual Obligations 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 Contractual Obligations, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Contractual Obligations 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 Contractual Obligations 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 Contractual Obligations. 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 Contractual Obligations as includable in gross income for federal income tax purposes.

Respectfully,

