OFFICIAL STATEMENT

CITY OF AUSTIN, TEXAS

$19,535,000
Public Improvement and Refunding Bonds, Series 2005

$7,185,000
Certificates of Obligation, Series 2005

$14,940,000
Public Property Finance Contractual Obligations, Series 2005

Dated: August 25, 2005

OFFICIAL STATEMENT DATED AUGUST 25, 2005

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA+"
Fitch: "AA+"
(2020-2025 Maturities rated "Aaa", "AAA" and "AAA";
See "BOND INSURANCE" and "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

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

$19,535,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Public Improvement and Refunding Bonds, Series 2005

Dated: August 15, 2005 Due: September 1, as shown below

Interest on the $19,535,000 City of Austin, Texas Public Improvement and Refunding Bonds, Series 2005 (the "Bonds"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2006, and will be calculated on the basis of a 360–day year 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 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 Bonds (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Bonds will be used to finance various capital improvements, to finance certain payment obligations relating to the City's liability under a settlement agreement (see "OBLIGATION INFORMATION – Authority for Issuance"), and to pay certain costs of issuance of the Bonds.

Ambac

Payment of the principal and interest on the Bonds maturing on September 1 in each of the years 2020 through 2025, inclusive, when due will be guaranteed by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds (see "BOND INSURANCE").

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2008	$1,895,000	3.500%	3.050%	2017	$ 325,000	4.000%	4.050%
2009	3,300,000	5.000%	3.200%	2018	100,000	4.000%	4.100%
2010	100,000	4.000%	3.280%	2019	100,000	4.100%	4.150%
2011	100,000	4.000%	3.370%	2020	1,255,000	4.125%	4.200%
2012	100,000	4.000%	3.460%	2021	1,320,000	4.200%	4.240%
2013	875,000	4.500%	3.550%	2022	1,385,000	4.200%	4.270%
2014	925,000	4.250%	3.650%	2023	1,460,000	4.250%	4.300%
2015	100,000	4.000%	3.730%	2024	3,125,000	4.250%	4.350%
2016	100,000	4.000%	3.870%*	2025	2,970,000	4.250%	4.380%

(Plus Accrued Interest from August 15, 2005)

*Priced to call date.

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above will produce compensation to the Purchasers of approximately $175,698.31.

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2016, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on September 1, 2015, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Redemption").

The 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 Bonds (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Bonds will be delivered through the facilities of DTC on or about October 6, 2005.

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OFFICIAL STATEMENT DATED AUGUST 25, 2005

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

(See "BOND INSURANCE" and "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.

$7,185,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Certificates of Obligation, Series 2005

Dated: August 15, 2005 Due: September 1, as shown below

Interest on the $7,185,000 City of Austin, Texas Certificates of Obligation, Series 2005 (the "Certificates"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2006, and will be calculated on the basis of a 360–day year 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.

MBIA Payment of principal and interest on the Certificates when due will be guaranteed under an insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the Certificates (see "BOND INSURANCE" herein).

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2006	$210,000	6.500%	2.900%	2016	$355,000	3.850%	3.950%
2007	225,000	6.500%	3.000%	2017	370,000	4.000%	4.050%
2008	235,000	6.500%	3.100%	2018	390,000	4.000%	4.100%
2009	245,000	6.500%	3.220%	2019	410,000	4.050%	4.150%
2010	260,000	6.500%	3.330%	2020	435,000	4.100%	4.200%
2011	275,000	5.850%	3.430%	2021	455,000	4.125%	4.240%
2012	290,000	3.500%	3.520%	2022	480,000	4.150%	4.280%
2013	300,000	3.500%	3.610%	2023	505,000	4.200%	4.320%
2014	320,000	3.600%	3.710%	2024	530,000	4.250%	4.360%
2015	335,000	3.700%	3.830%	2025	560,000	4.300%	4.400%

(Plus Accrued Interest from August 15, 2005)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above will produce compensation to the Purchasers of approximately $62,316.80.

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2016, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on September 1, 2015, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Redemption").

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 6, 2005.

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OFFICIAL STATEMENT DATED AUGUST 25, 2005

Ratings: Moody's: "Aaa"
Standard & Poor's: "AAA"
Fitch: "AAA"
(See "BOND INSURANCE" and "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.

$14,940,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Public Property Finance Contractual Obligations, Series 2005

Dated: August 15, 2005 Due: May 1 and November 1, as shown below

Interest on the $14,940,000 City of Austin, Texas Public Property Finance Contractual Obligations, Series 2005 (the "Contractual Obligations"), will accrue from the dated date as shown above and will be payable May 1 and November 1 of each year, commencing May 1, 2006, and will be calculated on the basis of a 360–day year 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 for various City Departments and to pay costs of issuance of the Contractual Obligations.

MBIA Payment of principal and interest on the Contractual Obligations when due will be guaranteed under an insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the Contractual Obligations (see "BOND INSURANCE" herein).

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (May 1)	Amount	Interest Rate	Price or Yield	Maturity (November 1)	Amount	Interest Rate	Price or Yield
2006	$ 900,000	4.000%	2.800%	2006	$ 985,000	4.000%	2.850%
2007	1,015,000	3.000%	2.950%	2007	1,045,000	3.000%	2.970%
2008	1,070,000	3.000%	3.040%	2008	1,090,000	3.000%	3.070%
2009	1,115,000	3.250%	3.150%	2009	1,130,000	3.250%	3.170%
2010	1,040,000	3.500%	3.280%	2010	1,065,000	3.500%	3.300%
2011	1,080,000	3.500%	3.400%	2011	1,115,000	3.500%	3.410%
2012	1,135,000	3.750%	3.510%	2012	1,155,000	3.750%	3.520%

(Plus Accrued Interest from August 15, 2005)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above will produce compensation to the Purchasers of approximately $40,637.24.

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 6, 2005.

No dealer, broker, salesman or other person has been authorized by the City or by 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 Bonds, the Certificates or the Contractual Obligations (collectively referred to herein as the "Obligations"), by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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 Service Bureau 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 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.

TABLE OF CONTENTS

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CITY OF AUSTIN

Elected Officials

		Term Expires June 15
Will Wynn	Mayor	2006
Lee Leffingwell	Councilmember Place 1	2008
Raul Alvarez	Councilmember Place 2	2006
Jennifer Kim	Councilmember Place 3	2008
Betty Dunkerley	Councilmember Place 4	2008
Brewster McCracken	Councilmember Place 5	2006
Danny Thomas, Mayor Pro Tem	Councilmember Place 6	2006

Appointed Officials

Toby Hammett Futrell	City Manager
Joe Canales	Deputy City Manager
John Stephens, CPA	Chief Financial Officer
Laura Huffman	Assistant City Manager
Vickie Schubert, CPA	Deputy Chief Financial Officer
Leslie Browder	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Brown	City Clerk

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

FINANCIAL ADVISOR
Public Financial Management
Austin, Texas

AUDITORS
KPMG LLP and Richard Mendoza, CPA
Austin, Texas

For additional information regarding the City, please contact:

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Acting Treasurer
City of Austin
700 Lavaca, Suite 1510
Austin, Texas 78701
(512) 974–7882
art.alfaro@ci.austin.tx.us

Chris Allen
Public Financial Management
700 Lavaca
Suite 1500
Austin, Texas 78701
(512) 472–7194
allenc@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 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 Bonds, the Certificates and the Contractual Obligations information concerning the 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 and Williamson 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 Council formulates operating policy for the City while the City Manager is the chief administrative officer.

The City is approximately 290 square miles in area (see APPENDIX A – "General Information Regarding the City").

The Bonds............................. The Bonds are being issued in the principal amount of $19,535,000 pursuant to the general laws of the State of Texas, particularly Chapters 1207 and 1331, Texas Government Code 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 $7,185,000 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 $14,940,000 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.

Optional Redemption of Bonds and Certificates .... The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 2016, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2015, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Redemption"). **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 Obligations is excludable from gross income for federal income tax purposes under existing law and the Obligations will not constitute private activity bonds. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel including the alternative minimum tax consequences for corporations.

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

Selected Issuer Indices

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
1995	523,352	$20,958,589,300	$40,046.83	$436,868	$ 834.75	2.08%	100.10%
1996	541,889	23,303,015,047	43,003.30	443,247	817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.47	1.60%	99.23%
2003	674,719	50,759,650,668	75,230.80	788,366	1,168.44	1.55%	99.60%
2004	678,769	48,964,275,008	72,136.88	810,273	1,193.74	1.65%	99.21%
2005	687,061	49,996,299,663	72,768.36	709,330	1,032.41	1.42%	99.60% (3)
2006	695,803	52,405,611,874 (4)	75,316.74	691,712(5)	994.12(5)	1.32%(5)	N/A

(1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31.
(2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget.
(3) Estimated Collections as of June 30, 2005.
(4) Certified Appraised Value, including $4,155,107,316 in property in the appeals process.
(5) Projected. Includes the Obligations.

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OFFICIAL STATEMENT

Relating to

$19,535,000
CITY OF AUSTIN, TEXAS
Public Improvement and Refunding Bonds, Series 2005

$7,185,000
CITY OF AUSTIN, TEXAS
Certificates of Obligation, Series 2005

$14,940,000
CITY OF AUSTIN, TEXAS
Public Property Finance Contractual Obligations, Series 2005

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 $19,535,000 City of Austin, Texas, Public Improvement and Refunding Bonds, Series 2005 (the "Bonds"), $7,185,000 City of Austin, Texas, Certificates of Obligation, Series 2005 (the "Certificates") and $14,940,000 Public Property Finance Contractual Obligations, Series 2005 (the "Contractual Obligations"). The Bonds, the Certificates, and the Contractual Obligations are collectively referred to herein as the "Obligations". The Bonds, the Certificates, and the Contractual Obligations are being offered separately at competitive sales 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 ordinance authorizing the issuance of the Bonds (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 a portion of 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. The City is authorized to incur debt by voter authorization by Chapter 1331, Texas Government Code and by the Bond Ordinance as authorized in the City Charter adopted by voters on January 31, 1953, as amended.

On January 20, 2005, the District Court for Travis County, Texas, 353rd Judicial District, approved a settlement of a class action lawsuit filed against the City by a class of police officers, whereunder the City agreed to pay a total of $2,776,000 (the "Settlement"), and the class members waived any objection to the Settlement and by the terms of the Settlement are forever foreclosed from making any objections to the fairness, adequacy, or reasonableness of the Settlement. The City is authorized by Chapter 1207, Texas Government Code, to issue the Bonds for the purpose of paying the financial obligations incurred by the City with respect to the Settlement.

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 August 15, 2005 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. 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 bondholder 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.

Bondholder Remedies

The Ordinances obligate the City Council to assess and collect an annual ad valorem tax sufficient to pay when due the respective principal of and interest when due on the Obligations and they also create a pledge of such tax to the payment of the Obligations.

Upon the failure of the City to make payment of principal or interest when the same becomes due and payable, then any bondholder, or an authorized representative thereof, including but not limited to, a trustee or trustees therefore, may proceed against the City by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained therein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the bondholder thereunder or any combination of such remedies but the right to accelerate the debt evidenced by the Obligations shall not be available as a remedy under the Ordinances. All such proceedings shall be instituted and maintained for the equal benefit of all such bondholders.

Although a bondholder could presumably obtain a judgment against the City if a default occurred in the payment of principal or interest on each series of Obligations, such judgment could not be satisfied by execution against any property of the City. The bondholder's only practical remedy, if a default occurs in the payment of principal or interest, is a mandamus or mandatory injunction proceeding to compel the City Council to levy, assess and collect an annual ad valorem tax within the tax rate limitation sufficient to pay principal and interest as it becomes due. The bondholder could be required to enforce such remedy on a periodic basis. No right to accelerate maturity is granted by the respective Ordinances.

The enforcement or claim for payment of principal of or interest, including the remedy of mandamus, and the validity of the pledge of taxes, would be subject to the applicable provisions of the federal bankruptcy laws and to other laws affecting the rights of creditors of political subdivisions generally.

Redemption

Optional Redemption. The City reserves the right, at its option, to redeem the Bonds and the Certificates having stated maturities on and after September 1, 2016, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2015, 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 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. **The Contractual Obligations are not subject to optional redemption prior to their stated maturities.**

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 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.

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 are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or it 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 rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such 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.

DTC will act as securities depository for the Obligations (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

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

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

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

Paying Agent/Registrar

The initial Paying Agent/Registrar for each series of Obligations is Deutsche Bank Trust Company Americas. 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 New York, New York (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.

BOND INSURANCE

Ambac Assurance Corporation

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds maturing on September 1 in each of the years 2020 through 2025, inclusive (the "Insured Bonds"), effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent/Registrar. The insurance will extend for the term of the Insured Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent/Registrar has notice that any payment of principal of or interest on an Insured Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Insured Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Insured Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Insured Bond and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,720,000,000 (unaudited) and statutory capital of approximately $5,287,000,000 (unaudited) as of June 30, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company . These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;

2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;

3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;

4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;

6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;

7. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005; and

8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to APPENDIX E for a specimen of MBIA's policy for each of the Certificates and the Contractual Obligations (collectively referred to herein as the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "BOND INSURANCE". MBIA makes no representation regarding the Certificates or the Contractual Obligations or the advisability of investing in the Certificates or the Contractual Obligations.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Certificates or the Contractual Obligations, as the case may be, as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Certificates or the Contractual Obligations pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Certificates and Contractual Obligations. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Certificates and Contractual Obligations upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Certificates or the Contractual Obligations resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Certificates and the Contractual Obligations.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Certificate and Contractual Obligation the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Certificates and Contractual Obligations or presentment of such other proof of ownership of the Certificates or the Contractual Obligations, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Certificates or the Contractual Obligations as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Certificates and the Contractual Obligations in any legal proceeding related to payment of insured amounts on the Certificates or the Contractual Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Certificates and Contractual Obligations, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold either the Certificates or the Contractual Obligations, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Certificates or the Contractual Obligations. MBIA does not guaranty the market price of the Certificates or the Contractual Obligations nor does it guaranty that the ratings on the Certificates or the Contractual Obligations will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of $10.4 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2005, MBIA had admitted assets of $10.7 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2005 and for the six month periods ended June 30, 2005 and June 30, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and
(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Certificates and the Contractual Obligations offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificate holder is not protected by an insurance guaranty fund or other solvency protection arrangement.

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 market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised 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.

In a statewide election held on September 13, 2003, voters approved an amendment to Section 1-b, Article VIII of the Texas Constitution, that would authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of the disabled and of the elderly and their spouses. The City is now authorized to freeze ad valorem taxes 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 exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, 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 Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to 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. The City grants such exemption.

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 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.

Tax Valuation

January 1, 2005 Appraised Valuation (1)		$55,560,612,425
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead over 65	$1,140,691,780	
Homestead 10% Increase Cap	374,276,489	
Disabled Veterans	37,931,834	
Agricultural and Historical Exemptions	342,490,777	
Disability Exemption	108,011,041	
Freeport Exemption	1,151,598,630	3,155,000,551
January 1, 2005 Net Taxable Assessed Valuation (1)		$52,405,611,874

(1) 2005 Certified Appraised Value includes $4,155,107,316 in property in the appeals process.

(2) Exemptions or adjustments to assessed valuation granted in 2005 include (a) exemptions of $51,000 for resident homestead property of property owners over 65 years of age; (b) exemptions for residents homestead property exceeding a 10 percent increase in valuation from the previous year; (c) exemptions ranging from $5,000 to $12,000 for property of disabled veterans or certain surviving dependents of disabled veterans; (d) certain adjustments to productive agricultural lands; (e) exemptions to the land designated as historically significant sites by certain public bodies; (f) exemptions of $51,000 to disabled resident homestead property owners; (g) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

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Statement of Debt (As of September 30, 2005) (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)	$718,895,000	
Certificates of Obligations (1)	126,290,000	
Contractual Obligations (1)	39,335,000	
Assumed Bonds (2)	10,535,659	
The Bonds (3)	19,535,000	
The Certificates (3)	7,185,000	
The Contractual Obligations (3)	14,940,000	
Total		$936,715,659
Less Self-Supporting Debt:		
Assumed Bonds (2)	$ 9,313,429	
Airport (4)	435,602	
Austin Energy (4)	2,292,691	
City Hall	32,978,546	
CMTA Mobility (5)	21,920,000	
Communications and Technology Management (3)(4)	19,073,103	
Convention Center (4)	24,866,841	
Financial Services (3)(4)	4,975,000	
Fleet Management (4)	5,024,823	
Golf (3)(4)	7,862,010	
One Texas Center (4)	13,695,000	
Solid Waste (3)(4)	29,161,334	
Transportation (3)(4)	5,302,840	
Water and Wastewater (3)(4)	14,265,222	
Watershed Protection (4)	13,162,331	$204,328,772
Interest and Sinking Fund, All Public Improvement Bonds (6)		12,333,831
Net Debt (7)		$720,053,056
Ratio Total Debt to 2005 Net Taxable Assessed Valuation		1.87%
Ratio Net Debt to 2005 Net Taxable Assessed Valuation		1.44%

2005 Population (Estimate) – 687,061 (8)
Per Capita Net Taxable Assessed Valuation – $72,768.36
Per Capita Net Debt Outstanding – $1,048.02

(1) Excludes the new money issuances and funding of the Settlement Agreement.
(2) Represents bonds of utility districts annexed by the City.
(3) Obligations sold August 25, 2005 with delivery October 6, 2005.
(4) Airport, Austin Energy, Communications and Technology Management, 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, Communications & Technology Mgmt., Convention Center, Financial Services, Fleet Management, 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. Communications and Technology Management, 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.
(6) Represents estimate of cash plus investments at cost on September 30, 2005.
(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. If excluded, these obligations would lower net debt by $10,723,216.
(8) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

Revenue Debt

In addition to the above, on a pro forma basis, the City had outstanding (as of August 31, 2005) $1,106,898,647 Combined Utility Systems Revenue Bonds payable from a prior lien on the combined net revenue of the Electric System and the Water and Wastewater System; $523,560,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System; $919,190,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and $340,505,000 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 (as of August 31, 2005) $397,890,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding (as of August 31, 2005) $237,990,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

Obligations Subject to Annual Appropriation

The City has entered into two subleases (the "Subleases") with respect to space to house the Electric Utility and the Water and Wastewater Utility, and $5,545,000 and $3,675,000, respectively, of Certificates of Participation are outstanding (as of August 31, 2005) and payable from payments made under such Subleases. The City anticipates funding the required lease payments from the revenue of the respective utility system, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenue of the Electric System and the Water and Wastewater System are not specifically pledged in such Subleases.

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Valuation and Funded Debt History

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
1995	523,352	$20,958,589,300	$40,046.83	$436,868	$ 834.75	2.08%	100.10%
1996	541,889	23,303,015,047	43,003.30	443,247	817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.47	1.60%	99.23%
2003	674,719	50,759,650,668	75,230.80	788,366	1,168.44	1.55%	99.60%
2004	678,769	48,964,275,008	72,136.88	810,273	1,193.74	1.65%	99.21%
2005	687,061	49,996,299,663	72,768.36	709,330	1,032.41	1.42%	99.60% (3)
2006	695,803	52,405,611,874 (4)	75,316.74	691,712(5)	994.12(5)	1.32%(5)	N/A

(1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31.
(2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget.
(3) Estimated Collections as of June 30, 2005.
(4) Certified Appraised Value, including $4,155,107,316 in property in the appeals process.
(5) Projected. Includes the Obligations.

Tax Rate, Levy and Collection History

Fiscal Year Ended 9-30	Total Tax Rate	Distribution: General Fund	Distribution: Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
1995	$0.5625	$0.3132	$0.2493	$117,892,065	99.00%	100.10%
1996	0.5446	0.3177	0.2269	126,908,220	99.03%	99.91%
1997	0.5251	0.3117	0.2134	135,598,596	98.96%	99.47%
1998	0.5401	0.3304	0.2097	148,490,010	98.80%	99.37%
1999	0.5142	0.3265	0.1877	166,900,834	98.89%	99.57%
2000	0.5034	0.3222	0.1812	179,224,698	99.08%	99.85%
2001	0.4663	0.3011	0.1652	193,138,262	98.98%	99.60%
2002	0.4597	0.3041	0.1556	219,657,867	98.81%	99.23%
2003	0.4597	0.2969	0.1628	233,342,114	98.84%	99.60%
2004	0.4928	0.3236	0.1692	241,295,947	97.87%	99.21%
2005 (2)	0.4430	0.2747	0.1683	221,483,608	98.41%(1)	98.60%(1)
2006 (3)	0.4395	0.2806	0.1589	230,322,664		

(1) Estimated collections as of June 20, 2005.
(2) 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").
(3) Proposed Budget recommendation.

Ten Largest Taxpayers (1)

Name of Taxpayer	Nature of Property	January 1, 2005 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Freescale Semiconductor Inc. (2)	Manufacturing	$ 405,506,101	0.77%
Dell Computer Corporation	Manufacturing	313,288,356	0.60%
IBM Corporation	Manufacturing	264,762,842	0.51%
Southwestern Bell Telephone Company	Telephone Utility	208,006,580	0.40%
CISCO Systems	Manufacturing	178,056,908	0.34%
Spansion LLC (3)	Manufacturing	168,624,586	0.32%
Applied Materials Inc.	Manufacturing	151,550,692	0.29%
Investors Life Insurance	Insurance	102,896,033	0.19%
Simon Property Group	Commercial	101,237,016	0.19%
Samsung Austin Semiconductor (4)	Manufacturing	91,945,500	0.18%
TOTAL		$1,985,874,614	3.79%

(1) Taxable property valuations for the ten largest taxpayers from the July 2005 certified tax roll are lower than last year as a result of a reporting change in personal property from appraised last year to taxable this year. Last year's values for personal property include the Freeport tax exemption. Five of the companies represent computer technology manufacturers.
(2) The Motorola Corporation is now Freescale Semiconductor Inc.
(3) The Advanced Micro Devices corporation is now Spansion LLC.
(4) The Samsung Corporation received an abatement for $73,263,128 in real and personal property value.
Source: Travis Central Appraisal District.

Property Tax Rate Distribution

	Fiscal Year Ended September 30					
	2001	2002	2003	2004	2005 (1)	2006 (2)
General Fund	$.3011	$.3041	$.2969	$.3236	$.2747	$.2806
Interest and Sinking Fund	.1652	.1556	.1628	.1692	.1683	.1589
Total Tax Rate	$.4663	$.4597	$.4597	$.4928	$.4430	$.4395

(1) The City approved a tax rate of $0.5065 which is the effective tax rate. The total tax rate was amended and reduced by 6.35¢ to the level shown 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, resulting 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) Proposed Budget recommendation.

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Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended 9-30	Valuation Date	Real Property Amount	Real Property % of Total	Personal Property Amount	Personal Property % of Total	Net Taxable Assessed Valuation	Total Tax Levy	% Current Collections	% Total Collections
1994	1-1-93	$14,828,873,350	81.30%	$3,408,658,744	18.70%	$18,237,532,094	$113,528,637	98.76%	100.07%
1995	1-1-94	17,350,805,301	82.79%	3,607,783,999	17.21%	20,958,589,300	117,892,065	99.00%	100.10%
1996	1-1-95	19,478,990,278	83.59%	3,824,024,769	16.41%	23,303,015,047	126,908,220	99.03%	99.91%
1997	1-1-96	21,488,717,069	83.21%	4,334,668,188	16.79%	25,823,385,257	135,598,596	98.96%	99.47%
1998	1-1-97	22,693,966,978	82.54%	4,799,091,757	17.46%	27,493,058,735	148,490,010	98.80%	99.37%
1999	1-1-98	27,225,077,724	83.88%	5,233,272,031	16.12%	32,458,349,755	166,900,834	98.89%	99.57%
2000	1-1-99	30,114,175,223	84.58%	5,488,665,103	15.42%	35,602,840,326	179,224,698	99.08%	99.85%
2001	1-1-00	35,257,000,679	85.23%	6,110,383,576	14.77%	41,419,314,286	193,138,262	98.98%	99.60%
2002	1-1-01	40,775,710,666	85.34%	7,007,162,430	14.66%	47,782,873,096	219,657,867	98.81%	99.23%
2003	1-1-02	44,261,013,540	87.20%	6,498,637,128	12.80%	50,759,650,668	233,342,114	98.84%	99.60%
2004	1-1-03	42,832,762,815	87.48%	6,131,512,193	12.52%	48,964,275,008	241,295,947	97.87%	99.21%
2005	1-1-04	43,920,059,913	87.85%	6,076,239,750	12.15%	49,996,299,663	221,483,608	98.41% (1)	99.60% (1)
2006	1-1-05	46,542,536,446	93.09%	5,863,075,428	11.73%	52,405,611,874	230,322,664 (2)	N/A	N/A

(1) Estimated collections through June 30, 2005.
(2) The City approved a tax rate of $0.5065 which is the effective tax rate. As a result of the voter approved new 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").

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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.

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*

Fiscal Year Ending 09/30	Public Improvement Bonds	Certificates of Obligation	Contractual Obligations	Assumed MUDs	The Bonds, The Certificates and The Contractual Obligations (a)	Grand Total Requirements	Less Self-Supporting Requirements (b)	Net Total Requirements	Percent Principal Payout
2006	85,291,064	13,210,989	9,833,584	2,353,724	2,684,774 0	113,374,134	27,815,796	85,558,338	
2007	82,553,905	13,295,039	7,520,178	1,261,653	3,826,605	108,457,379	26,474,550	81,982,829	
2008	75,189,630	13,322,376	6,765,104	1,111,385	5,766,155	102,154,651	25,834,350	76,320,301	
2009	70,366,718	13,403,496	6,647,793	991,463	7,125,430	98,534,899	25,166,670	73,368,229	
2010	74,626,356	12,180,706	5,776,381	997,573	3,653,555	97,234,571	24,970,289	72,264,283	35.44%
2011	72,905,638	12,232,971	4,389,994	1,001,480	3,549,255	94,079,338	23,257,044	70,822,294	
2012	69,363,781	11,969,723	2,018,249	1,003,240	3,573,218	87,928,209	20,612,615	67,315,594	
2013	63,873,795	12,600,023		1,017,960	3,165,336	80,657,114	17,784,629	62,872,484	
2014	60,878,351	9,939,663		1,214,635	2,008,805	74,041,454	13,890,518	60,150,936	
2015	56,929,726	9,599,013		1,213,546	1,147,973	68,890,258	13,719,954	55,170,303	66.57%
2016	52,603,924	9,661,533		1,229,024	1,151,578	64,646,058	13,151,665	51,494,393	
2017	48,928,721	9,710,396		1,011,643	1,373,910	61,024,670	12,787,875	48,236,795	
2018	45,628,690	7,600,144		716,688	1,141,110	55,086,631	8,588,586	46,498,046	
2019	44,102,524	5,629,671			1,141,510	50,873,705	7,051,569	43,822,136	
2020	35,153,411	7,989,546			2,300,805	45,443,763	8,778,547	36,665,216	90.58%
2021	27,987,453	6,852,231			2,316,201	37,155,885	7,148,201	30,007,684	
2022	19,933,544	5,046,659			2,331,993	27,312,195	5,405,914	21,906,281	
2023	12,723,100	2,317,299			2,353,903	17,394,301	2,662,643	14,731,658	
2024	5,784,075	1,961,719			3,960,643	11,706,436	2,360,969	9,345,468	
2025					3,680,305	3,680,305	404,426	3,275,879	100.00%

* As of September 30, 2005

(a) Includes principal and interest on the Bonds, Certificates and Contractual Obligations being issued.

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

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-04) (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 these various taxing bodies.

Taxing Jurisdiction	Total Funded Debt	Estimated % Applicable (2)	Overlapping Funded Debt
City of Austin	$827,580	100.00%	$ 827,580
Austin Independent School District	448,414	79.37%	355,906
Travis County	452,784	71.00%	321,477
Round Rock Independent School District	442,435	5.73%	25,352
Leander Independent School District	418,246	1.25%	5,228
Pflugerville Independent School District	242,642	4.00%	9,706
Eanes Independent School District	106,806	3.89%	4,155
Williamson County	441,595	3.26%	14,396
Del Valle Independent School District	94,070	3.03%	2,850
Manor Independent School District	61,150	1.76%	1,076
Austin Community College	151,180	81.70%	123,514
North Austin Municipal Utility District No. 1	10,335	100.00%	10,335
Northwest Austin Municipal Utility District No. 1	11,911	100.00%	11,911
Northwest Travis County Road District No. 3	4,985	100.00%	4,985
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT			$1,718,471
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (3)			3.51%
Per Capita Overlapping Funded Debt (4)			$2,514.03

(1) Excludes general obligation debt reported in proprietary funds.
(2) Source: Taxing jurisdiction.
(3) Based on assessed valuation of $48,964,275,008.
(4) Based on 2004 estimated population of 683,551.

On May 15, 2004, voters of Travis County (in which the City is located) approved the creation of a countywide hospital district, and authorized the hospital district to levy an ad valorem tax at a rate not to exceed 25 cents per $100 assessed valuation. The hospital district has assumed and is funding health care facilities and services previously provided by the City, and funded from ad valorem taxes assessed to residents of the City and Travis County. In the fiscal year ended September 30, 2005, the City reduced the ad valorem tax rate levied and assessed against property owners of the City as a result of the creation of the countywide hospital district (see "TAX INFORMATION – Tax Rate, Levy and Collection History").

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Authorized General Obligation Bonds

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Brackenridge 2000	10-22-83	$ 50,000,000	$40,785,000	$ 0	$ 9,215,000
Parks Improvements	09-08-84	9,975,000	9,648,000	0	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	0	5,395,000
Park and Recreation Facilities	11-03-98	75,925,000	66,257,000	0	9,668,000
Library, Cultural Arts and Museum	11-03-98	46,390,000	37,720,000	1,755,000	6,915,000
Street Improvements	11-07-00	150,000,000	60,000,000	15,000,000	75,000,000
TOTAL				$16,755,000	$106,520,000

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2006. 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.

2005-2006 Capital Budget

The 2005-2006 five-year Capital Improvement Program (CIP) plan was reviewed by the Planning Commission, the Bond Oversight Committee and other boards and commissions. Public input was received at a public hearing held by the Planning Commission and the Bond Oversight Committee. The plan estimates citywide capital spending in 2005-2006 of $371.0 million in enterprise funds and $119.8 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 2005-06 Capital Budget. Total new proposed appropriation for General Government CIP Funds is $42.7 million and total new proposed appropriation for Enterprise CIP Funds is $327.7 million. Appropriation by department is listed below.

Summary of 2005-2006 Proposed Capital Budget (millions):	
Austin Energy	$ 124.4
Aviation	13.1
Austin Water Utility	166.6
Convention Center	.9
Golf	.2
Solid Waste Services	3.6
Watershed Protection	18.9
Enterprise Appropriations	$327.7
Communications & Technology Management	$ 7.1
Emergency Medical Services	.3
Financial & Administrative Services	4.3
Fire	2.0
Fleet	.5
Library	4.0
Neighborhood Housing & Community Development	1.5
Neighborhood Planning & Zoning	1.9
Parks and Recreation	4.5
Public Works	16.6
General Government Appropriations	$ 42.7
TOTAL PROPOSED NEW APPROPRIATIONS	$370.4

Operating Budget

The City's Home Rule Charter and Texas 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, which were last amended in September 2002. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least $15,000,000 shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than $2,000,000, shall be budgeted annually. The 2005-2006 proposed budget includes revisions to the Financial Management Policies that will increase the General Fund Emergency Reserve Funds from $15,000,000 to $40,000,000. The Contingency Reserve Fund of 1% will remain unchanged. In addition, a General Fund Reserve for Budget Stabilization will be budgeted, initially at $49.1 million. 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.

2005–2006 Budget (Amounts are in thousands)

The 2005-2006 operating budget was presented on July 28, 2005, and was prepared in accordance with guidelines provided by the City Council. The proposed budget includes a tax rate of $0.4395 per $100 assessed valuation, which is above the effective tax rate of $0.4320 but below the nominal rate of $0.4430. The following is a summary of the proposed 2005-2006 General Fund Budget.

Beginning Balance, October 1, 2004 (Budget Basis) (000's omitted)		$ 49,113
Summary of Budgeted General Fund Resources		
Revenue:		
General Property Taxes	$ 145,529	
City Sales Tax	131,178	
Other Taxes	4,324	
Gross Receipts/Franchise Fees	29,425	
Miscellaneous	69,433	
Total Revenue		$379,889
Transfers In:		
Electric Light and Power System	$ 77,420	
Water and Wastewater System	20,238	
Other Transfers	850	
Total Transfers In		$ 98,508
Total General Fund Resources		$527,510
Summary of Budgeted General Fund Requirements		
Departmental Appropriations:		
Administrative Services	$ 9,004	
Urban Growth Management	16,679	
Public Safety	313,445	
Public Works	160	
Public Health and Human Services	28,381	
Public Recreation and Culture	46,319	
Total Departmental Appropriations		$413,988
Transfers Out:		
Support Services Fund	$ 18,280	
Other Funds	32,568	
Total Transfers Out		$ 50,849
Other Requirements		$ 13,560
Total General Fund Requirements		$478,397
Use of Beginning Balance		0
Ending Balance		$ 49,113
One-Time Critical Equipment		$ 16,369
Transfer to/from Budget Stabilization Reserve		$ 32,744
Adjusted Ending Balance		$ 0
Budgeted Reserve Requirements		
Emergency Reserve	$ 40,000	
Contingency Reserve	4,579	
Budget Stabilization Reserve Fund	32,744	
Total Budgeted Reserve Requirements		$ 77,323

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.

GASB Statement No. 34

In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" ("GASB 34"). The objective of GASB 34 is to enhance the clarity and usefulness of the general purpose external financial reports of state and local governments to its citizenry, legislative and oversight bodies, and investors and creditors. The City adopted GASB 34 as of October 1, 2001. While the adoption of GASB 34 altered the presentation of the City's financial information, City staff does not believe that adoption of GASB 34 will have any material adverse impact on the City's financial position, results of operation or cash flows. See APPENDIX B – Excerpts from the Annual Financial Report.

INVESTMENTS

The City invests its available funds in investments authorized by Texas Law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which 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; (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 issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas (effective September 1, 2005, certificates of deposit issued by a depository institution that has its main office or a branch office in the State of Texas) and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

Effective September 1, 2003, 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.

In addition to certificates of deposit described in clause (7) above, effective September 1, 2005, an investment by the City of public funds in certificates of deposit made in accordance with the following conditions will be an eligible investment under Texas law:

(1) the funds are invested by the City through a depository institution that has its main office or a branch office in this state and that is selected by the City;

(2) the depository institution so selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City;

(3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;

(4) the depository institution so selected by the City acts as custodian for the investing entity with respect to the certificates of deposit issued for the account of the City; and

(5) at the same time that the funds are deposited and the certificates of deposit are issued for the account of the City, the depository institution so selected by the City receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the City through such depository institution.

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

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

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

Investment Policies

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

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

Additional Provisions

Under 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, 2005, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	10.3%
U. S. Agencies	61.9%
Money Market Funds	0.5%
Local Government Investment Pools	26.1%
Commercial Paper	1.2%

The dollar weighted average maturity for the combined City investment portfolios is 1.08 years. The City prices the portfolios weekly utilizing a market pricing service.

GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

(in 000's)

	Fiscal Year Ended September 30				
	2000	2001	2002	2003	2004
Revenues:					
Taxes (1)	$240,664	$251,750	$262,190	$264,511	$277,774
Franchise Fees	23,699	31,453	29,589	28,962	32,964
Fines, Forfeitures and Penalties	16,040	17,000	17,704	16,966	16,976
Licenses, Permits and Inspections	18,174	17,631	14,670	14,737	15,317
Charges for Services	11,758	14,984	15,579	15,403	15,565
Interest and Other	9,410	10,584	6,028	19,815	19,168
Total Revenues	$319,745	$343,402	$345,760	$360,394	$377,764
Expenditures:					
Administration	$ 8,976	$ 9,426	$ 9,282	$ 8,909	$ 8,199
Urban Growth Management	10,189	11,569	10,882	11,638	10,246
Public Safety	191,592	210,281	237,590	254,684	262,086
Public Services and Utilities	6,098	9,520	9,191	9,380	8,669
Public Health	41,032	41,437	43,655	46,061	15,728
Public Recreation and Culture	44,205	47,460	46,696	45,193	43,255
Social Services Management	9,387	8,071	10,448	9,985	9,579
Nondepartmental Expenditures	53,459	57,857	62,493	47,029	46,983
Total expenditures	$364,938	$395,621	$430,237	$432,879	$404,745
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	$ (45,193)	$ (52,219)	$ (84,477)	$ (72,485)	$ (26,981)
Other Financing Sources (Uses):					
Capital Leases	$ 0	$ 0	$ 0	$ 785	$ 634
Transfers from Other Funds	78,352	86,283	137,084	92,417	95,894
Transfers to Other Funds	(31,294)	(29,992)	(9,424)	(21,129)	(48,766)
Net Other Financing Sources	$ 47,058	$ 56,291	$127,660	$ 72,073	$ 47,762
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	$ 1,865	$ 4,072	$ 43,183	$ (412)	$ 20,781
Residual Equity Transfer In (Out)	251	(500)	0	0	(7,700)
Fund Balances at Beginning of Year	42,394	44,510	50,435 (2)	93,618	93,206
Fund Balances at End of Year	$ 44,510	$ 48,082	$ 93,618	$ 93,206	$106,287

(1) Consists of property, sales and mixed drinks tax.
(2) Beginning fund balance adjusted for implementation of new accounting principle.

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CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

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

Fiscal Year Ended 9–30	Per Capita Sales and Use Tax	(in 000's) Sales and Use Tax	% of Ad Valorem Tax Levy
1994	$149.33	$ 75,780	66.75%
1995	153.77	80,475	68.26%
1996	154.43	83,681	65.94%
1997	157.15	88,150	65.01%
1998	160.44	97,581	65.72%
1999	172.59	106,839	64.01%
2000	194.31	122,157	68.16%
2001	186.23	123,218	63.80%
2002	172.03	115,441	52.55%
2003	163.70	110,454	47.34%
2004	173.44	117,725	48.79%
2005 (1)	180.12	123,753	55.87%
2006 (2)	188.53	131,178	56.95%

(1) Estimate.
(2) Estimate used in FY 2006 Proposed Budget.

Transfers From Utility Funds

The City owns and operates a Waterworks 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 Ended 9–30	(in 000's) Transfers	% of General Fund Requirements
1994	$67,914	29.7%
1995	71,111	28.5%
1996	73,583	26.0%
1997	71,450	24.6%
1998	72,721	23.4%
1999	74,204	21.7%
2000	78,352	21.5%
2001	85,824	21.7%
2002	88,924	21.7%
2003	92,417	20.3%
2004	95,894	21.1%
2005 (1)	94,117	20.9%
2006 (2)	97,658	20.4%

(1) Estimate.
(2) Estimate used in FY 2006 Proposed Budget.

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 condensed summary of the revenues, expenses, transfers and retained earnings of the City's enterprise funds for the year ended September 30, 2003.

THE ELECTRIC UTILITY SYSTEM

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") which provides the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric services. 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 City recently completed a new 300 MW combined cycle gas fired plant. The plant began commercial operation on September 1, 2004. The Electric Utility System had approximately 1,471 full-time regular employees as of September 30, 2004.

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 future success. The first is an overarching or "umbrella" strategy that addresses Risk Management. Under this strategy, Austin Energy will carefully manage its exposure when considering future courses of action. This approach allows Austin Energy to prepare for future options without prematurely investing and allows for more information to become known before major commitments are made.

Excellent Customer Service is the second strategy. Under this strategy Austin Energy will build employee and customer satisfaction so that it is positioned for competition or regulation whichever occurs in the future.

The third is the Energy Resource strategy. Under this strategy Austin Energy will first seek 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 will not prematurely commit to unproven technologies; however, it will pursue a leading-edge position that will allow Austin Energy to readily identify, evaluate and deploy emerging renewable technologies.

Five objectives were identified to support the strategy including:

- Customer Satisfaction - Austin Energy will be proactive in developing an understanding of our customers by monitoring indicators and conducting customer surveys. Austin Energy's target is a customer satisfaction score of 83/100 by 2010. Austin Energy will prepare its employees to work successfully in a competitive environment by providing the skill development and information necessary to make informed business decisions. Austin Energy targets an employee satisfaction index showing a 10% improvement in positive responses on the City's Listening to the Workforce Survey by 2010.
- Economic Development - Austin Energy will create and sustain economic development by providing contract opportunities for local businesses, attracting new businesses, and supporting the development of a clean energy industry. Austin Energy plans to exceed the City of Austin MWBE goals by 2008.
- Exceptional Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages. The targets are to be met by 2005.
  - SAIFI (system average interruption frequency index) = 0.8 interruptions per year
  - SAIDI (system average interruption duration index) = 60 minutes per year
- Maintain Financial Integrity - Austin Energy plans to achieve an "AA" (Standard & Poor's) Credit Rating by 2010 on its separate lien revenue bonds. Austin Energy provides a return to its citizen owners in the form of financial support for local government.
- Renewable Portfolio Standard - Austin Energy will continue its nationally recognized renewable resources and Green Building programs. By 2020, Austin Energy will achieve a Renewable Portfolio Standard of 20% and

15% demand side management. Austin Energy will demonstrate its commitment to solar energy by implementing a Solar Rebate Program and conducting a study to determine the comprehensive value of solar energy.

The strategic plan includes an ongoing review process that will occur at least annually. The review will examine changing industry trends and recommend course corrections where necessary as well as the effectiveness of current initiatives and recommend adjustments to better meet the strategies and objectives of Austin Energy.

At the end of June 2005, Austin Energy's (AE's) rolling 12 month reliability indices stood at 66.52 minutes/customer for SAIDI and 0.90 interruptions/customer for SAIFI. AE had an early and active Spring 2005 storm season which drove both reliability indices higher. Since the spring, both indices have been trending downward. AE is continuing its reliability improvement efforts such as distribution system tree trimming and system restoration process improvements and expects that the Reliability 2005 goals are still achievable by the end of FY2005.

Conventional System Improvements

In September 2004, the 2005-09 Capital Improvements Spending Plan was approved by the City Council in the amount of $534,483,000. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and commercial paper.

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

In 2004, Austin Energy installed a 95 MVA Static Synchronous Compensator (STATCOM) to facilitate the closing of the aging Holly Power Plant. The STATCOM helps maintain adequate system reliability without the need for Holly generation. The 2004 capital budget was $7.9 million for transmission and substations that are recoverable through Transmission Cost of Service ("TCOS").

In 1995, the Public Utility Commission of Texas ("PUCT") adopted new rules governing the transmission system in Electric Reliability Council of Texas ("ERCOT"), which, at the time, was an organization made up of major investor-owned and municipal systems, a state river authority, a municipal joint agency, energy marketers, independent power producers and a number of cooperatives. As part of these new rules, the PUCT established a means for the transmission owners in ERCOT to recover TCOS. TCOS is based on the principle of equal transmission access for all loads and generation in ERCOT. Each load serving entity in ERCOT has been assigned a share of the total cost of transmission in ERCOT based upon the ratio of that load serving entity's load to the entire load in ERCOT. The funds recovered through this mechanism are distributed to transmission owners in ERCOT based upon a ratio of the transmission owner's investment in transmission facilities to the entire transmission investment in ERCOT. Austin Energy's load represents approximately 3.82% of ERCOT and Austin Energy's TCOS is approximately 3.85% of ERCOT's total TCOS. For calendar year 2005, this will result in net revenue of $300,000 from TCOS. For a further discussion of current transmission rates see "Rate Regulation".

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

Austin Energy is interconnected with LCRA, with whom Austin Energy has a power interchange agreement. Austin Energy is also interconnected with Reliant Energy, Inc. (formerly Houston Lighting & Power Co., and referred to herein as "Reliant"), City Public Service Board of San Antonio and American Electric Power. Austin Energy is a member of

ERCOT. As a participant in ERCOT, Austin Energy is able to provide and be provided with a reliable backup supply of generation under emergency conditions. The diversification of fuel sources of the member systems increases the potential for economic interchanges among the respective systems. Sale and purchase transactions generally maximize the use of the less expensive fuel sources by all members of the interconnected system.

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

Rate Regulation

The City's rates, except for wholesale transmission, are regulated by the City Council. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act ("PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City's corporate limits.

The Texas courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction.

The Electric Utility System of the City initiated a local rate proceeding in response to the increasing competitive nature of the electric utility industry. Austin Energy proposed a reduction or elimination of certain rates, the creation of new tariffs, and amendment of existing tariffs and the customer service regulations. The changes were designed to offer customers more choice and value. Basic electric rates did not increase as a result of the proposed changes. The last increase in base rates was in 1994. The City Council approved most of the proposals in December 1996 and March 1997.

In 1995, PURA was amended as it pertains to the PUCT's original jurisdiction over the City's provision of wholesale transmission service. The PUCT now has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. 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, discriminatory, predatory, or anti-competitive. The PUCT adopted rules relating to wholesale transmission service. The City participated in the rulemaking. The current rules have been challenged in two original petitions filed by Reliant and City Public Service Board of San Antonio seeking a declaratory judgment holding the transmission pricing methodology in the PUCT's new transmission rules invalid and seeking a remand of the rulemaking. The City intervened in the proceedings in defense of the rulemaking. The two proceedings were consolidated and on April 20, 1998, the 98th District Court of Travis County entered final judgment against the plaintiffs, declaring the PUCT rules to be "valid, constitutional, and fully effective." The plaintiffs then appealed to the Third Court of Appeals in Austin. On January 6, 2000, the Third Court of Appeals invalidated those parts of the PUCT rules dealing with transmission rates, reversing the trial court and rendered judgment for the appellants. The City and others petitioned the Supreme Court of Texas for a review of the Third Court of Appeals opinion and the Supreme Court issued a ruling on June 28, 2001 affirming the ruling of the Third Court of Appeals. The PUCT has not taken any action based on the Supreme Court's ruling. However, Reliant and City Public Service Board of San Antonio filed two separate actions in Travis County District Court in January 2002 seeking a declaration by the court as to the amount of refunds due to them as a result of the ruling by the Supreme Court. The City Council approved a proposed settlement of the case in August 2003. The settlement has been presented to the PUCT for consideration. It is unknown when the PUCT will consider the settlement.

Austin Energy filed a wholesale transmission rate increase request with the Public Utility Commission of Texas (PUCT) on August 5, 2005. The PUCT has original jurisdiction over the wholesale transmission rates of Austin Energy. If approved, the increase would generate an additional $14.9 million or a 35.5% increase above existing approved wholesale transmission revenues of $41.8 million. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

An Independent System Operator ("ISO") was established for ERCOT as a part of the rules that were adopted by the PUCT to open access to the wholesale electric market in Texas and was approved by the PUCT on August 21, 1996. The ISO received approval on May 5, 2000, of its certification under Senate Bill 7 ("SB7"). The ISO's primary mission is to act as an impartial third party operator and planning coordinator for the ERCOT bulk electric system. The City is a member of ERCOT.

In addition, the 1995 PURA revisions required the creation of a committee to investigate the most economical, reliable and efficient means to interconnect the alternating current electric facilities of ERCOT to similar electric utility facilities within the Southwest Power Pool reliability area. A final report was issued to the Legislature during the 1999 session. No further action has been taken on interconnection by the Legislature.

During the 1999 Legislative Session PURA was amended by SB 7 providing for deregulation of the electric utility industry in Texas. SB 7 opened retail competition for investor owned utilities beginning January 1, 2002. SB 7 allows local authorities to choose when to bring retail competition to their Municipally Owned Utilities ("MOU"), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to "opt in" for retail competition is adopted by the municipal utility's governing body, the decision is irrevocable.

General Market Framework: There is a strong ISO established, with clear and enforceable market power protections: no utility can control more than 20% of ERCOT generation. Starting on January 1, 2002, a "Price-to-Beat" for the incumbent Investor Owned Utilities (IOU) rates includes a 6% reduction through 2005 or until 40% of IOU residential and small commercial customers choose a new supplier. There are protections against over-recovery of stranded investment by IOUs and protections against anti-competitive practices and predatory pricing. Retail competitors are required to sell to the residential market (minimum 5% of their business with residential if they sell more than 300 MWs). The air quality provisions require clean up of older "grandfathered power plants."

MOUs Which *Do Not* Choose Retail Competition

- There is no retail choice for MOU customers. MOU cannot sell at retail outside its area.
- Current regulatory scheme continues.
- Continued MOU access to buy and sell power in the wholesale market.

MOUs Choosing Retail Competition On or After January 1, 2002

(City councils or governing boards make an affirmative choice to bring retail competition to their MOU)

- Retail competitors can sell "generation" to MOU customers. MOU provides "wires" access to its distribution system for Retail Electric Providers, other MOUs and Electric Cooperatives. MOU has an "obligation to connect" and provides wire services and local reliability. Wires are not subject to competition.
- MOU can sell at retail outside its service area, per prevailing market rules.

MOU Local Control Preserved

- Exclusive MOU jurisdiction to set local distribution and other rates. Local wires services and rates remain in exclusive jurisdiction of the MOU.
- Local determination of the stranded investment amount and recovery mechanism.
- MOUs are not required to unbundle (structurally separate functions).
- Local authorities determine and provide customer services and protections.
- Local control of MOU power resource acquisition.
- Customers in multi-certified areas cannot switch wires companies to avoid stranded investment charges.
- Securitization is available to MOUs.

Participation By MOU In Markets Outside Its Area

- Limited PUCT jurisdiction over terms and conditions for access, not rates.
- Subject to market power limits and PUCT anti-competitive code of conduct.

Metering And Billing

- MOU retains metering.
- Customers with another generation supplier choose either one consolidated bill from the MOU, or two separate

bills (one for wires, one for generation).

- Under SB 7, a System Benefit Fund will be established for consumer education programs, low-income customer programs and loss of tax revenue by school districts resulting from a devaluation of generation assets in the competitive market. A system benefit fee will be added to the utility bills of IOU customers to provide funding for the System Benefit Fund. MOUs are not required to bill their customers this system benefit fee until six months prior to the MOU "opt-in" date, if the MOU governing body elects to "opt-in." The System Benefit Fund will expire September 2007.

Other Key MOU Provisions

- Existing contracts are preserved. Tax-exempt status is preserved. MOU "competitiveness provisions" were included in SB 7 to "level" the field for MOUs when preparing for competition including relaxation of open meetings/records and purchasing provisions. No mandated MOU rate reductions.
- The City has not yet made a decision whether to "opt in" for retail competition or not, and the City cannot predict the short term or long term impact on the Electric Utility System or its revenues resulting from a decision to "opt in" or not, or resulting from the deregulation process in general.

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.

Service Area

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

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

Federal Regulation

Rate Regulation and Wholesale Wheeling . . . Austin Energy is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy under current Federal statutes and regulations. Austin Energy submits various reports to FERC and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records. On April 24, 1996, the FERC issued a Final Rule (the "Rule") proposing significant changes regarding transmission service performed by electric utilities subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Among other things, the FERC requires utilities to submit open-access, mandatory transmission tariffs. The goal of the Rule, according to the FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner's control of its transmission system.

Although municipally-owned utilities, including Austin Energy, are not subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act, the proposals in the Rule could have a significant effect on those utilities. The FERC stated that its overall objective was to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. The FERC also indicated that it intends to apply the principles set forth in the Rule to the maximum extent to municipal and other non-jurisdictional utilities, both in deciding cases brought under sections 211 and 212 of the Federal Power Act and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

According to the Rule, an open access transmission tariff must provide for functional unbundling of utility service, so that the filing utility will be obliged to purchase transmission service to meet its native load under the same transmission tariff it offers to others. A conforming tariff must be available to any entity eligible to request a section 211 order, must provide for expansion of the transmission system when necessary to provide service, must offer firm point-to-point and network service as well as non-firm transmission service, and must offer to provide such ancillary services (e.g., reactive power, loss compensation, scheduling and dispatch, system protection and energy imbalance services) as the transmission provider provides to itself. Transmission capacity must be subject to reassignment and sale on a secondary market. Transmission owners must also make available to potential users an index of capacity owners and information about the transmission capacity available for sale.

The FERC also ruled that it will permit utilities that file conforming open access transmission tariffs to recover their legitimate and verifiable stranded costs from wholesale sales customers who had been parties to sales contracts executed before July 11, 1994 which did not contain an exit fee or other provision relating to stranded cost recovery and who exercised their option to become transmission customers and purchase their electricity needs off-system. In order to recover stranded costs, the FERC said, a utility would be required to demonstrate that it had a "reasonable expectation" of continuing to serve the former customer's requirements for electric sales service and would also be required to demonstrate that it had attempted to mitigate its stranded costs.

Recovery of stranded costs resulting from retail wheeling initially would be the responsibility of state regulatory commissions, which could not permit such recovery in interstate transmission rates but must, instead, use such mechanisms as a surcharge upon rates for local distribution or an exit fee for departing retail customers to compensate utilities for stranded costs stemming from retail wheeling. If, however, a state commission lacked legal authority to provide for compensating utilities for stranded costs resulting from retail wheeling or if the stranded costs result from a formerly retail sale customer becoming a wholesale customer (e.g., by municipalization), the FERC itself would permit the recoverable stranded costs to be recovered in interstate transmission rates.

Although the Rule does not directly regulate non-jurisdictional utilities such as Austin Energy, the Rule could have a significant impact on such utilities' operations. It could significantly change the competitive climate in which they operate, giving their customers much greater access to alternative sources of electric sales service. It would require them to provide open access transmission service conforming to the requirements for investor-owned utilities whenever they are properly requested to do so under sections 211 and 212 of the Federal Power Act or as a condition of taking transmission service from an investor owned utility. In certain circumstances, it would require non-jurisdictional utilities to pay compensation to their present suppliers of wholesale power and energy for the stranded investment that may arise when the non-jurisdictional utilities exercise their option to switch to an alternative supplier of electricity.

On December 20, 1999, the FERC issued "Order No. 2000" (the "Order") related to the formation of voluntary Regional Transmission Organizations ("RTOs"). The Order requires all utilities subject to the FERC's authority under section 205 (Rates and Charges; Schedules; Suspension of New Rates) and 206 (Fixing Rates and Charges; Determination of Cost of Production or Transportation) of the Federal Power Act to file by October 2000 a proposal to participate in an RTO or an alternative describing plans to participate in an RTO. The essential characteristics of an RTO are its independence from individual market participants, a regional scope, operational authority of transmission facilities under the RTO's control, and authority over short-term system reliability. The essential functions of an RTO are tariff administration, congestion management, parallel path flow, administering ancillary services, operating Open Access Scheduling Information System ("OASIS"), market monitoring, planning and expansion, and interregional coordination. In their October 2000 compliance filings, utilities proposed RTOs across the country incorporating a wide variety of organizational forms. RTO proposals will be reviewed by the FERC for approval.

Austin Energy is not subject to the FERC's jurisdiction under section 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization that is similar to the RTOs envisioned in Order 2000 and which predates Order 2000 by several years. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas' electric market. The ISO formed by ERCOT in 1996 and mandated by State law in 1999 carries out many of the functions of the RTO discussed in Order 2000.

Environmental

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 maintains a staff of educated and trained environmental compliance professionals that are responsible for establishing and maintaining compliance programs throughout the utility. Environmental Services has determined the 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. Environmental Services 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.

Air Emissions . . . Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power production facilities. All of Austin Energy's large generating units have been issued Federal Operating Permits and Federal Acid Rain Permits for the individual units by the TCEQ and 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 SB 7, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 TAC 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). All of Austin Energy's then operational units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. The SB 7 permitting program instituted a "cap and trade" program for NOx emissions. "Grandfathered" units were allocated allowances of NOx based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit. Austin Energy's SB 7 permitted units must have enough SB 7 emission allowances available to cover the actual emissions from these units on a yearly basis. 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.

In addition to the SB 7 degrandfathering program, Austin Energy has made voluntary commitments to cap the emissions of NOx from Decker, Holly and Sand Hill to a total of 1500 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 first compliance year under the SB 7 program has just come to an end and our emission total was several hundred tons below the 1500 ton total.

The TCEQ has also implemented further NOx reductions under 30 TAC 117 which will primarily impact Austin Energy's coal burning Fayette Power Plant Units 1 and 2, in each of which Austin Energy owns a 50% interest. The TCEQ is requiring that units affected by this rule to reduce NOx to 0.165 lb/mmbtu or less by 2005. Modifications have been made to the units and current emission rates are far below the standard. Furthermore, Austin Energy and the co-owner, LCRA have agreed under a flexible permit arrangement with the TCEQ and EPA to place SO2 scrubbers on Units 1 and 2 by 2012. In return, Fayette Power Plant is allowed to make modifications and perform maintenance on the units without having to first obtain permission from TCEQ.

Water

Wastewater discharges are regulated pursuant to the Clean Water Act National Pollution Discharge Elimination System ("NPDES"). Stormwater run-off is similarly regulated. The USEPA has granted the TCEQ authority to implement these programs in Texas. Austin Energy's larger power generation facilities have NPDES and Stormwater Permits, which require monitoring and limitations of discharges. USEPA has also finalized regulations for cooling water intake structures on existing facilities. These regulations will affect all Austin Energy power plants with intake structures. Austin Energy will conduct studies over the next several years to determine the most cost effective methods for compliance with these new regulations.

Other

Austin Energy has implemented a program for removing distribution electrical equipment at risk for having polychlorinated biphenyls (PCBs) from its service area. Austin Energy crews are testing electrical equipment for PCBs and removing equipment found to have PCBs. Austin Energy has increased the inspections of its underground distribution system and is replacing rusted pad-mounted transformers that pose a risk for spills. Furthermore, substation equipment and soils are routinely tested prior to construction activities in the event that there is contamination from historical activities. Austin Energy will complete the decommissioning of the Seaholm Power Plant in the next year, which includes the removal of contaminated concrete and paint from inside the building.

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

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 still 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 expired on August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $10.76 billion per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100.59 million, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

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

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

The owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses. The $2.75 billion of nuclear property insurance consists of $500 million in primary property damage insurance and $2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $26.8 million during any one-policy year.

Finally, the NRC maintains its regulations setting forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the required report to the NRC which was based on the minimum amount for decommissioning as required by the NRC regulations of $105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with Bank One, National Association (now JPMorgan Chase Bank, National Association). The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at September 30, 2004 was $101,808,700. For Fiscal Year 2005, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense.

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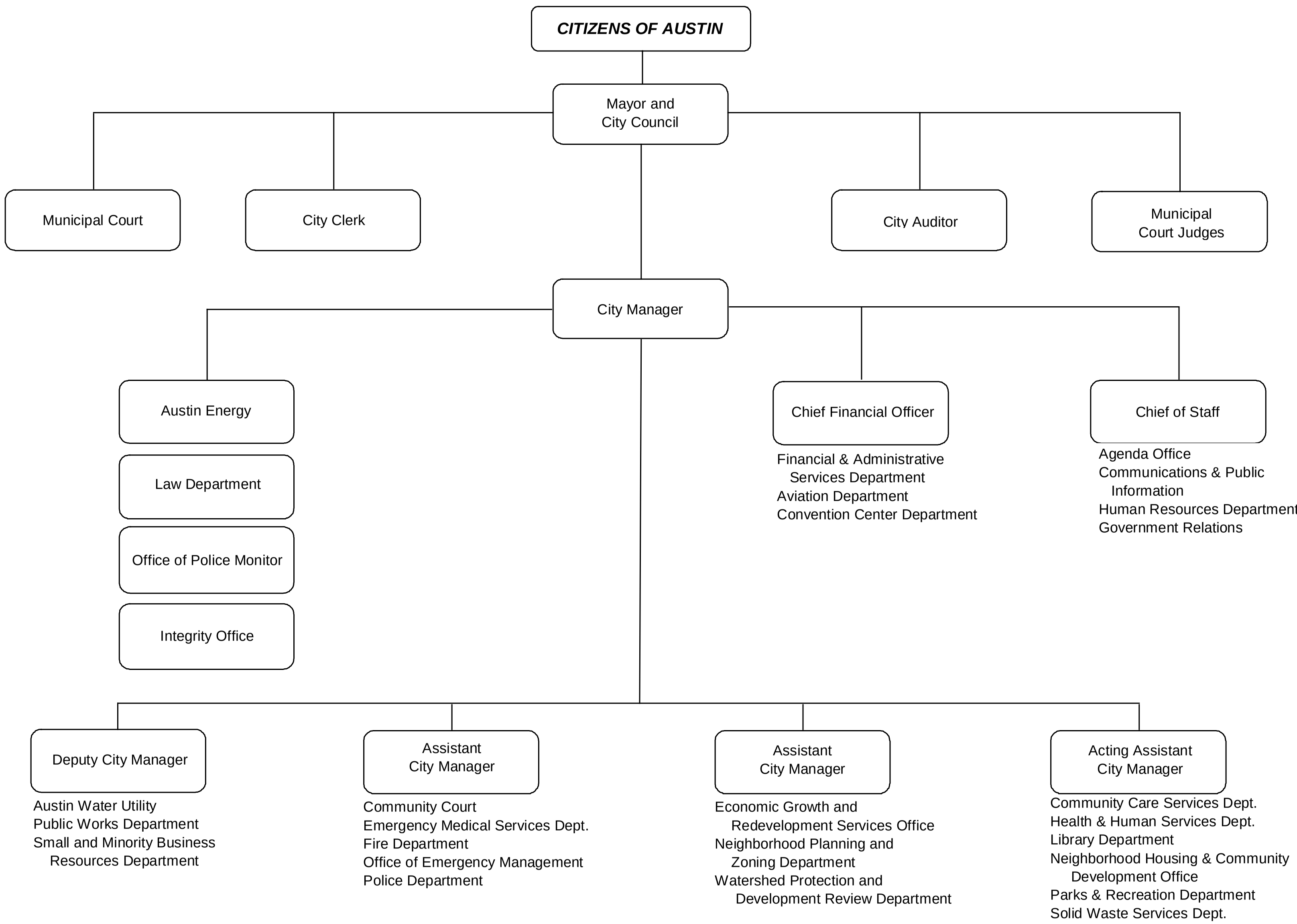
CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

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

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Toby Hammett Futrell was appointed City Manager on May 1, 2002.

City Manager – Toby Hammett Futrell

Ms. Futrell received her Masters of Business Administration from Southwest Texas State University and a Bachelor of Liberal Studies from St. Edward's University. Her career with the City of Austin organization spans more than 25 years and started with an entry-level position in the Health and Human Services Department. In 1996, Ms. Futrell was appointed Assistant City Manager and assumed the position of Deputy City Manager in February 2000, prior to becoming City Manager.

Chief Financial Officer – John Stephens, CPA

Mr. John Stephens received his B.A. and M.A. in Spanish from University of Texas at Arlington, and M.A. in linguistics from University of Michigan – Ann Arbor. He taught Spanish and English as a Second Language for approximately ten years before receiving a M.B.A. from University of Texas – Austin in 1983. Mr. Stephens served as Auditor, Senior Staff Accountant and Controller prior to his appointment as Chief Financial Officer.

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. In addition, the City owns a hospital which is operated by The Daughters of Charity Health Services of Austin under the terms of a long term lease.

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.

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 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.

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 those 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 the net revenues, if any, derived from the operation of its water and sanitary sewer systems. Texas law generally requires that districts be annexed in their entirety. Upon dissolution, the City assumes the district's outstanding bonds and other obligations and levies and collects on taxable property within the corporate limits of the City ad valorem taxes sufficient to pay principal of and interest on such assumed bonds.

The City also assumes liabilities when it annexes land in Emergency Services Districts ("ESD") and that territory is disannexed from the ESD. This liability, however, is limited to a pro-rata share of debt and 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. The City annexed over 20,000 acres of territory for limited purposes in 1984 and has developed annual Strategic Annexation Programs since 1987. These programs prioritized areas to be considered for annexation at the end of the calendar year, thereby minimizing the fiscal impact to the City due to annexation.

The following table sets forth (in acres) the annual results of the City's annexations since 1995. Negative numbers reflect disannexations in excess of acreage annexed.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
1995	(1,748)	2,770
1996	3,163	0
1997	15,083	0
1998	2,660	1,698
1999	90	588
2000	4,057	4,184
2001	3,908	15
2002	2,019	1,957
2003	3,253	0
2004	1,114	7,030

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

Legislative action required the City to convert the Harris Branch and Moore's Crossing MUDs from full purpose to limited purpose status in 1995. In 1998, the full purpose reannexation of the Harris Branch MUDs is reflected in the table above.

Recent Annexation

Over 6,000 acres northwest of the City, known as the Robinson Ranch area, and the 748 acre Ribelin Ranch area, were annexed for limited purposes in June 2004. The Onion Creek area, annexed for full purposes in 2003, added over 1,200 acres, 3,000 residents and $190 million in taxable assessed value ("TAV") to the City of Austin. Total estimated TAV annexed in 2003 equaled over $375 million.

Approximately $37 million in TAV and over 2,100 new residents were added to the City as a result of the 2002 annexation of the Canterbury Trails subdivision in southwest Austin. Other 2002 annexations included right-of-way tracts, additional tracts in the Avery Ranch subdivision located in Williamson County, and other undeveloped tracts. The Wildhorse Area near Decker Lake was annexed for limited purposes in February 2002.

The Del Valle area, located near Austin-Bergstrom International Airport ("ABIA"), was converted to full purpose annexation status in September 2001, and added approximately 2,000 residents to the City. Sections of the Avery Ranch Area were also converted to full purpose status. Other areas annexed in 2001 included over 700 acres of privately owned preserve land, some developed single family, multi-family and office tracts and other undeveloped acreage.

The 1998 re-annexation of the Harris Branch MUDs added $50.4 million in TAV and a population of 1,575 to the City of Austin.

Ten MUDs were annexed by the City of Austin in December 1997, adding over $1.034 billion in TAV and a population of 22,432 to the City. These MUD annexations were a part of the 1997 annexation plan, which added a total of over $1.691 billion in TAV and a population of 29,131 to the City. Some of the annexed areas continue to experience growth along with increased TAV. Litigation related to some of the areas annexed in 1997 was settled in 2000. There are no longer any challenges to the 1997 annexations of the Circle C MUDs.

Future Annexation

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

- Avery Ranch – sections of limited purpose area will continue to be converted to full purpose status;
- Walnut Creek Area – full purpose annexation of limited purpose area northeast of Austin scheduled for 2005;
- Wildhorse Ranch – limited purpose area with conversions to full purpose expected to begin in 2005;
- Anderson Mill MUD and adjacent areas – annexation postponed until December 2008 per terms of the amended SPA; and
- Springwoods MUD and adjacent areas – annexation postponed until December 2007 or later per terms of the amended SPA (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects).

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 9.0% and the City contributes 18% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 15.7% of payroll, the City contributes 18.05%.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund over 28.6 years and the Firefighter's Fund over 33.7 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2003, was $1,551,830,802. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2003, was $413,965,000. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2003, was $452,668,849. Actuarial studies were performed for the Municipal Employees Fund, Firefighter's Pension Fund and the Police Officer's Fund as of December 31, 2003. The Municipal Employees Fund had an infinite funding period at year end 2003, and various methods of restoring actuarial soundness are currently being evaluated. See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

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 insurance and $1,000 of life insurance for the retired employee only. 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 recognizes the cost of providing these benefits to employees and retirees by expensing the City contributions to the Health Benefits Fund in the year in which the contributions are made. Total contributions were $49,327,000 in 2003 and $47,235,000 in 2002. The cost for providing those benefits for 4,079 retirees and 9,949 active employees in 2003 and 2,090 retirees and 9,905 active employees in 2002 is not separable.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third 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 $13.2 million for claims and damages at the end of fiscal year 2004. 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 of the Ordinances, the City has made the following agreement for the benefit of the respective 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 certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports – The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all the quantitative financial information and operating data with respect to the City of the general type included (i) in the portions of the financial statements of the City appended to the Official Statement as APPENDIX B, but for the most recently concluded fiscal year end and (ii) in the main text of the Official Statement under the subcaptions: "Tax Valuation" with respect to the appraised value as of January 1 during the fiscal year as to which such annual report relates, "Valuation and Funded Debt History," "Tax Rates, Levy and Collection History," "Ten Largest Taxpayers," "Property Tax Rate Distribution," "Current Investments," "General Fund Revenues and Expenditures and Changes in Fund Balance," "Municipal Sales Tax," and "Transfers From Utility Funds". The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year ending in or after 2005 unless otherwise noted above. The City will provide the update information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2–12 (the "Rule"). The update 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 unaudited financial statements by that time and 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 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

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

Any such filing may be made by the City solely by transmitting such filing to the Municipal Advisory Council of Texas (the "MAC") as provided at http://www.disclosureusa.org, unless the SEC has withdrawn the interpretive advice stated in its letter to the MAC dated September 7, 2004.

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

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

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

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the City amends its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data will be provided.

Compliance with Prior Undertakings – The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

TAX MATTERS

Opinion

On the date of initial delivery of each series of the Obligations, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date hereof ("Existing Law"), (1) interest on each series of the Obligations for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the 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 Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations. See APPENDIX C - Form of Bond Counsel's Opinions.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, and (b) covenants of the City contained in the documents authorizing each series of the Obligations relating to certain matters, including arbitrage and the use of the proceeds of the Obligations and the property financed therewith. Although it is expected that each series of the Obligations will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of any series of the Obligations could be affected by future events. However, future events beyond the control of the City, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on any series of the Obligations 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 Obligations in order for interest on the 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 Obligations to be included in gross income retroactively to the date of issuance of the 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 Obligations.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The 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 such 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 Obligations.

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

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of any series of the Obligations (referred to herein as the "Original Issue Discount Bonds"), may be less than the principal amount thereof or one or more periods for the payment of interest on of the Obligations may not be equal to the accrual period or be in excess of one year. 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 each series of the Obligations, less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

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

Collateral Federal Income Tax Consequences

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

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

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

Interest on the 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. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding $175,000), of the taxpayer’s “alternative minimum taxable income,” if the amount of such alternative minimum tax is greater than the taxpayer’s regular income tax for the taxable year.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the 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 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.

State, Local and Foreign Taxes

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. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

OTHER RELEVANT INFORMATION

Ratings

The Obligations have received ratings of "AA+" by Standard & Poor's Rating Services, a Division of The McGraw-Hill Companies ("S&P"), "AA+" by Fitch Ratings, Inc. ("Fitch") and "Aa2" by Moody's Investors Service, Inc. ("Moody's"). Additionally, the Bonds maturing in each of the years 2020 through 2025, inclusive, will be rated "AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's as a result of a municipal bond insurance policy delivered by Ambac Assurance. The Certificates and the Contractual Obligations will also be rated "AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's as a result of municipal bond insurance policies delivered by MBIA (see "BOND INSURANCE"). The presently outstanding tax supported debt of the City is rated "AA+" by S&P, "AA+" by Fitch and "Aa2" 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

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

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 Public Funds Investment Act (Texas Government Code, Chapter 2256), the Obligations may have to be assigned a rating of "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 issuance of each series of 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 the 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" herein, including the alternative minimum tax consequences for corporations. 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 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 description 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. In connection with the transactions described in this Official Statement, Bond Counsel represents only the City.

Financial Advisor

Public Financial Management ("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.

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, 2005.

/s/ Will Wynn
Mayor
City of Austin, Texas

ATTEST:

/s/ Shirley A. Brown
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

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six Council Members. The Mayor and Council Members are elected at large for three-year staggered terms with a maximum of two consecutive terms. A petition signed by a minimum 5% of voters waives the term limit for a Council Member. 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 a population of 683,551 in 2004. Over the past ten years, Austin's population has increased by approximately 160,000 residents, an increase of 30.6 percent. Geographically, Austin consists of approximately 290 square miles. According to the 2000 Census, Austin has a median household income of $42,689 and a per capita income of $24,163.

Austin is frequently recognized as a great place to live and/or work, with one of the most recent commendations in *Forbes Magazine*, which listed Austin as one of its "top ten places for business". In October 2004, *Fortune Magazine* recognized Austin as one of its "five dream retirement towns". *MovieMaker* magazine ranks Austin number one in its "top ten cities for moviemakers to live and make movies" in 2004, moving Austin up from number four in its 2003 ranking. In the latest data from the FBI "2003 Crime in the U.S." report, Austin is ranked the third safest city among cities with a population of 500,000 or more with respect to violent crime.

Austin has long attracted a variety of people, and the reasons that draw people to the City are varied. The area has a natural beauty and a first-rate parks department that administers a number of public outdoor recreational facilities, including neighborhood parks, greenbelts, athletic fields, golf courses, tennis courts, a veloway for bicyclists and in-line skaters, miles of hike and bike trails and striped bike lanes, a youth entertainment complex and swimming pools. In October 2004, the Parks and Recreation Department received the National Recreation and Parks Association's 2004 Gold Medal Award as the best parks and recreation system in the nation.

Residents of Austin enjoy many outdoor events, including art, music, and food and wine festivals; races and bicycle rides; and the nightly flights of the world's largest urban bat colony. Indoor events vary from music to museums to ice hockey, art galleries, and include an opera facility and a wide variety of restaurants and clubs. Long recognized as the "live music capital of the world," Austin boasts more than 120 live music venues, and is home to the annual South by Southwest (SXSW) music, film and interactive festivals each spring as well as the Austin City Limits Festival each fall.

The educational opportunities in Austin have long drawn people to the city. Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with approximately 40.6 percent of adults holding a bachelor's or advanced degree. With its seven institutions of higher learning and more than 113,000 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin (UT), the largest public university in the nation, is known as a world-class center of education and research.

During the 1990s, over 280,000 jobs were created in Austin; unemployment dropped to less than 2 percent in 2000. Following September 11, 2001, Austin and the Central Texas area faced a significant economic downturn, resulting in a significant number of job layoffs and high unemployment rates. Due to the influence of the technology sector in the Austin area, the economic downturn had a more severe impact locally than in other regions of the State of Texas.

The Austin area economy is beginning to see a sustained improvement over conditions from the previous years. The unemployment rate for the Austin MSA has improved from 4.8 percent in December 2003 to 4.0 percent in December 2004. The average annual unemployment rate has also improved from 5.7 percent in 2003 to 4.5 percent in 2004. The statewide average unemployment rate for Texas was 6.8 percent in 2003 and 5.9 percent in 2004.

Sales tax revenue has shown a steady improvement from the previous year. Sales tax growth for fiscal year 2004 averaged a 6.6 percent increase over fiscal year 2003, with 11 months of positive growth as compared to only two months in the previous year. The growth rate is the second highest among major Texas cities. As a sign of sustained improvement, initial sales tax revenue for fiscal year 2005 has increased from comparative periods in fiscal year 2004.

Single family residential building permits increased by approximately 600 permits from fiscal year 2003, which represents an approximate 20 percent increase over the previous year. Property tax revenue increased by approximately $7.4 million from the previous year, although assessed valuation within the City decreased approximately $1.8 billion, or 3.5% from the prior year. Property taxes for 2004 and subsequent years may be negatively impacted by lawsuits filed against the appraisal district; the suits challenge the appraisal district's property valuations for many businesses. If the challenges are successful, they could result in decreased tax revenue in future years for the local taxing jurisdictions, including the City. These financial statements include the impact of estimated refunds for the pending lawsuits.

Total passenger traffic for the City's airport increased by 8% in calendar year 2004 as compared to the previous year. Total air cargo also increased 1% for the same time period. Overall collections from the hotel occupancy and vehicle rental taxes declined slightly in the current year, but avoided the significant decreases that occurred in fiscal year 2002, which reflected the effect of the 9/11 tragedy. The first quarter collections for fiscal year 2005 indicate a significant increase from comparative periods in fiscal year 2004, with an increase of 11.7 percent in hotel occupancy taxes and an increase of 13.5 percent in vehicle rental taxes.

City management implemented cost savings efforts beginning in 2002 and throughout the 2003 and 2004 budget years. During the 2004 budget process, a structurally balanced budget was achieved. As part of this process, an emphasis was placed on permanent reductions rather than one-time reductions that would have to be re-addressed in the future. Overall, 519 job positions were eliminated, with 344 of such positions being funded from the General Fund. Of those 519 positions 206 were filled, and ultimately 91 of these positions were subject to lay off. Other budgetary accomplishments include maintaining the effective tax rate, ensuring that no public facilities closed, maintaining utility transfer rates in accordance with covenants associated with the City's revenue debt and placing no reliance on "one-time" funds to be utilized as revenue funding sources.

Economic indicators indicate that the conditions are good for the continuing economic recovery in Austin and surrounding areas. For the future, Austin's strengths continue to be the ones that led to growth in the past: a highly capable workforce, innovation and entrepreneurship, the presence of a world-class research university and several other institutions of higher learning, strong community assets and a superior quality of life.

MAJOR INITIATIVES AND ACHIEVEMENTS

The City has a number of significant initiatives underway or recently completed, as described below. These initiatives should have a positive effect on the City's economic health and services to residents and businesses.

Economic Growth and Development

A renewed effort has begun to attract new businesses and jobs to the Austin area. The City has developed and adopted a formal Economic Development Policy to guide Austin's economic recovery, including making significant changes to the Land Development Code to assist small business owners with redevelopment and expansion. In addition, the City has streamlined the development process for development review, permitting and inspections through the implementation of the One Stop Development Shop. The City was recognized for the progress made in this area at the 21st Annual Perryman Economic Outlook Conference.

The redevelopment of Robert Mueller Municipal Airport is underway. The City has recently completed and approved the Master Development Agreement (MDA), with a master developer to convert the old airport site into a vibrant mixed-use community. The MDA calls for the development of a full range of land use in order to promote a viable transit-oriented community for residents and employers. The first major project, a new Children's Hospital, has already begun. The City has established goals in order to achieve community-based values in a number of areas including affordable housing, green building and publicly accessible greenways and parks.

The annexation of Robinson Ranch protects the ability to plan the last major growth corridor north of Austin, as well as preserving a significant amount of future tax base. The agreement sets out future development rights and environmental protections for almost 6,000 acres. The present value of the 25-year all funds analysis of tax revenue from this area exceeds $160 million.

The City's Street Smart Team re-engineered the process for major urban road reconstruction projects. The revised process has allowed completion of reconstruction projects for both Lamar Blvd. and Cesar Chavez in significantly less time than typical projects of this nature. As a result, traffic impacts on citizens and financial impacts on surrounding businesses were reduced.

Austin's new City Hall and public plaza, built on 1.75 acres at the previous site of the Municipal Annex, was opened in December 2004. City Hall is approximately 115,000 square feet and houses offices, meeting facilities and a state-of-the-art City Council Chamber. The new City Hall has received awards including the Texas Construction Best of 2004 Award for Best Public Building Project in the State of Texas and the Austin Business Journal's 2005 best overall award for commercial real estate.

Public Health and Housing

In May 2004, voters of Travis County elected to create the Travis County Hospital District. As required under State law, title to City-owned Brackenridge Hospital and the Austin Women's Hospital effectively passes from the City with the formation of the District. Title to the clinic facilities that operate under the Federally Qualified Health Center (FQHC) designation will not transfer to the District until the District receives federal approval for the transfer.

The creation of the District creates a more equitable property tax structure within Travis County. It also allows the possibility of future expansion of the tax base to surrounding counties in order to support regional trauma and indigent health care. The City of Austin reduced the fiscal year 2005 property tax rate in proportion to the amount of services that were transferred to the District. Under applicable State law, the property tax rate of the District cannot exceed $0.25 per $100 assessed valuation per State legislation.

The District has assumed the City's lease agreement with the Daughters of Charity to operate Brackenridge Hospital, as well as the City's agreement with the University of Texas Medical Branch at Galveston to operate the Austin Women's Hospital. The City will continue to operate the FQHC clinic facilities through an interlocal agreement approved by the District. In order to ensure the future financial viability of the newly created district, the City contributed $10.7 million toward the establishment of the District's financial reserves.

The City's SMART™ Housing Program is being recognized nationally as an innovative best practice for increasing the supply of affordable, adaptable and accessible housing units. In fiscal year 2004, approximately 4,834 units were certified and 1,612 units were completed. Of these units completed, 82% were reasonably priced and all units met Green Building, accessibility, visitability and transit-oriented standards. Recently, the City's Neighborhood and Community Development Department was awarded a National Award of Excellence for their affordable housing project, Lyons Gardens. The award was given on behalf of the National Community Development Association (NCDA).

Utility Projects

Austin Energy, the City's electric utility, continues to prepare for possible deregulation. Deregulation allows Texas residents and businesses served by utilities participating in deregulation to choose the supplier from which they purchase their electricity. The local electric utility continues to deliver the electricity. Deregulation began in Texas on January 1, 2002 for all private electric utilities. These utilities, owned by stockholders, are called investor-owned utilities (IOUs). Electric cooperatives (Co-ops) and city-owned electric utilities (called municipally owned utilities or MOUs) such as Austin Energy can participate, or "opt-in," by a vote of their board or City Council. Once the City Council votes to participate in deregulation, it cannot later withdraw. The City has not "opted-in", but does continue to prepare for that possibility.

Standard & Poor's raised its ratings on the following utility revenue bonds:

Type	Previous	Revised
Combined Utility System:		
Prior First Lien	A	A+
Prior Subordinate Lien	A-	A
Electric:		
Separate Lien	A-	A
Water and Wastewater:		
Separate Lien	A-	A

The upgrade was based on a demonstrated trend of financial performance and risk management, while reducing indebtedness and managing a large capital plan.

Austin Energy's Strategic Plan was adopted by Council in December 2003 and sets a national standard for renewable energy and energy efficiency. Among Austin Energy's numerous awards for leadership in this area is the 2004 Green Power Program of the Year given by the Environmental Protection Agency and the Department of Energy. In addition, Austin Energy received the U.S. Green Building Public Sector Leadership Award given by the U.S. Green Building Council in November 2003.

In January 2005, Austin Energy announced it was doubling the capacity of its renowned clean power program, GreenChoice. With the additional capacity, Austin Energy is on track to achieve its goal of generating 20 percent of Austin's electricity needs from renewables by the year 2020. The Austin Independent School District subscribes to 45-million kWh annually, the largest green power subscription by any public school system in the nation.

Austin Water Utility has launched the Austin Clean Water Program. The Program is the result of a mandate from the U.S. Environmental Protection Agency to eliminate overflows from the City's wastewater collection system by the end of 2007. The cost to complete this program is estimated to be $150 million. The Water Utility remains on schedule to complete the necessary requirements.

Status of City Services

The vision of the City of Austin is to be the most livable community in the country. To achieve this vision, the governing leaders of the City invite citizens to participate in the Citizen Satisfaction Survey. The City has conducted the survey since 1997.

Austin residents assign a very high level of importance to public safety services, including 9-1-1, EMS, Fire, and Police. Generally, satisfaction with most public safety services is high, although neighborhood policing and traffic enforcement rank very low as compared to other public safety services. The City's parks program has seen a significant increase in the number of participants in 2004; residents are generally satisfied with the services of the Parks and Recreation Department. Overall, the City had a significant improvement in the level of satisfaction with all customer services provided by City staff. Two areas of continuing dissatisfaction are traffic and the repair of City streets.

The top issues of importance to Austin residents are:

- Traffic issues (congestion, flow, planning, etc.)
- Tax related issues (too high, too many, etc.)
- Growth management (speed, planning, zoning, etc.)
- Economic issues (protection, conservation, control, balance, etc.)
- Roadway development (planning, maintenance, inconvenience, etc.)

The City is committed to incorporating the public's preferences into its strategic planning and use the public's expression of satisfaction as a criterion of accountability.

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	1990	% of Total	2000	% of Total	2003	% of Total	2004	% of Total	May 31, 2005	% of Total
Manufacturing	49,300	12.9%	84,662	12.9%	60,483	9.1%	57,000	8.7%	57,500	8.4%
Government	110,400	28.8%	137,171	20.9%	148,433	22.3%	144,900	22.0%	150,800	22.0%
Trade, transportation & utilities	90,500	23.6%	171,771	26.2%	113,183	17.0%	114,200	17.3%	138,100	20.2%
Services and miscellaneous	97,200	25.3%	190,048	28.9%	265,342	40.0%	263,800	40.0%	258,500	37.8%
Finance, insurance and real estate	23,400	6.1%	32,031	4.9%	37,850	5.7%	40,900	6.2%	40,300	5.9%
Natural resources, mining & construction	12,700	3.3%	40,487	6.2%	38,784	5.9%	38,700	5.8%	39,300	5.7%
Total	383,500	100.0%	656,170	100.0%	664,075	100.0%	659,500	100.0%	649,800	100.0%

(a) Austin-San Marcos MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided. Numbers for 2005 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of May 31, 2005.

Source: 2004 Comprehensive Annual Financial Report, Texas Workforce Commission.

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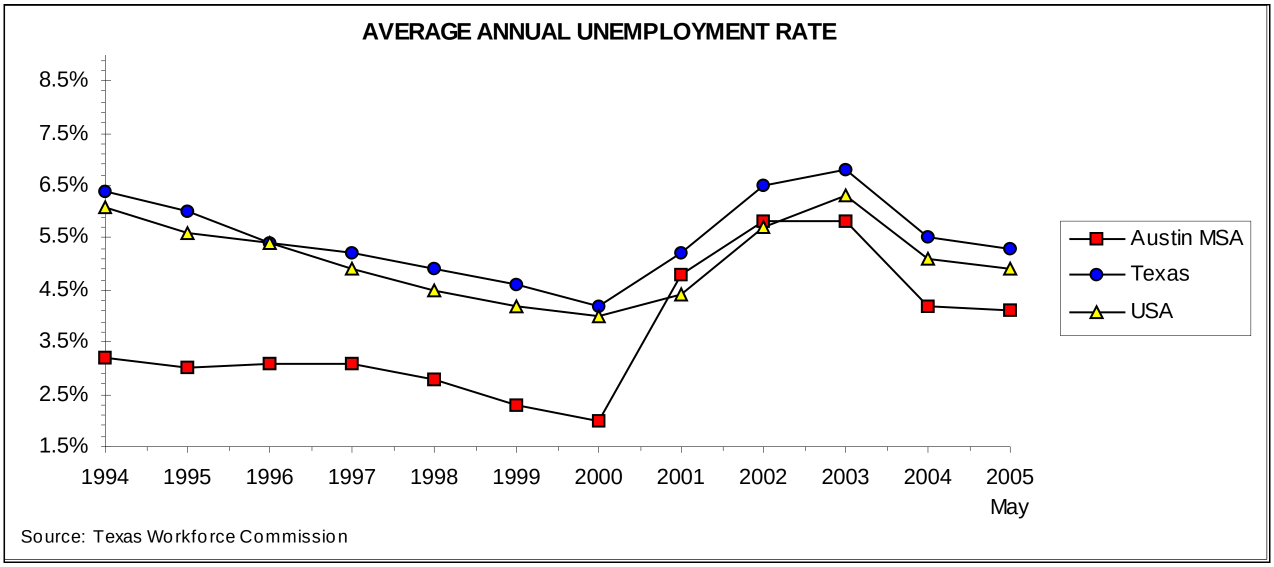
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1994	3.2%	6.4%	6.1%
1995	3.0%	6.0%	5.6%
1996	3.1%	5.4%	5.4%
1997	3.1%	5.2%	4.9%
1998	2.8%	4.9%	4.5%
1999	2.3%	4.6%	4.2%
2000	2.0%	4.2%	4.0%
2001	4.8%	5.2%	4.4%
2002	5.8%	6.5%	5.7%
2003	5.8%	6.8%	6.3%
2004	4.2%	5.5%	5.1%
2005 May	4.1%	5.3%	4.9%

Note: Information is updated periodically, data contained herein is latest provided.
Source: 2004 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-01	$ 9.298	1-1-02	$ 8.723	1-1-03	$ 8.249	1-1-04	$ 8.883	1-1-05	$ 9.076
2-1-01	13.733	2-1-02	13.405	2-1-03	11.463	2-1-04	12.382	2-1-05	13.171
3-1-01	9.169	3-1-02	8.345	3-1-03	8.218	3-1-04	8.693	3-1-05	9.049
4-1-01	9.243	4-1-02	8.322	4-1-03	7.981	4-1-04	8.534	4-1-05	8.660
5-1-01	12.091	5-1-02	10.746	5-1-03	10.644	5-1-04	10.867	5-1-05	11.795
6-1-01	9.199	6-1-02	9.253	6-1-03	8.519	6-1-04	9.384	6-1-05	9.718
7-1-01	9.605	7-1-02	9.287	7-1-03	7.908	7-1-04	8.980	7-1-05	8.936
8-1-01	11.456	8-1-02	10.289	8-1-03	10.414	8-1-04	11.474	8-1-05	9.626
9-1-01	9.279	9-1-02	8.695	9-1-03	8.510	9-1-04	9.157		
10-1-01	8.974	10-1-02	8.884	10-1-03	8.832	10-1-04	9.214		
11-1-01	10.260	11-1-02	10.157	11-1-03	10.686	11-1-04	11.340		
12-1-01	9.142	12-1-02	8.859	12-1-03	8.817	12-1-04	9.354		

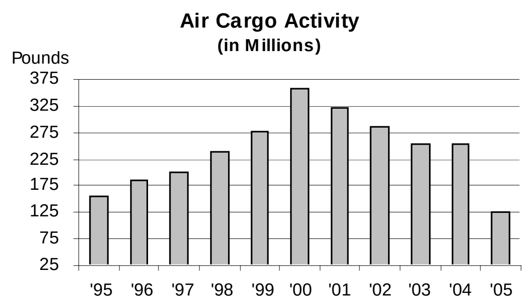
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2004)

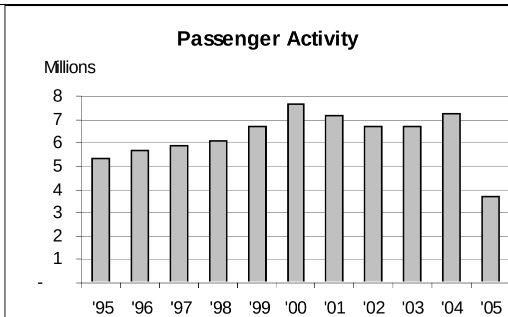
Employer	Product or Service	Employees
The University of Texas at Austin	Education and Research	21,000
Dell Computer Corporation	Computers	16,500
Austin Independent School District	Education	10,714
City of Austin	City Government	10,617
Federal Government	Federal agency	10,200
Freescale Semiconductor, Inc.	Electronic Components	6,500
Seton Healthcare Network	Hospital	6,393
IBM Corporation	Office Machines	6,200
Texas State University – San Marcos	Education and Research	5,103
St. David's Healthcare Partnership	Hospital	5,000

Source: 2004 Comprehensive Annual Financial Report.

Transportation (1)



Source: COA Aviation Department. 2005 activity through June. Calender year basis.



Source: COA Aviation Department. 2005 Activity through June. Calender year basis.

Austin-Bergstrom International Airport

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

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 an one quarter percent increase in the sales tax thus returning to one percent effective October 1, 1995.

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by eight major and six regional airlines with scheduled air service: American, America West (includes Mesa Airlines), Continental (includes Express Jet), Delta (includes SkyWest and Atlantic Southeast Airlines), Frontier (includes Frontier Express), Northwest (includes Pinnacle Air), Southwest, and United (includes SkyWest and Mesa,) Non-stop service is available to 33 U.S. destinations and 1 international destination.

Growth Indicators

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

Population

	Austin (1)		Travis County (1)		Texas (2)		United States (2)	
Year	Population	% Change	Population	% Change	Population	% Change	Population	% Change
1950	132,459	50.6%	160,980	45.0%	7,711,194	20.2%	151,326,000	14.5%
1960	186,545	40.8%	212,136	31.8%	9,579,677	24.2%	179,323,000	18.5%
1970	253,539	35.9%	295,516	39.3%	11,198,655	16.9%	203,302,000	13.4%
1980	345,496	36.3%	419,573	42.0%	14,228,383	27.1%	222,100,000	9.3%
1990	450,830	0.2%	576,407	0.5%	16,986,510	-2.7%	249,632,692	0.8%
1991	466,530	3.5%	585,731	1.6%	17,349,000	2.1%	252,177,000	1.0%
1992	474,715	1.8%	594,560	1.5%	17,615,745	1.5%	255,020,000	1.1%
1993	478,254	0.8%	600,427	1.0%	17,805,566	1.1%	257,592,000	1.0%
1994	507,468	6.1%	636,991	6.1%	18,291,000	2.7%	261,212,000	1.4%
1995	523,352	3.1%	656,979	3.1%	18,724,000	2.4%	262,755,000	0.6%
1996	541,889	3.5%	681,654	3.8%	19,128,000	2.2%	265,410,000	1.0%
1997	560,939	3.5%	703,717	3.2%	19,439,337	1.6%	267,792,000	0.9%
1998	608,214	8.4%	725,669	3.1%	19,759,614	1.7%	271,685,044	1.5%
1999	619,038	1.8%	744,857	2.6%	20,044,141	1.4%	272,690,813	0.4%
2000	628,667	1.6%	749,426	0.6%	20,044,141	0.0%	272,690,813	0.0%
2001	661,639	5.2%	837,206	11.7%	20,851,820	4.0%	281,421,906	3.2%
2002	671,044	1.4%	848,484	1.4%	21,779,893	4.5%	288,368,698	2.5%
2003	674,719	0.6%	865,497	2.0%	22,118,509	1.6%	290,809,777	0.9%
2004	683,551	1.3%	882,806	2.0%	22,490,022	1.7%	293,655,404	1.0%

(1) All years are estimates from the City's Neighborhood Planning and Zoning Department based on full purpose area as of December 31. Census years are modified to conform to U.S. Bureau of the Census data.
(2) U.S. Bureau of the Census official estimates as of July 31.

Connections and Permits

	Utility Connections			Building Permits		
Year	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1990	275,840	137,936	111,114	$ 309,999,799	$48,312,493	$ 358,312,292
1991	281,926	142,721	131,713	327,777,503	33,619,419	361,396,922
1992	286,413	141,210	139,529	435,053,697	5,162,800	440,216,497
1993	291,896	146,396	143,088	607,717,144	70,976,449	678,693,593
1994	298,662	148,148	142,373	840,043,119	19,643,501	859,686,620
1995	306,670	149,867	147,023	870,446,315	11,087,831	881,534,146
1996	319,518	151,757	148,124	1,246,232,619	89,945,847	1,336,178,466
1997	326,816	156,397	156,752	1,023,114,762	2,574,539	1,025,689,301
1998	342,263	168,907	165,274	1,434,660,615	46,722,845	1,481,383,460
1999	348,721	173,038	173,150	1,501,435,229	54,399,189	1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361
2001	349,671	178,608	172,177	1,625,508,854	71,189,116	1,696,697,970
2002	359,358	182,977	193,278	1,261,868,130	38,727,017	1,300,595,147
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273

Source: 2004 Comprehensive Annual Financial Report.

Wealth and Income Indicators

The Austin-Round Rock MSA compares favorably with both the state and the nation in per capita effective buying income (EBI), and per capita retail sales.

Effective Buying Income and Retail Sales

Area	Median Household EBI	Per Capita EBI	% of Households by EBI Group* A	B	C	D	Per Capita Retail Sales
City of Austin	$39,227	$21,487	21.2%	23.1%	18.7%	37.0%	$34,778
Austin-Round Rock MSA	45,171	21,873	17.2%	20.1%	18.7%	44.0%	24,864
Texas	37,554	17,796	23.4%	23.2%	18.3%	35.1%	14,246
USA	38,201	18,662	22.4%	23.3%	19.0%	35.4%	13,336

*Group A, $0 - $19,999 Group B, $20,000 - 34,999 Group C, $35,000 - 49,999 Group D, $50,000 and over
Source: 2004 Survey of Buying Power, Sales and Marketing Management.

Housing Units

The average two-bedroom apartment in the Austin MSA was $811 per month, with an occupancy rate of 92.7% for the second quarter 2005.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1992	8,503	$ 887,249,588	$104,345
1993	9,926	1,139,100,456	114,759
1994	10,571	1,272,585,426	120,385
1995	11,459	1,439,915,043	125,658
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003	19,793	3,899,018,519	196,990
2004	22,481	4,472,756,853	198,957
2005 May	9,613	1,973,088,492	205,252

Note: Information is updated periodically, data contained herein is latest provided.
Source: Real Estate Center at Texas A&M University.

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City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
1992	82.6%
1993	86.3%
1994	87.9%
1995	88.4%
1996	92.2%
1997	94.7%
1998	93.4%
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.0%
2003	76.7%
2004 (4^{th} Quarter)	80.8%

Source: Colliers Oxford Commercial Research Services and Trammell Crow Company.

Education

The Austin Independent School District had an enrollment of 78,892 for the fourth six-weeks of the 2005 school year. This reflects an increase of 2.0% in enrollment from the end of the 2004 school year. The District includes 107 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	76,447	71,518
2001/02	76,347	71,638
2002/03	77,009	72,494
2003/04	77,313	73,085
2004/05 (1)	78,892	73,842

(1) Fourth Six Weeks.
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 had an enrollment of 50,377 for the fall semester of 2004 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were $2.750 billion in 2003. There are more than 23,000 hotel rooms available within the Austin Metropolitan Area, as of September 2003. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. Through the first three quarters of 2003 the citywide occupancy rate for the Austin area was 57.5 percent, with an average room rate of $83.75.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy tax collections and revenues of the facility and the new Lester E. Palmer Events Center with 70,000 square feet of exhibit space. Other facilities in Austin include the Frank Erwin Center, a 17,000-seat arena at The University of Texas, the Texas Exposition and Heritage Center and the Austin Opera House. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Opera House has a concert seating capacity of 1,700 and 9,000 square feet of exhibit space.

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APPENDIX B

Excerpts From the Annual Financial Report

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KPMG

111 Congress Avenue
Suite 1100
Austin, TX 78701

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As described in note 1e, the City has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* as of September 30, 2004.

The Management's Discussion and Analysis on pages 3 through 14 and the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budget Basis on pages 100 through 101 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
February 23, 2005

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The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

The financial statements are presented in conformance with the Governmental Accounting Standards Board Statement No. 1 through Statement No. 41. During the current fiscal year, the City implemented GASB Statement No. 40, *"Deposit and Investment Risk Disclosures"*. GASB Statement No. 40 addresses disclosure of certain deposit and investment risks, including credit risk, interest risk and foreign currency risk.

FINANCIAL HIGHLIGHTS

Government-wide financial statements
The assets of the City exceeded its liabilities at the end of the fiscal year 2004, resulting in $3.7 billion of net assets. Net assets associated with governmental activities are approximately $1.4 billion, or 39% of the total net assets of the City. Net assets associated with business-type activities are approximately $2.2 billion, or 61% 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 $2.9 billion, or 79% of total net assets.

Unrestricted net assets, which may be used to meet the City's future obligations, consist of $528 million, or 14% of the City's total net assets. Unrestricted net assets for governmental activities are approximately $51 million, or 4% of total net assets for governmental activities; unrestricted net assets for business activities are approximately $477 million, or 21% of total net assets for business-type activities.

Total net assets for the City of Austin increased $36.7 million, or 1% during fiscal year 2004. Of this amount, governmental activities increased $90.4 million, or 6.7% from the previous year and business-type activities decreased $53.7 million, or 2.3% from the previous year.

Total revenues for the City decreased $104.2 million; revenues for governmental activities decreased $584 thousand; revenues for business-type activities decreased $103.7 million. Total expenses for the City increased $89.8 million; expenses for governmental activities decreased $25.6 million; expenses for business-type activities increased $115.4 million.

In fiscal year 2004, the ending fund balance for the General Fund increased $13 million, or 14%. Unreserved fund balance increased $12.7 million, or 14.4%.

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 of the City include electric utility, water, wastewater, airport, convention and others.

The government-wide financial statements include the City as well as blended component units: the Austin Housing Finance Corporation (AHFC) and the Austin Industrial Development Corporation (AIDC). The operations of AHFC and AIDC 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 which are 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, which focus on how cash and other financial assets can readily be converted to available resources and on the available balances remaining at year-end. This information may be useful in determining what financial resources are available in the near future to finance the City's future obligations. Other funds are referred to as nonmajor funds and are presented as summary 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 statements.

The City's General Fund is considered 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 are 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 as 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 the City's three 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, Employee Benefits, Fleet Maintenance, Information Systems, Liability Reserve, Support Services, Wireless Communication and Workers' Compensation. Because these services benefit governmental operations more 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 two 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 the City. 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
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
Assets previously reported in General Fixed Asset Group	Governmental	Excluded
Infrastructure assets	Governmental	Excluded
Liabilities previously reported in General Long-Term Debt Group	Governmental	Excluded
Electric	Business-type	Proprietary
Water and wastewater	Business-type	Proprietary
Airport	Business-type	Proprietary
Other enterprise funds	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 a full understanding of the data provided in the government-wide and fund financial statements.

d -- Other Information

The section Required Supplementary Information (RSI) immediately follows the basic financial statements section of this report. The City adopts an annual appropriated budget for the General Fund. The RSI provides a comparison to budget and demonstrates budgetary compliance. Following the RSI are other statements and schedules, including the combining statements for nonmajor governmental and enterprise funds, internal service funds and fiduciary funds.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net Assets

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

Net Assets
as of September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Current assets	$ 498,993	529,203	934,090	1,073,730	1,433,083	1,602,933
Capital assets	2,032,289	1,868,710	5,174,870	4,965,869	7,207,159	6,834,579
Other noncurrent assets	3,233	3,138	624,169	701,942	627,402	705,080
Total assets	2,534,515	2,401,051	6,733,129	6,741,541	9,267,644	9,142,592
Current liabilities	207,830	198,161	416,793	384,841	624,623	583,002
Noncurrent liabilities	888,181	854,763	4,072,592	4,059,289	4,960,773	4,914,052
Total liabilities	1,096,011	1,052,924	4,489,385	4,444,130	5,585,396	5,497,054
Net assets:						
Invested in capital assets, net of related debt	1,333,779	1,204,877	1,569,489	1,505,479	2,903,268	2,710,356
Restricted	53,481	100,469	197,174	216,459	250,655	316,928
Unrestricted	51,244	42,781	477,081	575,473	528,325	618,254
Total net assets	$ 1,438,504	1,348,127	2,243,744	2,297,411	3,682,248	3,645,538

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $3.7 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 $2.9 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, $251 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, $528 million of unrestricted net assets, may be used to meet the government's future obligations.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets

Total net assets of the City increased by $36.7 million in the current year. Governmental net assets increased $90.4 million. The increase is attributable to total revenues exceeding program expenses by $58.8 million, transfers from other funds of $39.3 million and a payment in the amount of $7.7 million to the Travis County Hospital District. Business-type net assets decreased by $53.7 million, due to program expenses exceeding revenues by $11.4 million, a payment to the Travis County Hospital District in the amount of $3 million and transfers to other funds of $39.3 million.

Changes in Net Assets
September 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Program revenues:						
Charges for services	$ 74,661	75,469	1,279,565	1,368,616	1,354,226	1,444,085
Operating grants and contributions	52,068	55,122	--	--	52,068	55,122
Capital grants and contributions	2,546	3,956	47,570	48,325	50,116	52,281
General revenues:						
Property tax	240,536	233,130	--	--	240,536	233,130
Sales tax	117,725	110,454	--	--	117,725	110,454
Franchise fees and gross receipts tax	63,509	63,049	--	--	63,509	63,049
Grants and contributions not restricted to specific programs	81,937	94,210	--	--	81,937	94,210
Interest and other	26,799	24,975	16,582	30,430	43,381	55,405
Total revenues	659,781	660,365	1,343,717	1,447,371	2,003,498	2,107,736
Program expenses:						
General government	46,607	43,405	--	--	46,607	43,405
Public safety	292,678	292,411	--	--	292,678	292,411
Transportation, planning and sustainability	15,879	17,119	--	--	15,879	17,119
Public health	48,733	80,808	--	--	48,733	80,808
Public recreation and culture	56,408	58,199	--	--	56,408	58,199
Urban growth management	64,631	59,949	--	--	64,631	59,949
Unallocated depreciation expense - infrastructure	35,833	35,414	--	--	35,833	35,414
Interest on debt	40,199	39,296	--	--	40,199	39,296
Electric	--	--	774,702	754,393	774,702	754,393
Water	--	--	155,472	130,119	155,472	130,119
Wastewater	--	--	137,227	115,284	137,227	115,284
Airport	--	--	77,541	79,558	77,541	79,558
Convention	--	--	52,336	40,621	52,336	40,621
Other	--	--	157,842	119,763	157,842	119,763
Total expenses	600,968	626,601	1,355,120	1,239,738	1,956,088	1,866,339
Excess before special items and transfers	58,813	33,764	(11,403)	207,633	47,410	241,397
Special items - hospital district reserve	(7,700)	--	(3,000)	--	(10,700)	--
Transfers	39,264	66,926	(39,264)	(66,926)	--	--
Increase (decrease) in net assets	90,377	100,690	(53,667)	140,707	36,710	241,397
Beginning net assets	1,348,127	1,247,437	2,297,411	2,156,704	3,645,538	3,404,141
Ending net assets	$ 1,438,504	1,348,127	2,243,744	2,297,411	3,682,248	3,645,538

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

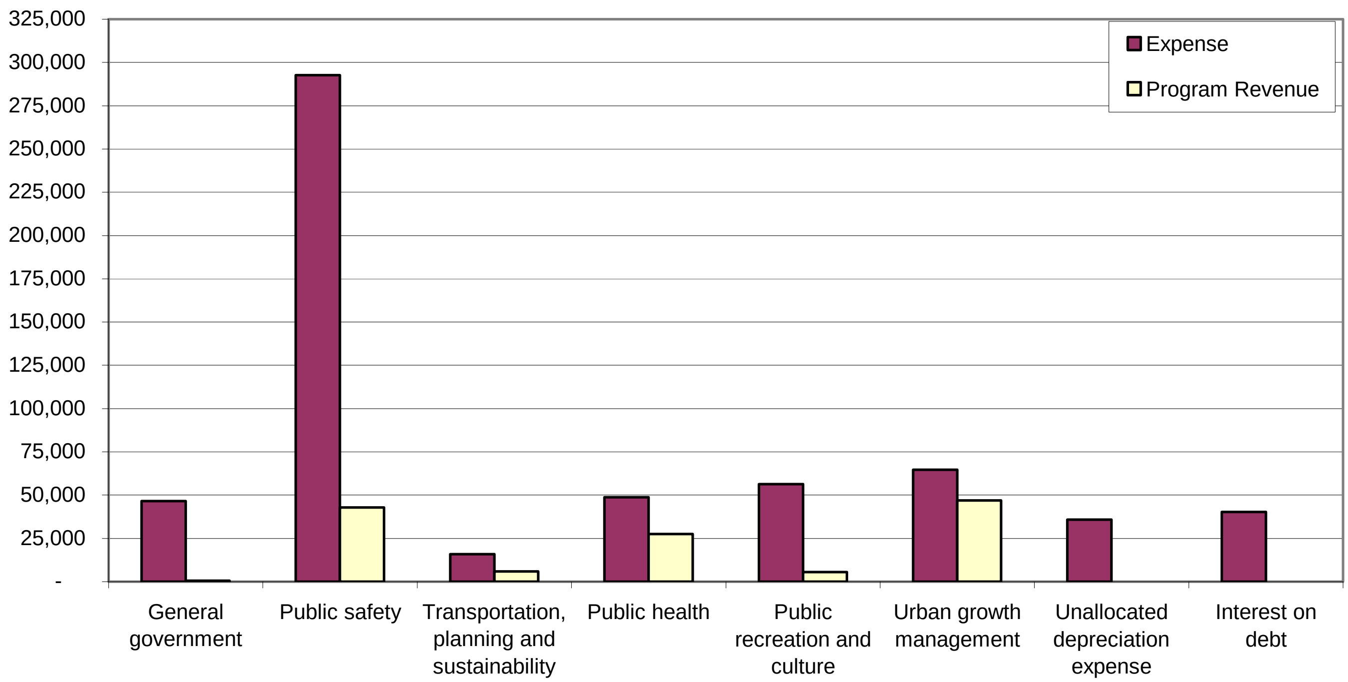
c -- Program Revenues and Expenses -- Governmental Activities

Governmental activities increased the City's net assets by $90.4 million in fiscal year 2004, a 6.7% increase of governmental net assets from the previous year. Key factors of this increase are as follows:

- The City's property tax revenue increased by $7.4 million from the previous year, as a result of an increase in the City's tax rate from 45.97 cents to 49.28 cents per $100 valuation. The total assessed valuation of real and personal property in the City had a negative growth rate of 3.5%.
- Sales tax revenue increased $7.3 million from the previous year, an increase of 6.6%.
- Grants and contributions not restricted to specific programs decreased by $12 million, primarily as a result of lower intergovernmental revenues. Grants and contributions restricted to specific programs decreased $4.5 million.
- Governmental expenses decreased $25.6 million, largely due to the transfer of the certain indigent health care costs from the Public Health program in governmental activities to the Primary Care Fund, which is a business-type activity. However, the reduction in expenses was offset by an increase of transfers to other funds in order to provide the funding source for these services.

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; unallocated depreciation expense and interest on debt.

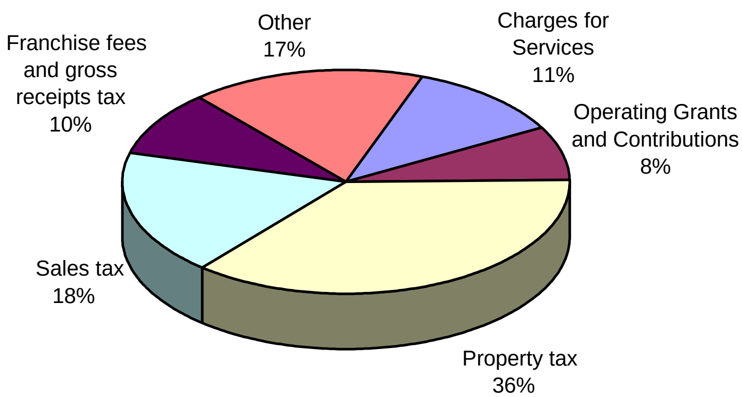
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



d -- Program Revenues and Expenses -- Business-type activities

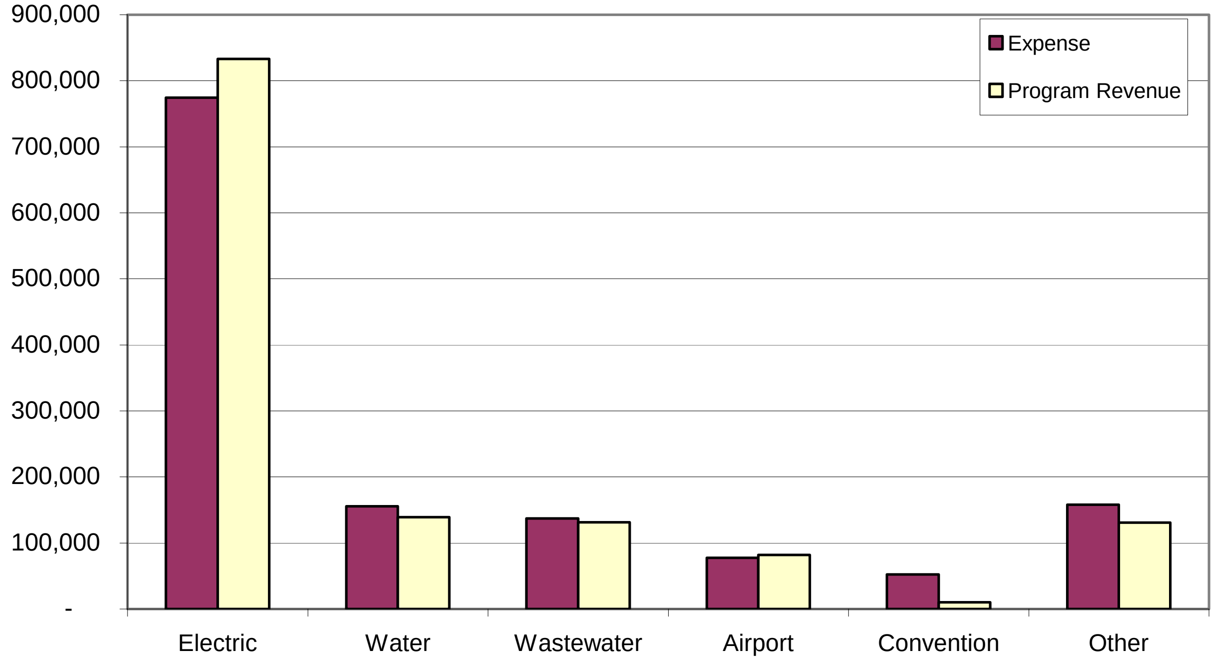
Business-type activities decreased the City's net assets by $53.7 million, accounting for a 1.5% decrease in the City's total net assets and a 2.3% decrease in business-type net assets. Key factors include:

- Electric net assets decreased $6 million. The decrease is due primarily to the recognition of $66 million previously reported as deferred depreciation. The expense recognition was required as a result of a bond defeasance and the resulting principal payment associated with the defeasance. Revenue decreased approximately 10% from the previous year due to mild weather conditions and lower fuel cost; expenses decreased by 7% from the previous year due to lower fuel costs.
- Water and Wastewater net assets decreased $43 million. The decrease is due primarily to the recognition of $38 million previously reported as deferred depreciation. The expense recognition was required as a result of a bond defeasance and the resulting principal payment associated with the defeasance. Water revenue decreased by $11.2 million from the previous year due to wetter than normal weather and reduced industrial demand.
- Airport net assets increased $6 million. Revenues increased due to an increase in passenger traffic, which was 8% higher than the previous calendar year. Expenses decreased as a result of cost containment.
- Convention net assets decreased $19 million. Revenues were 31% less than the previous year due to reduced business activity for convention space and event cancellations. Expenses increased $12 million from the previous year due to the recognition of economic development costs.
- Other business-type net assets increased by $8 million, primarily as a result of increased revenues in the Drainage Fund.

As shown in the following chart, the Electric utility, with expenses of $775 million, is the City's largest business-type activity, followed by Water ($155 million), Wastewater ($137 million), Airport ($78 million) and Convention ($52 million). For fiscal year 2004, operating revenues exceeded operating expenses for all business-type activities, except Water, Wastewater, Convention and other business-type activities. Within other business-type activities, only Hospital and Primary Care operating expenses exceeded operating revenues.

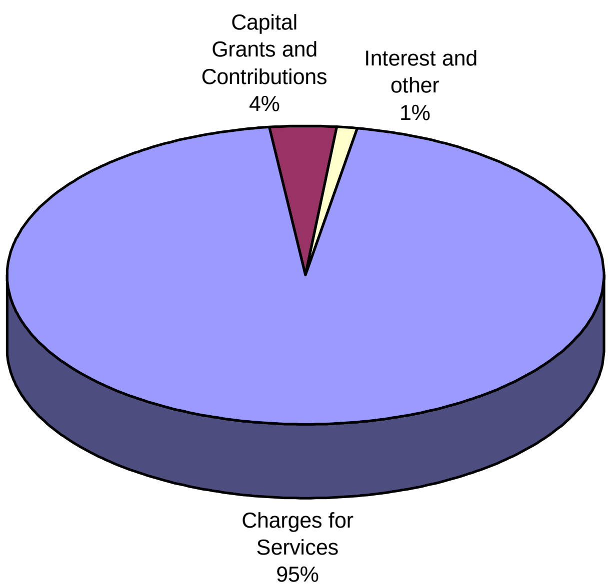
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



For all business-type activities, charges for services provide the largest percentage of revenues (95%), followed by capital grants and contributions (4%) and interest and other revenues (1%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

The City reports the following types of governmental funds: the General Fund, special revenue funds, debt service funds, capital project 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 year, the City of Austin's governmental funds reported combined ending fund balances of $309 million, a decrease of $36 million from the previous year. Approximately $206 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 and certain debt service amounts. Reserved fund balance decreased $24.3 million in comparison to the prior year, primarily due to a decrease in the reservation for encumbrances of $26.7 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $100.8 million, while total fund balance was $106 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 25% of total General Fund expenditures of $405 million, and total fund balance represents 26% of expenditures. The unreserved and undesignated fund balance of the General Fund is $48 million, which may be designated by City Council for specified uses for the future.

The General Fund fund balance increased by $13 million during the fiscal year; undesignated fund balance increased by $12.7 million. Significant differences from the previous year include:

- $17 million increase in revenues, primarily from property taxes, sales tax and rental income.
- Decrease of $28 million in expenditures, due primarily to the transfer of certain indigent health care costs to the Primary Care Fund, a nonmajor enterprise fund.
- $28 million increase in transfers out, to fund the indigent health care costs mentioned above.

b -- Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Overall, net assets of the City's enterprise funds, including consolidation of the internal service funds activities, decreased by $53.7 million.

Factors that contributed to the decrease 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 budget of the General Fund was amended twice during fiscal year 2004 by $1.3 million for increased public safety costs offset by a decrease to transfers out to other funds and a decrease in expenditures for Municipal Court.

During the year, revenues were $12.6 million more than budgeted. An increase in sales tax collections and rental income was the primary cause of the difference.

Expenditures were $8.7 million less than budgeted. Public safety accounted for approximately $6.9 million of the difference, with Police consisting of $5 million of this amount. Transfers out were approximately $1.8 million less than budgeted. The budget was not formally amended to reflect any cost containment actions. The total fund balance at year-end amounted to $52.5 million, which was $27.3 million higher than budgeted.

b -- Capital Assets

The City's capital assets for governmental and business-type activities as of September 30, 2004, total $7.2 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, assets not classified, construction work in progress, nuclear fuel and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $372 million (5 percent), with an increase of almost 9 percent for governmental activities and an increase of 4 percent 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	
	2004	2003	2004	2003	2004	2003
Land and improvements	$ 233	195	280	270	513	465
Other assets not depreciated	18	18	1	1	19	19
Building and improvements	260	226	1,402	1,355	1,662	1,581
Equipment	33	26	2,546	2,270	2,579	2,296
Vehicles	32	36	37	36	69	72
Infrastructure	1,009	919	--	--	1,009	919
Completed assets not classified	120	95	180	320	300	415
Construction work in progress	327	354	680	661	1,007	1,015
Nuclear fuel, net of amortization	--	--	18	22	18	22
Plant held for future use	--	--	31	31	31	31
Total net assets	$ 2,032	1,869	5,175	4,966	7,207	6,835

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

- Governmental capital assets increased $163 million. Included in this increase were $90 million in infrastructure additions, $27 million in Parkland purchases and improvements, $6 million for the St. John's Joint Use Facility and $6 million for the City's investment in the Combined Emergency Center.
- Business-type activities purchased or completed construction on capital assets of $357 million. The Electric Fund added $291 million in plant and equipment expansions or improvements to existing facilities, including the Sandhill combined cycle plant competed for $169 million. The Water and Wastewater Fund increased capital assets by $46 million, including approximately $28 million of costs associated with the Austin Clean Water Program.

OTHER INFORMATION, continued

c -- Debt Administration

At the end of the current fiscal year, the City reported $4.3 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	
	2004	2003	2004	2003	2004	2003
General obligation bonds and other tax supported debt, net	$ 863	830	104	79	967	909
Commercial paper notes	--	--	316	128	316	128
Revenue notes	--	--	28	28	28	28
Revenue bonds, net	--	--	2,983	3,218	2,983	3,218
Capital lease obligations	1	1	13	15	14	16
Total	$ 864	831	3,444	3,468	4,308	4,299

During fiscal year 2004, the City's total outstanding debt increased by $9 million. The City issued new debt and refinanced portions of existing debt to take advantage of lower borrowing costs. Debt issues include the following:

- Bond debt for governmental activities increased $33 million, and will be used primarily for street improvements, right of way acquisition and utility relocation, parks and recreation facilities, emergency centers and a court settlement agreement.
- Outstanding debt for business-type functions decreased $24 million due to the payment of existing debt. In 2004, new debt was issued primarily for the Convention Center garage; closed landfill remediation; communications technology upgrades; and capital equipment and vehicles. The City issued Water and Wastewater separate lien refunding bonds to refund commercial paper; Airport prior lien revenue refunding bonds were issued to refund revenue bonds; and Convention Center hotel occupancy tax revenue refunding bonds were issued to refund revenue bonds. In addition Electric, Water and Wastewater reduced both utilities' long-term debt through a defeasance of combined utility system revenue bonds.

The general obligation bond ratings remained unchanged while the revenue bond ratings were upgraded during the year. Ratings at September 30, 2004 of the City's obligations for various debt instruments are as follows:

Debt	Moody's Investors Service, Inc	Standard and Poor's	Fitch, Inc.
General obligation bonds and other tax supported debt	Aa2	AA+	AA+
Commercial paper notes	P-1	A-1	F1+
Utility revenue bonds - prior lien	A2	A+	A+
Utility revenue bonds - subordinate lien	A2	A	A+
Utility revenue bonds - separate lien:			
Electric	A3	A	A+
Water and Wastewater	A2	A	A+
Airport system revenue bonds	NUR (1)	A-	NUR (1)
Airport variable rate bonds	P-1	NUR (1)	NUR (1)

(1) No underlying rating

<u>OTHER INFORMATION, continued</u>

d -- Economic Factors and Next Year's Budget and Rates

The local economy appears to have turned the corner, with job growth and local sales tax revenues increasing after a long decline. The forecast for the upcoming year indicates the City is poised to continue its trend of economic improvement, as consumer spending, tourism and job growth are predicted to show continuing increases over the next several years. Nationwide, the U.S. economy continues to grow with a steady increase in the Gross Domestic Product occurring for each quarter during 2004. Predictions indicate that the U.S. economy will continue to improve.

Due to the economic downturn in 2002 and 2003, the City has emerged as a smaller organization than the previous year. New service models were developed during the budget reduction years to maintain current service levels with reduced resources. Examples include the One Stop Shop and 311 Call Center. Structural soundness was achieved in the General Fund in fiscal year 2004, due to revenues exceeding expenditures; i.e., more resources came in than were spent. This was due to a continued policy of cost containment, better than expected revenue and City management's continuing initiative of managing current and future cost drivers.

For the upcoming 2005 budget, the City will continue to leverage and develop efficiencies in the manner it delivers services to citizens. It will be a continual challenge to maintain the level of service citizens are accustomed to receiving, in addition to managing the demand and expectations of service enhancements as economic conditions begin to improve. Although indications are favorable that the Austin area economy will continue to improve, several key factors could have a significant impact to the economic climate. A downturn in the U.S. economy, including higher-than anticipated inflation or fast-rising oil and fuel prices, could have a significant negative impact to the local economy. The City will continue to monitor the State legislative budget process to assess the impact of any enacted legislative laws that could adversely affect the City. City management will continue to view the economic recovery in a conservative manner and will be prepared to take any corrective actions to help mitigate unfavorable economic events.

The assessed valuation within the City increased by 2% for fiscal year 2005. The property tax rate for fiscal year 2005 is 44.3 cents per $100 valuation, which is the effective tax rate of 50.65 cents reduced by 6.35 cents for the services transferred from the City to the Travis County Hospital District. The tax rate consists of 27.47 cents for the General Fund, 16.83 cents for debt service. Each 1 cent of the property tax rate is equivalent to $4,994,185 of tax levy, as compared to $4,896,428 for the previous year. Rate increases for the Water and Wastewater Fund are: 9.2% for Water, 14.7% for Wastewater, for a combined increase of 11.8%.

e -- Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial and Administrative Services Department of the City of Austin, P.O. Box 1088, Austin, Texas 78767, or (512) 974-3344 or on the web at <u>http://www.ci.austin.tx.us/controller/</u>.

(In thousands)

	Governmental Activities	Business-type Activities	2004 Total (†)
ASSETS			
Current assets:			
Cash	$ 111	55	166
Pooled investments and cash	373,013	88,354	461,367
Pooled investments and cash - designated	--	27,591	27,591
Pooled investments and cash - restricted	--	275,255	275,255
Total pooled investments and cash	373,013	391,200	764,213
Investments, at fair value - designated	13,477	105,135	118,612
Investments, at fair value - restricted	--	158,725	158,725
Cash held by trustee	3,781	--	3,781
Cash held by trustee - restricted	--	8,259	8,259
Working capital advances	--	3,456	3,456
Property taxes receivable	11,331	--	11,331
Less allowance for uncollectible taxes	(1,482)	--	(1,482)
Net property taxes receivable	9,849	--	9,849
Accounts and other taxes receivable	158,171	183,979	342,150
Less allowance for doubtful accounts	(84,063)	(8,264)	(92,327)
Net accounts receivable	74,108	175,715	249,823
Receivables from other governments	10,274	1,349	11,623
Receivables from other governments - restricted	--	944	944
Notes receivable, net of allowance	9,890	--	9,890
Internal balances	(3,458)	3,458	--
Internal balances - restricted	(2,907)	2,907	--
Inventories, at cost	2,358	55,441	57,799
Real property held for resale	6,598	--	6,598
Prepaid items	628	3,119	3,747
Other assets	1,271	24,158	25,429
Other receivables - restricted	--	169	169
Total current assets	498,993	934,090	1,433,083
Noncurrent assets:			
Investments, at fair value	--	65,000	65,000
Investments held by trustee - restricted	--	99,372	99,372
Interest receivable - restricted	--	911	911
Capital assets			
Land and other nondepreciable assets	250,649	281,736	532,385
Property, plant and equipment in service	2,061,643	6,470,604	8,532,247
Less accumulated depreciation	(607,422)	(2,305,707)	(2,913,129)
Net property, plant and equipment in service	1,454,221	4,164,897	5,619,118
Construction in progress	327,419	679,559	1,006,978
Nuclear fuel, net of amortization	--	17,933	17,933
Plant held for future use	--	30,745	30,745
Total capital assets	2,032,289	5,174,870	7,207,159
Intangible assets, net of amortization	--	87,602	87,602
Other long-term assets	--	1,354	1,354
Deferred costs and expenses, net of amortization	3,233	369,930	373,163
Total noncurrent assets	2,035,522	5,799,039	7,834,561
Total assets	$ 2,534,515	6,733,129	9,267,644

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

(Continued)

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

(In thousands)

	Governmental Activities	Business-type Activities	2004 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 22,855	59,452	82,307
Accounts and retainage payable from restricted assets	--	58,732	58,732
Accrued payroll	14,611	7,157	21,768
Accrued compensated absences	30,719	15,422	46,141
Due to other governments	7,700	3,000	10,700
Claims payable	18,595	--	18,595
Accrued interest payable from restricted assets	--	58,125	58,125
Interest payable on other debt	3,615	1,139	4,754
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	52,666	3,936	56,602
General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium	--	5,751	5,751
Revenue bonds payable	--	2,035	2,035
Revenue bonds payable payable from restricted assets	--	141,915	141,915
Capital lease obligations payable	475	3,422	3,897
Customer and escrow deposits payable from restricted assets	--	13,030	13,030
Nuclear fuel expense payable from restricted assets	--	33,403	33,403
Deferred credits and other liabilities	56,594	10,274	66,868
Total current liabilities	207,830	416,793	624,623
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	39,737	4,688	44,425
Claims payable	8,845	--	8,845
Capital appreciation bond interest payable	--	166,868	166,868
Commercial paper notes payable, net of discount	--	315,616	315,616
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	810,858	94,113	904,971
Revenue bonds payable, net of discount and inclusive of premium	--	2,839,548	2,839,548
Pension obligation payable	3,102	2,804	5,906
Capital lease obligations payable	338	9,331	9,669
Accrued landfill closure and postclosure costs	--	7,612	7,612
Decommissioning expense payable from restricted assets	--	100,019	100,019
Deferred credits and other liabilities	25,293	498,986	524,279
Other liabilities payable from restricted assets	8	5,007	5,015
Total noncurrent liabilities	888,181	4,072,592	4,960,773
Total liabilities	1,096,011	4,489,385	5,585,396
NET ASSETS			
Invested in capital assets, net of related debt	1,333,779	1,569,489	2,903,268
Restricted for:			
Debt service	12,351	108,112	120,463
Capital projects	39,720	66,687	106,407
Renewal and replacement	--	11,415	11,415
Passenger facility charges	--	8,537	8,537
Convention Center operating reserve	--	2,423	2,423
Perpetual Care:			
Expendable	370	--	370
Nonexpendable	1,040	--	1,040
Unrestricted	51,244	477,081	528,325
Total net assets	$ 1,438,504	2,243,744	3,682,248

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

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

(In thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**2004 Total**
Governmental activities							
General government	$ 46,607	210	376	--	(46,021)	--	(46,021)
Public safety	292,678	37,071	5,776	--	(249,831)	--	(249,831)
Transportation, planning and sustainability	15,879	5,027	362	439	(10,051)	--	(10,051)
Public health	48,733	7,617	17,720	2,107	(21,289)	--	(21,289)
Public recreation and culture	56,408	2,716	2,904	--	(50,788)	--	(50,788)
Urban growth management	64,631	22,020	24,930	--	(17,681)	--	(17,681)
Unallocated depreciation expense	35,833	--	--	--	(35,833)	--	(35,833)
Interest on debt	40,199	--	--	--	(40,199)	--	(40,199)
Total governmental activities	600,968	74,661	52,068	2,546	(471,693)	--	(471,693)
Business-type activities							
Electric	774,702	829,018	--	4,284	--	58,600	58,600
Water	155,472	119,254	--	19,902	--	(16,316)	(16,316)
Wastewater	137,227	114,710	--	16,593	--	(5,924)	(5,924)
Airport	77,541	75,916	--	6,117	--	4,492	4,492
Convention	52,336	10,404	--	--	--	(41,932)	(41,932)
Other	157,842	130,263	--	674	--	(26,905)	(26,905)
Total business-type activities	1,355,120	1,279,565	--	47,570	--	(27,985)	(27,985)
Total	$ 1,956,088	1,354,226	52,068	50,116	(471,693)	(27,985)	(499,678)

	Governmental Activities	Business-type Activities	2004 Total
General revenues:			
Property tax	240,536	--	240,536
Sales tax	117,725	--	117,725
Franchise fees and gross receipts tax	63,509	--	63,509
Grants and contributions not restricted to specific programs	81,937	--	81,937
Interest and other	26,799	16,582	43,381
Special items - hospital district reserve payment	(7,700)	(3,000)	(10,700)
Transfers	39,264	(39,264)	--
Total general revenues and transfers	562,070	(25,682)	536,388
Change in net assets	90,377	(53,667)	36,710
Beginning net assets	1,348,127	2,297,411	3,645,538
Ending net assets	$ 1,438,504	2,243,744	3,682,248

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

Governmental Funds **City of Austin, Texas**
Balance Sheet **Exhibit B-1**
September 30, 2004
(In thousands)

	2004		
	General Fund	**Nonmajor Governmental Funds**	**Total Governmental Funds**
ASSETS			
Cash	$ 89	5	94
Pooled investments and cash	97,002	187,228	284,230
Investments, at fair value	--	13,477	13,477
Cash held by trustee	--	3,064	3,064
Property taxes receivable	6,936	4,395	11,331
Less allowance for uncollectible taxes	(909)	(573)	(1,482)
Net property taxes receivable	6,027	3,822	9,849
Accounts and other taxes receivable	133,678	22,354	156,032
Less allowance for doubtful accounts	(94,463)	(378)	(94,841)
Net accounts receivable	39,215	21,976	61,191
Receivables from other governments	--	10,274	10,274
Notes receivable, net of allowance	--	9,890	9,890
Due from other funds	--	28,828	28,828
Advances to other funds	--	6,159	6,159
Inventories, at cost	601	--	601
Real property held for resale	--	6,598	6,598
Prepaid items	275	--	275
Other assets	--	1,271	1,271
Total assets	143,209	292,592	435,801
LIABILITIES AND FUND BALANCES			
Accounts payable	3,606	13,679	17,285
Accrued payroll	11,818	61	11,879
Accrued compensated absences	479	4	483
Due to other funds	626	30,005	30,631
Due to other governments	7,700	--	7,700
Deferred revenue	5,762	6,730	12,492
Advances from other funds	1,851	346	2,197
Deposits and other liabilities	5,080	38,863	43,943
Total liabilities	36,922	89,688	126,610
Fund balances			
Reserved:			
Encumbrances	4,658	61,517	66,175
Inventories and prepaid items	876	--	876
Notes receivable	--	9,890	9,890
Advances receivable	--	6,159	6,159
Real property held for resale	--	6,598	6,598
Debt service	--	12,168	12,168
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	15,000	--	15,000
Contingencies	4,358	--	4,358
Future use	509	--	509
Budget stabilization	33,000	--	33,000
Special revenue	--	26,010	26,010
Unreserved, undesignated:			
General Fund	47,886	--	47,886
Capital projects	--	79,152	79,152
Permanent funds	--	370	370
Total fund balances	106,287	202,904	309,191
Total liabilities and fund balances	$ 143,209	292,592	435,801

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

Total fund balances - Governmental funds	$ 309,191
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.	1,991,765
Other long-term assets are not available as current-period resources and are not reported in the funds.	15,026
Long-term liabilities are not payable in the current period and are not reported in the funds.	(930,484)
Internal service funds are used by management to charge the costs of capital project management, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	53,006
Total net assets - Governmental activities	$ 1,438,504

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

(In thousands)

	2004		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 160,049	83,321	243,370
Sales taxes	117,725	--	117,725
Franchise fees and other taxes	32,964	30,545	63,509
Fines, forfeitures and penalties	16,976	4,798	21,774
Licenses, permits and inspections	15,317	--	15,317
Charges for services/goods	15,565	26,714	42,279
Intergovernmental	--	73,428	73,428
Property owners' participation and contributions	--	3,798	3,798
Interest and other	19,168	7,376	26,544
Total revenues	377,764	229,980	607,744
EXPENDITURES			
Current:			
General government	39,605	1,806	41,411
Public safety	273,259	14,893	288,152
Transportation, planning and sustainability	9,690	3,518	13,208
Public health	25,890	23,786	49,676
Public recreation and culture	45,235	5,332	50,567
Urban growth management	11,066	52,515	63,581
Debt service:			
Principal	--	48,862	48,862
Interest	--	40,109	40,109
Fees and commissions	--	14	14
Capital outlay	--	151,768	151,768
Total expenditures	404,745	342,603	747,348
Excess (deficiency) of revenues over expenditures	(26,981)	(112,623)	(139,604)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	70,040	70,040
Bond premiums	--	28	28
Capital leases	634	12	646
Transfers in	95,894	32,980	128,874
Transfers out	(48,766)	(39,782)	(88,548)
Total other financing sources (uses)	47,762	63,278	111,040
Net change in fund balances	20,781	(49,345)	(28,564)
Special items - hospital district reserve payment	(7,700)	--	(7,700)
Net change in fund balances	13,081	(49,345)	(36,264)
Fund balances at beginning of year	93,206	252,249	345,455
Fund balances at end of year	$ 106,287	202,904	309,191

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended September 30, 2004
(In thousands)

Net change in fund balances - Governmental funds	$	(36,264)
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.		94,356
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		53,488
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		(12,728)
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.		(21,202)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		1,377
The net revenue of certain activities of internal service funds is reported with governmental activities.		11,350
Change in net assets - Governmental activities	$	90,377

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

Proprietary Funds
Statement of Net Assets
September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	$ 18	11	6
Pooled investments and cash	43,224	8,341	--
Pooled investments and cash - designated	12,350	--	--
Pooled investments and cash - restricted	58,227	42,672	88,286
Total pooled investments and cash	113,801	51,013	88,286
Investments, at fair value - designated	105,135	--	--
Investments, at fair value - restricted	84,855	40,830	27,301
Cash held by trustee	--	--	--
Cash held by trustee - restricted	2,677	5,582	--
Working capital advances	3,332	--	--
Accounts receivable	125,131	38,687	4,759
Less allowance for doubtful accounts	(2,953)	(852)	(150)
Net accounts receivable	122,178	37,835	4,609
Receivables from other governments	--	--	--
Receivables from other governments - restricted	--	--	944
Due from other funds	21	--	--
Due from other funds - restricted	--	33	617
Inventories, at cost	53,858	938	--
Prepaid expenses	2,759	139	73
Other assets	24,158	--	--
Other receivables - restricted	66	99	--
Total current assets	512,858	136,480	121,836
Noncurrent assets:			
Advances to other funds	2,998	--	--
Advances to other funds - restricted	--	161	2,081
Investments, at fair value	65,000	--	--
Investments held by trustee - restricted	99,372	--	--
Interest receivable - restricted	911	--	--
Capital assets			
Land and other nondepreciable assets	37,612	136,737	59,445
Property, plant and equipment in service	3,240,039	2,167,092	622,064
Less accumulated depreciation	(1,374,273)	(707,255)	(102,067)
Net property, plant and equipment in service	1,865,766	1,459,837	519,997
Construction in progress	221,579	371,173	23,476
Nuclear fuel, net of amortization	17,933	--	--
Plant held for future use	30,745	--	--
Total capital assets	2,173,635	1,967,747	602,918
Intangible assets, net of amortization	--	87,602	--
Other long-term assets	1,352	2	--
Deferred costs and expenses, net of amortization	187,181	176,934	2,425
Total noncurrent assets	2,530,449	2,232,446	607,424
Total assets	$ 3,043,307	2,368,926	729,260

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities-Internal Service Funds
ASSETS			
Current assets:			
Cash	20	55	17
Pooled investments and cash	36,789	88,354	88,783
Pooled investments and cash - designated	15,241	27,591	--
Pooled investments and cash - restricted	86,070	275,255	--
Total pooled investments and cash	138,100	391,200	88,783
Investments, at fair value - designated	--	105,135	--
Investments, at fair value - restricted	5,739	158,725	--
Cash held by trustee	--	--	717
Cash held by trustee - restricted	--	8,259	--
Working capital advances	124	3,456	--
Accounts receivable	15,402	183,979	1,339
Less allowance for doubtful accounts	(4,309)	(8,264)	(222)
Net accounts receivable	11,093	175,715	1,117
Receivables from other governments	1,349	1,349	--
Receivables from other governments - restricted	--	944	--
Due from other funds	1,164	1,185	410
Due from other funds - restricted	--	650	--
Inventories, at cost	645	55,441	1,757
Prepaid expenses	148	3,119	353
Other assets	--	24,158	--
Other receivables - restricted	4	169	--
Total current assets	158,386	929,560	93,154
Noncurrent assets:			
Advances to other funds	101	3,099	--
Advances to other funds - restricted	15	2,257	--
Investments, at fair value	--	65,000	--
Investments held by trustee - restricted	--	99,372	--
Interest receivable - restricted	--	911	--
Capital assets			
Land and other nondepreciable assets	47,942	281,736	1,737
Property, plant and equipment in service	441,409	6,470,604	55,980
Less accumulated depreciation	(122,112)	(2,305,707)	(22,688)
Net property, plant and equipment in service	319,297	4,164,897	33,292
Construction in progress	63,331	679,559	5,495
Nuclear fuel, net of amortization	--	17,933	--
Plant held for future use	--	30,745	--
Total capital assets	430,570	5,174,870	40,524
Intangible assets, net of amortization	--	87,602	--
Other long-term assets	--	1,354	--
Deferred costs and expenses, net of amortization	3,390	369,930	7
Total noncurrent assets	434,076	5,804,395	40,531
Total assets	592,462	6,733,955	133,685

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

(Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 49,055	1,482	1,271
Accounts and retainage payable from restricted assets	18,498	26,929	1,384
Accrued payroll	2,959	1,520	570
Accrued compensated absences	6,799	3,435	1,116
Claims payable	--	--	--
Due to other funds	--	--	--
Due to other governments	--	--	--
Accrued interest payable from restricted assets	26,327	18,993	8,063
Interest payable on other debt	107	835	4
General obligation bonds payable and other tax supported debt	--	--	109
General obligation bonds payable and other tax supported debt payable from restricted assets	490	4,347	--
Revenue bonds payable	--	2,035	--
Revenue bonds payable from restricted assets	89,949	40,796	7,650
Capital lease obligations payable	1,983	1,109	173
Customer and escrow deposits payable from restricted assets	7,765	2,042	614
Nuclear fuel expense payable from restricted assets	33,403	--	--
Deferred credits and other liabilities	5,042	3,515	1,269
Total current liabilities	242,377	107,038	22,223
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	2,623	1,280	262
Claims payable	--	--	--
Advances from other funds	--	4,234	--
Capital appreciation bond interest payable	82,337	84,531	--
Commercial paper notes payable, net of discount	94,984	220,632	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	2,392	19,853	471
Revenue bonds payable, net of discount and inclusive of premium	1,168,752	1,106,769	343,996
Pension obligation payable	1,260	648	229
Capital lease obligations payable	5,203	3,714	321
Accrued landfill closure and postclosure costs	--	--	--
Decommissioning expense payable from restricted assets	100,019	--	--
Deferred credits and other liabilities	71,520	424,999	2,467
Other liabilities payable from restricted assets	--	3,035	1,972
Total noncurrent liabilities	1,529,090	1,869,695	377,718
Total liabilities	1,771,467	1,976,733	399,941
NET ASSETS			
Invested in capital assets, net of related debt	913,447	263,729	224,655
Restricted for:			
Debt service	58,528	21,836	22,009
Capital projects	--	--	56,700
Renewal and replacement	--	--	10,000
Passenger facility charges	--	--	8,537
Convention Center operating reserve	--	--	--
Unrestricted	299,865	106,628	7,418
Total net assets	$ 1,271,840	392,193	329,319
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,405	2,341	742
Total net assets - Business-type activities	$ 1,274,245	394,534	330,061

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

(Continued)

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	7,644	59,452	5,570
Accounts and retainage payable from restricted assets	11,921	58,732	--
Accrued payroll	2,108	7,157	2,732
Accrued compensated absences	4,072	15,422	5,290
Claims payable	--	--	18,595
Due to other funds	--	--	442
Due to other governments	3,000	3,000	--
Accrued interest payable from restricted assets	4,742	58,125	--
Interest payable on other debt	193	1,139	168
General obligation bonds payable and other tax supported debt	3,827	3,936	2,963
General obligation bonds payable and other tax supported debt payable from restricted assets	914	5,751	--
Revenue bonds payable	--	2,035	--
Revenue bonds payable from restricted assets	3,520	141,915	--
Capital lease obligations payable	157	3,422	161
Customer and escrow deposits payable from restricted assets	2,609	13,030	--
Nuclear fuel expense payable from restricted assets	--	33,403	--
Deferred credits and other liabilities	448	10,274	1,986
Total current liabilities	45,155	416,793	37,907
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	523	4,688	944
Claims payable	--	--	8,845
Advances from other funds	4,226	8,460	858
Capital appreciation bond interest payable	--	166,868	--
Commercial paper notes payable, net of discount	--	315,616	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	71,397	94,113	24,409
Revenue bonds payable, net of discount and inclusive of premium	220,031	2,839,548	--
Pension obligation payable	667	2,804	--
Capital lease obligations payable	93	9,331	74
Accrued landfill closure and postclosure costs	7,612	7,612	--
Decommissioning expense payable from restricted assets	--	100,019	--
Deferred credits and other liabilities	--	498,986	--
Other liabilities payable from restricted assets	--	5,007	8
Total noncurrent liabilities	304,549	4,081,052	35,138
Total liabilities	349,704	4,497,845	73,045
NET ASSETS			
Invested in capital assets, net of related debt	167,658	1,569,489	18,966
Restricted for:			
Debt service	5,739	108,112	--
Capital projects	9,987	66,687	9,651
Renewal and replacement	1,415	11,415	--
Passenger facility charges	--	8,537	--
Convention Center operating reserve	2,423	2,423	--
Unrestricted	55,536	469,447	32,023
Total net assets	242,758	2,236,110	60,640
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	2,146	7,634	
Total net assets - Business-type activities	244,904	2,243,744	

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, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 829,018	233,964	--
User fees and rentals	--	--	65,361
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	829,018	233,964	65,361
OPERATING EXPENSES			
Operating expenses before depreciation	516,857	109,555	38,517
Depreciation and amortization	95,525	52,808	16,054
Total operating expenses	612,382	162,363	54,571
Operating income (loss)	216,636	71,601	10,790
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	12,523	1,006	1,916
Interest on revenue bonds and other debt	(102,274)	(79,296)	(22,497)
Interest capitalized during construction	--	--	953
Passenger facility charges	--	--	10,555
Amortization of bond issue cost	(711)	(534)	(131)
Cost (recovered) to be recovered in future years	(61,707)	(49,996)	--
Other nonoperating revenue (expense)	1,633	(1,682)	(1,577)
Total nonoperating revenues (expenses)	(150,536)	(130,502)	(10,781)
Income (loss) before contributions and transfers	66,100	(58,901)	9
Capital contributions	4,284	36,495	6,117
Transfers in	--	--	--
Transfers out	(76,674)	(22,068)	--
Change in net assets	(6,290)	(44,474)	6,126
Special items - hospital district reserve payment	--	--	--
Net change in net assets	(6,290)	(44,474)	6,126
Total net assets - beginning	1,278,130	436,667	323,193
Total net assets - ending	$ 1,271,840	392,193	329,319
Reconciliation to government-wide Statement of Activities			
Change in net assets	(6,290)	(44,474)	6,126
Adjustment to consolidate internal service activities	739	1,172	282
Change in net assets - Business-type activities	$ (5,551)	(43,302)	6,408

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	1,062,982	--
User fees and rentals	131,292	196,653	--
Billings to departments	--	--	196,432
Employee contributions	--	--	24,053
Operating revenues from other governments	4,209	4,209	2,090
Other operating revenues	5,166	5,166	8,525
Total operating revenues	140,667	1,269,010	231,100
OPERATING EXPENSES			
Operating expenses before depreciation	159,886	824,815	212,155
Depreciation and amortization	14,111	178,498	2,220
Total operating expenses	173,997	1,003,313	214,375
Operating income (loss)	(33,330)	265,697	16,725
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	1,137	16,582	134
Interest on revenue bonds and other debt	(15,637)	(219,704)	(651)
Interest capitalized during construction	2,701	3,654	--
Passenger facility charges	--	10,555	--
Amortization of bond issue cost	(184)	(1,560)	(4)
Cost (recovered) to be recovered in future years	--	(111,703)	--
Other nonoperating revenue (expense)	(24,407)	(26,033)	(2,171)
Total nonoperating revenues (expenses)	(36,390)	(328,209)	(2,692)
Income (loss) before contributions and transfers	(69,720)	(62,512)	14,033
Capital contributions	674	47,570	1,918
Transfers in	61,101	61,101	17
Transfers out	(1,623)	(100,365)	(1,079)
Change in net assets	(9,568)	(54,206)	14,889
Special items - hospital district reserve payment	(3,000)	(3,000)	--
Net change in net assets	(12,568)	(57,206)	14,889
Total net assets - beginning	255,326	2,293,316	45,751
Total net assets - ending	242,758	2,236,110	60,640
Reconciliation to government-wide Statement of Activities			
Change in net assets	(12,568)	(57,206)	
Adjustment to consolidate internal service activities	1,346	3,539	
Change in net assets - Business-type activities	(11,222)	(53,667)	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 885,304	231,355	64,639
Cash payments to suppliers for goods and services	(400,113)	(54,867)	(20,073)
Cash payments to employees for services	(97,510)	(51,851)	(18,537)
Cash payments to claimants/beneficiaries	--	--	--
Cash received from other governments	--	--	--
Taxes collected and remitted to other governments	(17,728)	--	--
Net cash provided (used) by operating activities	369,953	124,637	26,029
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(76,674)	(22,068)	--
Interest paid on revenue notes and other debt	(157)	(140)	--
Increase in deferred assets	867	--	--
Increase in due to other governments	--	--	--
Loans to other funds	(499)	(6)	(46)
Loans from other funds	--	941	617
Loan repayments to other funds	--	--	--
Loan repayments from other funds	--	27	83
Net cash provided (used) by noncapital financing activities	(76,463)	(21,246)	654
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	40,312	146,820	--
Proceeds from the sale of general obligation bonds and other tax supported debt	960	4,112	--
Proceeds from long-term loans	390	--	483
Principal paid on long-term debt	(96,695)	(36,088)	(7,327)
Proceeds from the sale of capital assets	244	--	--
Purchased interest received	2	7	315
Interest paid on revenue bonds and other debt	(82,355)	(67,777)	(22,060)
Passenger facility charges	--	--	10,555
Acquisition and construction of capital assets	(156,761)	(159,273)	(12,051)
Contributions from municipality	--	--	--
Contributions from State and Federal governments	--	--	7,033
Contributions in aid of construction	4,837	13,373	83
Bond issuance costs	--	(1,233)	(736)
Bond discounts	--	(465)	(280)
Bond premiums	--	--	4,550
Cash paid for bond defeasance	(87,928)	(51,693)	--
Bonds issued for advanced refundings of debt	--	132,475	54,250
Cash paid for bond refunding escrow	--	(130,778)	(57,783)
Cash paid for nuclear fuel inventory	(5,756)	--	--
Net cash provided (used) by capital and related financing activities	$ (382,750)	(150,520)	(22,968)

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	130,348	1,311,646	241,374
Cash payments to suppliers for goods and services	(83,082)	(558,135)	(76,845)
Cash payments to employees for services	(70,477)	(238,375)	(77,981)
Cash payments to claimants/beneficiaries	--	--	(64,864)
Cash received from other governments	3,186	3,186	--
Taxes collected and remitted to other governments	--	(17,728)	--
Net cash provided (used) by operating activities	(20,025)	500,594	21,684
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	61,101	61,101	17
Transfers out	(1,623)	(100,365)	(1,079)
Interest paid on revenue notes and other debt	(6)	(303)	--
Increase in deferred assets	--	867	--
Increase in due to other governments	3,000	3,000	--
Loans to other funds	(833)	(1,384)	--
Loans from other funds	529	2,087	863
Loan repayments to other funds	(383)	(383)	(27)
Loan repayments from other funds	--	110	(394)
Net cash provided (used) by noncapital financing activities	61,785	(35,270)	(620)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	187,132	--
Proceeds from the sale of general obligation bonds and other tax supported debt	32,386	37,458	14,890
Proceeds from long-term loans	57	930	--
Principal paid on long-term debt	(8,911)	(149,021)	(2,774)
Proceeds from the sale of capital assets	--	244	--
Purchased interest received	350	674	--
Interest paid on revenue bonds and other debt	(14,895)	(187,087)	(640)
Passenger facility charges	--	10,555	--
Acquisition and construction of capital assets	(26,519)	(354,604)	(7,668)
Contributions from municipality	--	--	3,952
Contributions from State and Federal governments	--	7,033	--
Contributions in aid of construction	1,346	19,639	--
Bond issuance costs	(1,016)	(2,985)	--
Bond discounts	(284)	(1,029)	--
Bond premiums	5,120	9,670	--
Cash paid for bond defeasance	--	(139,621)	--
Bonds issued for advanced refundings of debt	52,715	239,440	--
Cash paid for bond refunding escrow	(62,403)	(250,964)	--
Cash paid for nuclear fuel inventory	--	(5,756)	--
Net cash provided (used) by capital and related financing activities	(22,054)	(578,292)	7,760

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (358,243)	(184,812)	(48,515)
Proceeds from sale and maturities of investment securities	449,040	230,524	48,319
Interest on investments	23,104	5,524	1,132
Net cash provided by investing activities	113,901	51,236	936
Net increase in cash and cash equivalents	24,641	4,107	4,651
Cash and cash equivalents, October 1	91,855	52,499	83,641
Cash and cash equivalents, September 30	116,496	56,606	88,292
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	216,636	71,601	10,790
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	95,525	50,308	16,054
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	(576)	--	--
(Increase) decrease in accounts receivable	(9,290)	(1,501)	(715)
Increase (decrease) in allowance for doubtful accounts	639	(214)	--
Decrease in receivables from other governments	--	--	--
(Increase) decrease in inventory	(8,469)	196	--
(Increase) decrease in prepaid expenses and other assets	45,568	(7)	(72)
Decrease in deferred costs and other expenses	9,985	2	--
(Increase) decrease in other long-term assets	559	--	--
Increase (decrease) in accounts payable	4,246	364	(1)
Increase (decrease) in accrued payroll and compensated absences	(202)	(141)	109
Decrease in claims payable	--	--	--
Increase in pension obligations payable	1,260	648	229
Increase (decrease) in deferred credits and other liabilities	13,868	815	(408)
Increase in customer deposits	204	66	43
Total adjustments	153,317	53,036	15,239
Net cash provided (used) by operating activities	$ 369,953	124,637	26,029

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(34,661)	(626,231)	--
Proceeds from sale and maturities of investment securities	43,230	771,113	--
Interest on investments	1,225	30,985	134
Net cash provided by investing activities	9,794	175,867	134
Net increase in cash and cash equivalents	29,500	62,899	28,958
Cash and cash equivalents, October 1	108,620	336,615	60,559
Cash and cash equivalents, September 30	138,120	399,514	89,517
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(33,330)	265,697	16,725
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	14,111	175,998	2,220
Amortization	--	2,500	--
Change in assets and liabilities:			
Increase in working capital advances	--	(576)	--
(Increase) decrease in accounts receivable	(550)	(12,056)	9,305
Increase (decrease) in allowance for doubtful accounts	436	861	--
Decrease in receivables from other governments	(1,023)	(1,023)	--
(Increase) decrease in inventory	(98)	(8,371)	(28)
(Increase) decrease in prepaid expenses and other assets	(17)	45,472	(95)
Decrease in deferred costs and other expenses	3	9,990	1
(Increase) decrease in other long-term assets	--	559	(1)
Increase (decrease) in accounts payable	2,233	6,842	(989)
Increase (decrease) in accrued payroll and compensated absences	(54)	(288)	(94)
Decrease in claims payable	--	--	(6,465)
Increase in pension obligations payable	668	2,805	--
Increase (decrease) in deferred credits and other liabilities	(2,698)	11,577	1,105
Increase in customer deposits	294	607	--
Total adjustments	13,305	234,897	4,959
Net cash provided (used) by operating activities	(20,025)	500,594	21,684

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2004
(In thousands)

	Electric		Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
Decrease in deferred assets/expenses	$	73,728	23,017	--
Increase in capital appreciation bond interest payable		6,448	9,448	--
Capital assets contributed from (to) other funds		51	--	18
Increase in contributed facilities		--	25,524	--
Net decrease in the fair value of investments		12,564	4,002	--
Amortization of bond issue costs		(711)	(534)	(131)
Amortization of bond discounts and premiums		(1,998)	(856)	(211)
Amortization of deferred loss on refundings		25,736	3,989	346
Gain (loss) on disposal of assets		2,112	(1,684)	(1,559)
Deferred gain (loss) on bond refunding		12,541	(1,538)	(5,718)
Bond issuance costs, discounts, premiums and accrued interest written off due to refunding		867	2,154	225
Deferred costs (recovered) to be recovered		(61,707)	(49,996)	--
Loss on extinguishment of debt		(16,358)	(9,573)	--
Increase in deferred credits and other liabilities		4,740	19,399	--
Contributions		--	--	--

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

	Nonmajor Enterprise Funds	2004 Total	Governmental Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Decrease in deferred assets/expenses	14,978	111,723	--
Increase in capital appreciation bond interest payable	--	15,896	--
Capital assets contributed from (to) other funds	(629)	(560)	(2,033)
Increase in contributed facilities	--	25,524	--
Net decrease in the fair value of investments	--	16,566	--
Amortization of bond issue costs	(183)	(1,559)	(2)
Amortization of bond discounts and premiums	(99)	(3,164)	(2)
Amortization of deferred loss on refundings	538	30,609	6
Gain (loss) on disposal of assets	(24,449)	(25,580)	(2,459)
Deferred gain (loss) on bond refunding	(2,601)	2,684	--
Bond issue costs, discounts, premiums and accrued interest written off due to refunding	1,158	4,404	--
Deferred costs (recovered) to be recovered	--	(111,703)	--
Loss on extinguishment of debt	--	(25,931)	--
Increase in deferred credits and other liabilities	--	24,139	969
Contributions	3,100	3,100	--

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

(In thousands)

	Private-purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 904	3,192
Other assets	121	--
Total assets	1,025	3,192
LIABILITIES		
Accounts payable	1	35
Due to other governments	--	2,524
Deposits and other liabilities	314	633
Total liabilities	315	3,192
NET ASSETS		
Held in trust	710	
Total net assets	$ 710	

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

Fiduciary Funds **City of Austin, Texas**
Statement of Changes in Fiduciary Net Assets **Exhibit D-2**
For the year ended September 30, 2004
(In thousands)

	Private-purpose Trust
ADDITIONS	
Contributions	$ 254
Interest and other	15
Total additions	269
DEDUCTIONS	
Deductions	310
Total deductions	310
Change in net assets	(41)
Total net assets - beginning	751
Total net assets - ending	$ 710

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 who may serve for 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 public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and general government. In addition, the City owns and operates certain major enterprise activities, including an electric utility, water and wastewater utility, airport, convention and other enterprise activities. These activities are included in the accompanying financial statements.

The Charter of the City of Austin requires an annual audit by an independent certified public accountant. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City has implemented GASB Statement No. 1 through Statement No. 41. GASB Statement No. 40 entitled *"Deposit and Investment Risk Disclosures"* was implemented in fiscal year 2004. The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is exempt from federal income taxes, under Internal Revenue Code Section 115, and state sales tax.

a -- Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City, the Primary Government, and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and 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, nonmajor special revenue funds.

Related Organizations -- The following paragraph summarizes related organizations to which the City Council appoints board members but the City has no significant financial accountability. The City appoints certain members of the board of the Capital Metropolitan Transit Authority (Capital Metro), but the City's accountability for this organization does not extend beyond making the appointments. City Councilmembers appoint themselves as members of the board of the Austin-Bergstrom International Airport (ABIA) Development Corporation; their function on this board is ministerial rather than substantive. The City Council appoints the members of the board of Austin-Bergstrom Landhost Enterprises, Inc., and Austin Convention Enterprises, Inc.; the functions of these boards are ministerial rather than substantive. The Mayor, with consent of the City Council, appoints the Board of Commissioners for the Urban Renewal Agency, whose primary responsibility is to oversee the implementation and compliance of Urban Renewal Plans adopted by the City Council. The City's presiding officer of the municipality governing body appoints the persons to serve as commissioners of the Austin Housing Authority. 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 retirement plans (described in Note 8) and the City of Austin Deferred Compensation Plan for City employees are not included in the City's reporting entity because the City does not exercise substantial control over the entities.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b -- Government-wide and Fund Financial Statements

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 of the non-fiduciary activities of the primary government and its component units. 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 or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The fund level statements focus on the governmental, proprietary and fiduciary funds. The accounts of the City are organized on the basis of funds. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major funds are determined by criteria specified by GASB; the City has not elected to present additional major funds that do not meet the minimum criteria. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental or enterprise nonmajor fund groupings.

The City's fiduciary funds are presented in the fund financial statements by type (private-purpose and agency). By definition these assets are held for the benefit of a third party and cannot be used to address activities or obligations of the government, and are therefore not included in the government-wide statements. Reconciliation of the fund financial statements to the government-wide financial statements is provided in the financial statements to explain the differences created by the integrated approach of GASB 34.

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

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available. Revenues, other than grants, are considered to be available when they are collectible, within the current period or soon enough thereafter to pay liabilities of the current period (defined by the City as collected within 60 days of year end). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed and when all eligibility requirements of the provider have been met and 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 to the extent they are normally expected to be liquidated with available financial resources. Debt service expenditures are recognized when payment is matured. 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, EMS charges, Municipal Court fines and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, except those required to be accounted for in another fund. It includes the following activities: public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and general government.

Proprietary and fiduciary fund financial statements are accounted for on 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.

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).

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

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

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

Capital Projects Funds: Account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds and private-purpose funds) and 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 and not principal may be used for purposes that support the City's programs. Permanent funds account for the public recreation and culture activity.

The City reports the following proprietary and fiduciary funds:

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The City has elected to follow GASB statements issued after November 30, 1989, rather than statements issued by the Financial Accounting Standards Board (FASB), in accordance with GASB Statement No. 20. The nonmajor enterprise funds account for the operations in a variety of areas: convention center, drainage, golf, hospital (both Brackenridge and Austin Women's Hospital), recreation activities, primary care clinics, solid waste and transportation.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fiduciary Funds: Accounts 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 net assets held on behalf of others and are purely custodial (assets equal liabilities).

d -- Budget

The City Manager submits a proposed budget to the City Council no later than thirty days prior to the beginning of the new fiscal year. The City Council holds public hearings, modifies the City Manager's recommendations, and adopts a final budget no later than the twenty-seventh day of September. 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. Annual budgets are adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain charges to ending fund balance are budgeted as nondepartmental expenditures.

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

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

e -- Financial Statement Elements

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

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2004. Investments in local government investment pools are carried at amortized cost, which approximates fair value. The City has implemented GASB Statement No. 40 entitled "*Deposit and Investment Risk Disclosures*".

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2004 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Other	Total
Governmental activities						
General Fund	$ 63,583	35,055	26,758	--	9,082	134,478
Nonmajor governmental funds	4,745	37	8,153	8,467	952	22,354
Internal service funds	1,339	--	--	--	--	1,339
Allowance for doubtful accounts	(61,421)	(22,642)	--	--	--	(84,063)
Total	$ 8,246	12,450	34,911	8,467	10,034	74,108

Municipal Court fines in the governmental activities, because of the nature of the fines, have a collection period greater than one year. Fines recognized that will not be collected during the subsequent year are estimated to be approximately $5.4 million.

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

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

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

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

Interfund Receivables, 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 expected to be liquidated after one year, they are classified as “advances to other funds” or “advances from other funds.”

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

Fund	Inventory Valuation Method
General Fund	Average cost (predominantly); some 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 use 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."

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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

	Electric	Water and Wastewater	Airport	Nonmajor Enterprise	Total Restricted Assets
Bond reserve	$ 2,001	--	--	--	2,001
Capital projects	16,275	43,470	72,245	80,614	212,604
Customer and escrow deposits	7,765	5,077	615	1,618	15,075
Debt service	84,855	40,830	15,108	5,754	146,547
Federal grants	--	--	3,642	4	3,646
Nuclear decommissioning	101,809	--	--	--	101,809
Nuclear fuel inventory replacement	33,403	--	--	--	33,403
Operating reserve account	--	--	6,901	2,423	9,324
Passenger facility charge account	--	--	10,718	--	10,718
Renewal and replacement account	--	--	10,000	1,415	11,415
	$ 246,108	89,377	119,229	91,828	546,542

Designated assets -- Designated assets are funds that have been appropriated by City Council action and are intended for specific purposes. They are not constrained by creditors, grantors, contributors, or laws or regulations of other governments nor are they constrained by law through constitutional provisions or enabling legislation.

Capital assets -- Capital assets, which include land and improvements, buildings and improvements, equipment, vehicles and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets, and related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of $1,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair market value at the time received, or at historical cost, if historical cost is available. 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, and improvements and betterments that extend the useful lives of capital assets are capitalized.

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

Interest is not capitalized on governmental capital assets. For enterprise funds, except for Electric and Water and Wastewater Utility funds, interest paid on long-term debt in the enterprise funds is capitalized 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 and Water and Wastewater Utility enterprise fund assets in accordance with FASB Statement No. 71.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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	15-40	30-40	40-50	15-40	15-40
Equipment	7-30	7-40	10-50	10-50	7-40
Vehicles	3-20	3-15	3-20	3-15	3-15
Communication equipment	7	7	7	7	7
Furniture and fixtures	12	12	12	12	7-12
Computers and EDP equipment	3-7	3-7	3-7	3-7	3-7
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds

Depreciation of assets is classified by functional components. The City considers land, arts and treasures and library collections to be inexhaustible; and therefore, these assets are reported as nondepreciable. The true value of arts and treasures and library collections is expected to be maintained over time and, thus, is not depreciated. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure assets ($35.8 million).

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

City policies provide for the following amounts to be paid at termination: accumulated vacation pay with a maximum of six weeks and accumulated sick leave with a maximum of ninety days. Sick leave accumulated in excess of ninety days or by employees hired on or after October 1, 1986 is not payable at termination and is not included in these financial statements.

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

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

The City defers and amortizes gains or losses realized by proprietary funds on refundings of debt and for governmental activities in the government-wide financial statements, and reports both the new debt liability and the related deferred amount on the funds' statement of net assets. The City recognizes gains or losses on debt defeasance when funds from current operations are used.

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

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

Electric Fund	$	7,732
Water and Wastewater Fund		1,199
Airport		19
Nonmajor Enterprise Funds		1,361

Electric, water and wastewater revenue is recorded when earned. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred. The City reported fuel costs on the same basis as it recognized revenue in 2003 and prior years. Austin Energy recorded unbilled revenue as earned based upon taking each day's power generation and using the billing district read dates to estimate what percentage was billed as of September 30, 2004 and what percentage will be billed thereafter over the days since the last meter read, on a billing cycle basis. The amount of unbilled revenue recorded as of September 30, 2004 for Austin Energy was $38.2 million. Austin Water recorded unbilled revenue as earned based upon an extrapolation of customer usage from the prior year, over the days since the last meter read, on an aggregate basis. The amount of unbilled revenue recorded as of September 30, 2004 for Austin Water was $16.3 million.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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

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

Revenues received for activities normally recorded in other governmental funds are accounted for within the nonmajor governmental fund groupings: 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 at the discretion of the City are recognized in the applicable proprietary fund.

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

Reservations of Fund Equity -- Reservation of fund balances of the governmental funds indicate that portion of fund equity which 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.

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).

Special Items -- These are significant transactions or events within the control of the City that are either unusual in nature or infrequent in occurrence. On September 13, 2004, the City Council approved a transfer in the amount of $10.7 million to the Travis County Hospital District as a portion of an initial reserve established by the District. Although the cash was transferred on October 1, 2004, the special item and associated liability were recognized in fiscal year 2004. The total $10.7 million consists of $7.7 million from the General Fund and $3 million from Primary Care (which is reported as a nonmajor enterprise fund).

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, including medical malpractice; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. The City continues to be self-insured for liabilities for most health benefits, third-party and workers' compensation claims.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 for the purpose of reducing exposure to natural gas and energy price risk. The City complies with GASB Technical Bulletin No. 2003-1, *"Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets"* (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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balances of the City's governmental funds, $309 million, differ from the net assets of governmental activities, $1,439 million, reported in the statement of net assets. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds		$ 309,191
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	2,576,499	
Less: accumulated depreciation	(584,734)	
Total		1,991,765
Other long-term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	11,800	
Deferred costs and expenses	3,226	
Total		15,026
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	(836,152)	
Pension obligation payable	(3,102)	
Capital lease obligations payable	(578)	
Compensated absences	(63,739)	
Interest payable	(3,447)	
Deferred credits and other liabilities	(23,466)	
Total		(930,484)
Internal service funds		53,006
Total net assets - Governmental activities		$ 1,438,504

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, continued

b -- Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The net change in fund balances of governmental funds, $36 million deficit, differs from the change in net assets for governmental activities, $90 million, reported in the statement of activities. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ (36,264)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets are depreciated over the estimated useful life of the asset.		
Capital outlay	157,140	
Depreciation expense	(61,112)	
Loss on disposal of capital assets	(1,672)	
Total		94,356
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	(3,357)	
Charges for services	(6,553)	
Capital assets contribution	63,398	
Total		53,488
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		
Intergovernmental revenue	(12,728)	
Total		(12,728)
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(70,040)	
Principal repayment on long-term debt	48,862	
Deferral of debt issue costs	(24)	
Total		(21,202)
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	(1,924)	
Pension obligation	(3,102)	
Interest and other	6,403	
Total		1,377
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		11,350
Change in net assets - Governmental activities		$ 90,377

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2004, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers or debt issues.

Nonmajor Governmental	Deficit (in thousands)		Deficit (in thousands)
Special Revenue Funds:		**Internal Service Funds:**	
Fiscal Surety - Land Development	$ 77	CTECC	384
		Liability Reserve	775
Capital Projects Funds:			
Energy improvements - city facilities	82		
Parks/Old Bakery	184		
Police facilities	14		
Radio Trunking	5,820		
Parks - 1992	225		
Build Austin	25		
Central City Entertainment Center	1		
Capital reserve	965		
Public Works	19		
City Hall, plaza, parking garage	2,913		
Interest income fund	595		

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2004 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
General Fund	$ 97,002	--
Nonmajor governmental funds	187,228	--
Electric	55,574	58,227
Water and Wastewater	8,341	42,672
Airport	--	88,286
Nonmajor enterprise funds	52,030	86,070
Internal service funds	88,783	--
Fiduciary funds	4,096	--
Subtotal pooled investments and cash	493,054	275,255
Total pooled investments and cash	$ 768,309	

5 – INVESTMENTS AND DEPOSITS

a -- Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City of Austin 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.

5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

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

The City participates in two Local Government Investment Pools: TexPool and TexasDAILY. The State Comptroller oversees TexPool, with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over TexasDAILY, an advisory board consisting of participants or their designees, maintains oversight responsibility for TexasDAILY. Public Financial Management Asset Management LLC manages the daily operations of the pool under a contract with the advisory board.

The City invests in TexPool and TexasDAILY to provide its liquidity needs. TexPool and TexasDAILY are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool and TexasDAILY are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. TexPool and TexasDAILY are rated AAAm and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At September 30, 2004 TexPool and TexasDAILY had a weighted average maturity of 23 days and 43 days, respectively. Although the TexPool and TexasDAILY portfolios had a weighted average maturity of 23 days and 43 days, respectively, the City considers the holdings in these funds to have a one day weighted average maturity. This is 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.

5 – INVESTMENTS AND DEPOSITS, continued

The City did not participate in any reverse repurchase agreements or security lending agreements during fiscal year 2004.

All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all non-pooled and pooled investment types of the City at September 30, 2004 (in thousands).

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments:				
Local Government Investment Pools	$ 13,477	143,848	--	157,325
US Agency Discount Notes	--	14,883	--	14,883
US Treasury Notes	--	98,275	--	98,275
US Agency Bonds	--	169,225	--	169,225
US Agency Bonds-Step	--	2,001	--	2,001
Total non-pooled investments	13,477	428,232	--	441,709
Pooled investments:				
Local Government Investment Pools	123,517	129,454	1,356	254,327
US Agency Discount Notes	36,257	38,025	398	74,680
US Treasury Notes	9,660	10,132	106	19,898
US Agency Bonds	205,346	213,375	2,234	420,955
US Agency Bonds-Step	2,421	2,539	26	4,986
Total pooled investments (1)	377,201	393,525	4,120	774,846
Total investments	$ 390,678	821,757	4,120	1,216,555

(1) A difference of $6.5 million exists between the investment portfolio balance and book balance, primarily due to deposits in transit offset by outstanding checks.

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 Special Projects or Special Purpose funds;
2. Debt Service Funds;
3. Special Projects Funds or Special Purpose Funds;

The City's investment policy seeks to control credit risk. Such risk shall be controlled by investing in compliance with the City's investment policy, qualifying the broker and financial institution with whom the City will transact, sufficient collateralization, portfolio diversification, and limiting maturity.

5 – INVESTMENTS AND DEPOSITS, continued

Operating Funds (excluding Special Projects or Special Purpose Funds)
As of September 30, 2004, the City of Austin's operating funds (excluding Special Projects or Special Purpose Funds) had the following investments:

	Fair Value (in thousands)				
Investment Type	**Governmental Activities**	**Business-type Activities**	**Fiduciary Funds**	**Total**	**Weighted Average Maturity (days)**
Local Government Invest Pools (LGIPs)	$ 123,517	129,454	1,356	254,327	1
US Agency Discount Notes	36,257	38,025	398	74,680	78
US Treasury Notes	9,660	10,132	106	19,898	329
US Agency Bonds	205,346	213,375	2,234	420,955	544
US Agency Bonds-Step	2,421	2,539	26	4,986	565
	$ 377,201	393,525	4,120	774,846	315

Credit Risk
As of September 30, 2004, the LGIPs (which represent approximately 33% of the portfolio) are rated AAAm by Standard and Poor's. The US Agency Discount Notes (which represent approximately 10% of the portfolio) are rated A-1+ by Standard and Poor's. The US Agency Bonds and US Agency Step Bonds (which represent approximately 55% of the portfolio) are rated AAA by Standard and Poor's. Approximately 2% of the portfolio consists of direct obligations of the US government.

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 of time before maturity.

At September 30, 2004, nearly a third of the Investment Pool was invested in AAAm rated LGIPs (2(a)-7 like pools), with the remainder invested in short-to-medium term US Agency and Treasury obligations. Term limits on individual maturities did not exceed three years from the purchase date. The dollar weighted average maturity for all securities was 315 days, which was less than the threshold of 365 days.

5 – INVESTMENTS AND DEPOSITS, continued

Debt Service Funds

As of September 30, 2004, the City of Austin's debt service funds had the following investments:

	Fair Value (in thousands)		
	Governmental Activities	Business-type Activities	Final Maturity
General Obligation Debt Service			
TexPool (LGIPs)	$ 13,392	--	N/A
TexasDAILY(LGIPs)	85	--	N/A
Subtotal	13,477	--	
Enterprise-Utility (1)			
TexPool (LGIPs)	--	120,697	N/A
Fannie Mae Discount Notes (FNDN)	--	4,988	11/15/2004
Subtotal	--	125,685	
Enterprise-Airport			
TexPool (LGIPs)	--	15,108	N/A
Nonmajor Enterprise-Convention Center			
TexPool (LGIPs)	--	5,739	N/A
Total	$ 13,477	146,532	

(1) Includes combined pledge debt service

Credit Risk

As of September 30, 2004, TexPool and TexasDAILY are rated AAAm by Standard and Poor's, and the Fannie Mae Agency Discount Notes are rated A-1+ by Standard and Poor's.

Interest Rate Risk

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

At September 30, 2004, portfolios in this category held investments in AAAm rated LGIPs and US Agencies with final maturities matching anticipated debt service requirements in October and/or November 2004.

Special Projects Funds

As of September 30, 2004, the City of Austin's Special Projects Funds had the following investments:

	Fair Value (in thousands)		
Capital Project Construction	Governmental Activities	Business-type Activities	Final Maturity
TexPool (LGIPs)	$ 80	--	N/A
Federal Home Loan Bank (FHLB) 2.315% of 04/28/06	1,890	--	04/28/2006
Subtotal	1,970	--	
Airport Construction			
TexPool (LGIPs)	--	2,298	N/A
Freddie Mac Discount Notes (FMCDN) of 04/05/05	--	9,895	04/05/2005
Subtotal	--	12,193	
Total special projects funds	$ 1,970	12,193	

Credit Risk

As of September 30, 2004, TexPool is rated AAAm by Standard and Poor's. The Freddie Mac Discount Notes are rated A-1+ by Standard and Poor's, and the Federal Home Loan Bank Agency Bonds are rated AAA by Standard and Poor's.

5 – INVESTMENTS AND DEPOSITS, continued

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

At September 30, 2004, the portfolios held investments in a AAAm rated LGIP and US Agencies with maturities that meet anticipated cash flow requirements.

Special Purpose Funds
Austin Energy Debt Management Fund
As of September 30, 2004, the City of Austin's Special Purpose Fund (Austin Energy Debt Management Fund) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (days)
TexPool (LGIPs)	$ 6	1
US Treasuries	70,990	790
US Agencies	99,139	787
Total	$ 170,135	788

Credit Risk
At September 30, 2004, the Electric Utility Department Debt Management Fund had a minimal 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. The US Agency Bonds are rated AAA by Standard and Poor's. The remaining securities are direct obligations of the US government.

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, 2004, the portfolios held investments in TexPool (AAAm rated LGIP), US Treasuries and US Agencies with maturities that meet anticipated cash flow requirements and an overall dollar weighted average maturity of 788 days (2.16 years).

Austin Energy Nuclear Decommissioning Trust Funds
As of September 30, 2004, the Austin Energy's Special Purpose Fund (Nuclear Decommissioning Trust Funds, NDTF) had the following investments:

Business-type Activities	Fair Value (in thousands)	Weighted Average Maturity (years)
US Treasuries	$ 27,285	2.47
US Agencies	70,086	2.39
US Agencies-Step	2,001	4.58
Total	$ 99,372	2.46

Credit Risk
As of September 30, 2004, the US Agency Bonds and US Agency Step Bonds are rated AAA by Standard and Poor's. The remaining securities are direct obligations of the US government.

Interest Rate Risk
As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy for the Decommissioning Trust Fund portfolios requires that the dollar weighted average maturity, using final stated maturity dates, shall not exceed seven years, although the portfolio's weighted average maturity may be substantially shorter if market conditions so dictate. At September 30, 2004, the dollar weighted average maturity was 2.46 years.

5 – INVESTMENTS AND DEPOSITS, continued

Investments and deposits at September 30, 2004 are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Non-pooled investments and deposits	$ 17,369	436,546	--	453,915
Pooled investments and deposits	379,226	395,647	4,142	779,015
Total investments and deposits	396,595	832,193	4,142	1,232,930
Unrestricted deposits	3,892	55	--	3,947
Restricted deposits	--	8,259	--	8,259
Pooled deposits	2,025	2,122	22	4,169
Investments	390,678	821,757	4,120	1,216,555
Total investments and deposits	$ 396,595	832,193	4,142	1,232,930

A difference of $10.7 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

c -- Deposits

The September 30, 2004 carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash				
Unrestricted	$ 111	55	--	166
Cash held by trustee				
Unrestricted	3,781	--	--	3,781
Restricted	--	8,259	--	8,259
Pooled cash	2,025	2,122	22	4,169
Total deposits	$ 5,917	10,436	22	16,375

All bank accounts were either insured or collateralized with securities held by the City or by its agent in the City's name at September 30, 2004.

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, 2003, upon which the 2004 levy was based, was $48,964,275,008.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2004, 99.06% of the current tax levy (October 1, 2003) was collected. The statutory lien date is January 1.

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

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

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

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, 2004, was $.3236 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.6764 per $100 assessed valuation, and could levy approximately $331,194,356 in additional taxes from the assessed valuation of $48,964,275,008 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 anticipates the need for numerous additional utility-related projects over the next several years. However, specific projects and related funding have not been identified or authorized.

The City has recorded capitalized interest for fiscal year 2004 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Major fund:		
Airport	$	953
Nonmajor enterprise funds:		
Convention Center		1,390
Drainage		1,113
Golf		67
Solid Waste Services		131

Interest is not capitalized on governmental capital assets.

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Components of capital assets (in thousands)

	Governmental Activities	Business-type Activities	Total
Capital assets not depreciated			
Land and improvements	$ 232,953	280,377	513,330
Arts and treasures	4,811	1,359	6,170
Library collections	12,885	--	12,885
Total	250,649	281,736	532,385
Depreciable property, plant and equipment in service			
Building and improvements	355,580	1,959,528	2,315,108
Equipment	63,405	4,234,261	4,297,666
Vehicles	75,635	87,543	163,178
Infrastructure	1,435,360	--	1,435,360
Completed assets not classified	131,663	189,272	320,935
Total	2,061,643	6,470,604	8,532,247
Less accumulated depreciation for			
Building and improvements	(95,008)	(557,904)	(652,912)
Equipment	(30,520)	(1,688,281)	(1,718,801)
Vehicles	(43,851)	(50,633)	(94,484)
Infrastructure	(426,668)	--	(426,668)
Completed assets not classified	(11,375)	(8,889)	(20,264)
Total	(607,422)	(2,305,707)	(2,913,129)
Net property, plant and equipment in service	1,454,221	4,164,897	5,619,118
Other capital assets not depreciated			
Construction in progress	327,419	679,559	1,006,978
Nuclear fuel, net of amortization	--	17,933	17,933
Plant held for future use	--	30,745	30,745
Total capital assets	$ 2,032,289	5,174,870	7,207,159

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 195,274	37,679	--	232,953
Arts and treasures	4,785	26	--	4,811
Library collections	12,880	5	--	12,885
Total	212,939	37,710	--	250,649
Depreciable property, plant and equipment in service				
Building and improvements	310,174	45,406	--	355,580
Equipment	50,253	14,251	(1,099)	63,405
Vehicles	74,447	4,461	(3,273)	75,635
Infrastructure	1,308,273	127,087	--	1,435,360
Completed assets not classified	108,595	31,383	(8,315)	131,663
Total	1,851,742	222,588	(12,687)	2,061,643
Less accumulated depreciation for				
Building and improvements	(84,558)	(10,450)	--	(95,008)
Equipment	(23,938)	(7,398)	816	(30,520)
Vehicles	(38,791)	(8,152)	3,092	(43,851)
Infrastructure	(389,336)	(37,332)	--	(426,668)
Completed assets not classified	(13,299)	--	1,924	(11,375)
Total	(549,922)	(63,332) (2)	5,832	(607,422)
Net property, plant and equipment in service	1,301,820	159,256	(6,855)	1,454,221
Other capital assets not depreciated				
Construction in progress	353,951	154,798	(181,330)	327,419
Total capital assets	$ 1,868,710	351,764	(188,185)	2,032,289

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

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

Governmental activities:	
General government	$ 2,043
Public safety	9,966
Transportation, planning and sustainability	3,293
Public health	1,428
Public recreation and culture	7,181
Urban growth management	1,368
Unallocated depreciation expense - infrastructure	35,833
Internal service funds	2,220
Total accumulated depreciation	$ 63,332

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 34,942	2,670	--	37,612
Total	34,942	2,670	--	37,612
Depreciable property, plant and equipment in service				
Building and improvements	601,793	19,795	--	621,588
Equipment	2,302,680	286,217	(12,330)	2,576,567
Vehicles	19,319	1,791	(679)	20,431
Completed assets not classified	27,617	866	(7,030)	21,453
Total	2,951,409	308,669	(20,039)	3,240,039
Less accumulated depreciation for				
Building and improvements	(250,556)	(17,861)	--	(268,417)
Equipment	(1,020,307)	(76,631)	9,750	(1,087,188)
Vehicles	(14,919)	(661)	679	(14,901)
Completed assets not classified	(2,893)	(874)	--	(3,767)
Total	(1,288,675)	(96,027) (1)	10,429	(1,374,273)
Net property, plant and equipment in service	1,662,734	212,642	(9,610)	1,865,766
Other capital assets not depreciated				
Construction in progress	359,749	160,070	(298,240)	221,579
Nuclear fuel, net of amortization	21,805	--	(3,872)	17,933
Plant held for future use	31,379	--	(634)	30,745
Total capital assets	$ 2,110,609	375,382	(312,356)	2,173,635

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 95,525
Adjustment to accumulated depreciation	502
Total accumulated depreciation	$ 96,027

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 136,173	1,007	(443)	136,737
Total	136,173	1,007	(443)	136,737
Depreciable property, plant and equipment in service				
Building and improvements	343,874	42,300	--	386,174
Equipment	1,508,381	106,480	(423)	1,614,438
Vehicles	20,988	609	(820)	20,777
Completed assets not classified	248,413	--	(102,710)	145,703
Total	2,121,656	149,389	(103,953)	2,167,092
Less accumulated depreciation for				
Building and improvements	(103,580)	(8,533)	--	(112,113)
Equipment	(536,353)	(40,623)	418	(576,558)
Vehicles	(13,611)	(1,152)	819	(13,944)
Completed assets not classified	(4,640)	--	--	(4,640)
Total	(658,184)	(50,308) (2)	1,237	(707,255)
Net property, plant and equipment in service	1,463,472	99,081	(102,716)	1,459,837
Other capital assets not depreciated				
Construction in progress	232,170	161,901	(22,898)	371,173
Total capital assets	$ 1,831,815	261,989	(126,057)	1,967,747

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

(2) Components of accumulated depreciation increases:

Current year depreciation	
Water	$ 24,412
Wastewater	25,896
Total accumulated depreciation	$ 50,308

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 58,690	--	--	58,690
Arts and treasures	459	296	--	755
Total	59,149	296	--	59,445
Depreciable property, plant and equipment in service				
Building and improvements	575,013	24,439	--	599,452
Equipment	14,704	1,413	(387)	15,730
Vehicles	3,722	377	(37)	4,062
Completed assets not classified	21,796	--	(18,976)	2,820
Total	615,235	26,229	(19,400)	622,064
Less accumulated depreciation for				
Building and improvements	(78,768)	(14,794)	--	(93,562)
Equipment	(5,523)	(927)	210	(6,240)
Vehicles	(1,969)	(333)	37	(2,265)
Completed assets not classified	(323)	--	323	--
Total	(86,583)	(16,054) (1)	570	(102,067)
Net property, plant and equipment in service	528,652	10,175	(18,830)	519,997
Other capital assets not depreciated				
Construction in progress	19,368	11,883	(7,775)	23,476
Total capital assets	$ 607,169	22,354	(26,605)	602,918

(1) Components of accumulated depreciation increases:	
Current year depreciation	$ 16,054
Total accumulated depreciation	$ 16,054

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 40,795	6,601	(58)	47,338
Arts and treasures	268	336	--	604
Total	41,063	6,937	(58)	47,942
Depreciable property, plant and equipment in service				
Building and improvements	341,862	11,077	(625)	352,314
Equipment	22,762	4,970	(207)	27,525
Vehicles	40,390	3,986	(2,102)	42,274
Completed assets not classified	30,611	21	(11,336)	19,296
Total	435,625	20,054	(14,270)	441,409
Less accumulated depreciation for				
Building and improvements	(75,093)	(8,721)	2	(83,812)
Equipment	(16,585)	(1,804)	94	(18,295)
Vehicles	(17,844)	(3,617)	1,938	(19,523)
Completed assets not classified	(760)	--	278	(482)
Total	(110,282)	(14,142) (1)	2,312	(122,112)
Net property, plant and equipment in service	325,343	5,912	(11,958)	319,297
Other capital assets not depreciated				
Construction in progress	49,870	28,457	(14,996)	63,331
Nuclear fuel, net of amortization	--	--	(0)	(0)
Plant held for future use	--	--	0	0
Total capital assets	$ 416,276	41,306	(27,012)	430,570

(1) Components of accumulated depreciation increases:

Current year depreciation	
Convention Center	$ 6,445
Other nonmajor enterprise funds	7,666
Adjustment to accumulated depreciation	31
Total accumulated depreciation	$ 14,142

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

Capital asset activity for the year ended September 30, 2004 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not depreciated				
Land and improvements	$ 270,600	10,278	(501)	280,377
Arts and treasures	727	632	--	1,359
Total	271,327	10,910	(501)	281,736
Depreciable property, plant and equipment in service				
Building and improvements	1,862,542	97,611	(625)	1,959,528
Equipment	3,848,527	399,145	(13,411)	4,234,261
Vehicles	84,419	6,763	(3,639)	87,543
Completed assets not classified	328,437	887	(140,052)	189,272
Total	6,123,925	504,406	(157,727)	6,470,604
Less accumulated depreciation for				
Building and improvements	(507,997)	(49,909)	2	(557,904)
Equipment	(1,578,768)	(119,985)	10,472	(1,688,281)
Vehicles	(48,343)	(5,763)	3,473	(50,633)
Completed assets not classified	(8,616)	(874)	601	(8,889)
Total	(2,143,724)	(176,531) (2)	14,548	(2,305,707)
Net property, plant and equipment in service	3,980,201	327,875	(143,179)	4,164,897
Other capital assets not depreciated				
Construction in progress	661,157	362,311	(343,909)	679,559
Nuclear fuel, net of amortization	21,805	--	(3,872)	17,933
Plant held for future use	31,379	--	(634)	30,745
Total capital assets	$ 4,965,869	701,096	(492,095)	5,174,870

(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	$ 95,525
Water	24,412
Wastewater	25,896
Airport	16,054
Convention Center	6,445
Other nonmajor enterprise funds	7,666
Total business-type activities depreciation expense	175,998
Adjustment to accumulated depreciation	533
Total increases in accumulated depreciation	$ 176,531

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 City-wide 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, 2003. Membership in the plans at December 31, 2003 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	3,619	338	392	4,349
Current employees	7,432	1,406	969	9,807
Total	11,051	1,744	1,361	14,156

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

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

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

8 – RETIREMENT PLANS, continued

b -- Funding Policy

	City of Austin Employees' Retirement and Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	9.0%	13.7% until June 2003; 15.7% thereafter
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

(1) The City contributes two-thirds of the cost of prior service benefit payments.

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary for the Police Officers and Fire Fighters plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2004, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	$ 25,268	14,358	9,835	49,461
Employees	25,218	7,179	8,554	40,951
Total contributions	$ 50,486	21,537	18,389	90,412

c -- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of $55,367,000 for fiscal year ended September 30, 2004, was $5,906,000 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):				
2002	$ 25,986	12,160	9,089	47,235
2003	26,093	13,626	9,608	49,327
2004	31,174	14,358	9,835	55,367
Percentage of APC contributed:				
2002	100%	100%	100%	N/A
2003	100%	100%	100%	N/A
2004	81%	100%	100%	N/A
Net Pension Obligation:				
2002	$ --	--	--	--
2003	--	--	--	--
2004	5,906	--	--	5,906

8 – RETIREMENT PLANS, continued

The latest actuarial valuations were completed as of December 31, 2003. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	3.5%	4%	4.5%
Projected Annual Salary Increases	4% to 14%	6.8% average	6.0%
Post retirement benefit increase	None	None	1%
Assumed Rate of Return on Investments	7.75%	8%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	Infinite	28.6 years	33.7 years

d -- Trend Information (Unaudited)

Information pertaining to the latest actuarial valuations 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						
1995	$ 707,300	623,000	(84,300)	113.5%	221,000	(38.1%)
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
2003	1,348,800	1,551,800	203,000	86.9%	312,800	64.9%
Police Officers						
1995	$ 127,572	164,865	37,293	77.4%	36,211	103.0%
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
2003	320,354	413,965	93,611	77.4%	80,959	115.6%
Fire Fighters						
1995	$ 213,403	236,994	23,591	90.0%	32,496	72.6%
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%
2003	421,136	452,669	31,533	93.0%	55,939	56.4%

(1) UAAL – Unfunded Actuarial Accrued Liability (Excess)

9 – SELECTED REVENUES

a -- Governmental Funds - General Fund

Hospital lease payments

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin (“Seton”) to operate City-owned Brackenridge Hospital. This lease agreement qualifies as an operating lease for accounting purposes.

The lease agreement specifies a minimum lease payment in addition to a supplemental rent payment based on approximately 46% of net disproportionate share revenue proceeds. In fiscal year 2004, General Fund revenues included minimum lease payments of $1.3 million and additional rent of $12.2 million.

In March 2004, the Austin Women’s Hospital began operations. The facility is a separately licensed facility located on the 5th floor of Brackenridge Hospital. The City has entered into an agreement with the University of Texas Medical Branch at Galveston to operate the facility. Total construction costs were approximately $9.3 million; approximately $6.8 million of these costs were related to enhancing the capacity of OB services related to Brackenridge, in addition to providing certain reproductive services that Seton is not capable of performing. The remaining $2.5 million of costs were related to licensing requirements. Construction costs will be amortized over the remaining life of the original lease agreement with Seton, which has approximately twenty-two years remaining. For further information, please refer to the Subsequent Events Note (Note 16).

b -- Major enterprise funds

Electric and Water and Wastewater

The Texas Public Utility Commission has jurisdiction over electric utility wholesale transmission rates. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council determines electric utility and water and wastewater utility rates based on the cost of operations and a debt service coverage approach.

Under a bill passed by the Texas Legislature in 1999, municipally-owned electric utilities such as the City’s utility system have the option of offering retail competition after January 1, 2002. At September 30, City management had decided not to enter the retail market, as allowed by State law. Because the effects of entering retail competition are uncertain, a change in accounting policy is not warranted at this time.

Electric rates include a fixed rate and a fuel recovery cost-adjustment factor that allows recovery of coal, gas, purchased power, and other fuel costs. If actual fuel costs differ from amounts billed to customers, deferred or unbilled revenues are recorded by the Electric utility. Any over- or under-collections are applied to the cost-adjustment factor. The fuel factor is revised annually on a calendar year basis or when over- or under-recovery is more than 10% of expected fuel costs.

Airport

The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2004, the Airport Fund revenues included minimum concession guarantees of $8,251,503.

9 – SELECTED REVENUES, continued

The following is a schedule by year of minimum future rentals on noncancelable operating leases for terms of up to thirty years for the Airport Fund as of September 30, 2004 (in thousands):

Fiscal Year Ended September 30	Enterprise Airport Lease Payments
2005	$ 7,609
2006	7,194
2007	7,021
2008	6,719
2009	4,533
2010-2014	811
2015-2019	392
2020-2024	392
2025-2029	392
2030-2034	65
Totals	$ 35,128

10 – DEBT AND NON-DEBT LIABILITIES

a -- Long-Term Liabilities

The following is a summary of long-term liabilities. Balances at September 30, 2004 are (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 738,533	20,240	758,773
Certificates of obligation	91,021	58,616	149,637
Contractual obligations	33,970	14,575	48,545
Other tax supported debt	--	10,369	10,369
General obligation bonds and other tax supported debt total	863,524	103,800	967,324
Commercial paper notes	--	315,616	315,616
Revenue notes	--	28,000	28,000
Revenue bonds	--	2,969,758	2,969,758
Contract revenue bonds	--	13,740	13,740
Capital lease obligations	813	12,753	13,566
Debt service requirements total	864,337	3,443,667	4,308,004
Other long-term obligations			
Accrued compensated absences	70,456	20,110	90,566
Claims payable	27,440	--	27,440
Accrued landfill closure and postclosure costs	--	7,612	7,612
Decommissioning expense payable	--	100,019	100,019
Pension obligation payable	3,102	2,804	5,906
Deferred credits and other liabilities	81,895	527,297	609,192
	182,893	657,842	840,735
Total long-term obligations	$ 1,047,230	4,101,509	5,148,739

This schedule excludes short-term liabilities of $48,781 for governmental activities and $221,008 for business-type activities and long-term interest payable of $166,868 for business-type activities.

Payments on bonds payable for governmental activities will be made in the General Obligation Debt Service Funds. Accrued compensated absences that pertain to governmental activities will be liquidated by the General Fund and Special Revenue Funds. Claims payable will be liquidated by Internal Service Funds. Deferred credits and other liabilities that pertain to governmental activities will be liquidated by the General Fund, Special Revenue Funds, and General Government Capital Improvement Projects 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 these funds are included in governmental activities.

10 – DEBT AND NON-DEBT 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, 2004 are (in thousands):

Description	September 30, 2003	Increases	Decreases	September 30, 2004	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds, net	$ 708,200	70,293	(39,960)	738,533	41,470
Certificates of obligation	95,328	600	(4,907)	91,021	5,034
Contractual obligations	26,230	13,950	(6,210)	33,970	6,162
General obligation bonds and other tax supported debt total	829,758	84,843	(51,077)	863,524	52,666
Capital lease obligations	793	343	(323)	813	475
Debt service requirements total	830,551	85,186	(51,400)	864,337	53,141
Other long-term obligations					
Accrued compensated absences	69,243	2,878	(1,665)	70,456	30,719
Claims payable	34,748	12,653	(19,961)	27,440	18,595
Pension obligation payable	--	3,102	--	3,102	--
Deferred credits and other liabilities	75,923	44,094	(38,122)	81,895	56,594
Governmental activities total	1,010,465	147,913	(111,148)	1,047,230	159,049
Business-type activities:					
Electric activities					
General obligation bonds	1,326	--	(6)	1,320	5
Contractual obligations	2,001	--	(439)	1,562	485
General obligation bonds and other tax supported debt total	3,327	--	(445)	2,882	490
Commercial paper notes	54,672	40,312	--	94,984	--
Revenue bonds, net	1,410,965	--	(152,264)	1,258,701	89,949
Capital lease obligations	9,107	127	(2,048)	7,186	1,983
Debt service requirements total	1,478,071	40,439	(154,757)	1,363,753	92,422
Other long-term obligations					
Accrued compensated absences	9,766	1,228	(1,572)	9,422	6,799
Decommissioning expense payable	90,687	9,332	--	100,019	--
Pension obligation payable	--	1,260	--	1,260	--
Deferred credits and other liabilities	86,613	14,043	(16,329)	84,327	12,807
Electric activities total	1,665,137	66,302	(172,658)	1,558,781	112,028
Water and Wastewater activities					
General obligation bonds, net	7,504	--	(1,460)	6,044	1,473
Contractual obligations	5,639	3,780	(1,632)	7,787	1,779
Other tax supported debt, net	11,527	--	(1,158)	10,369	1,095
General obligation bonds and other tax supported debt total	24,670	3,780	(4,250)	24,200	4,347
Commercial paper notes	73,812	146,820	--	220,632	--
Revenue bonds, net	1,199,630	124,931	(188,701)	1,135,860	40,796
Contract revenue bonds, net	16,177	--	(2,437)	13,740	2,035
Capital lease obligations	5,796	62	(1,035)	4,823	1,109
Debt service requirements total	1,320,085	275,593	(196,423)	1,399,255	48,287
Other long-term obligations					
Accrued compensated absences	4,863	393	(541)	4,715	3,435
Pension obligation payable	--	648	--	648	--
Deferred credits and other liabilities	410,889	23,875	(1,173)	433,591	5,557
Water and Wastewater activities total	1,735,837	300,509	(198,137)	1,838,209	57,279

(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

Business-type activities (continued):

Description	September 30, 2003	Increases	Decreases	September 30, 2004	Amounts Due Within One Year
Airport activities					
General obligation bonds, net	529	--	(64)	465	45
Contractual obligations	183	--	(68)	115	64
General obligation bonds and other tax supported debt total	712	--	(132)	580	109
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	357,262	52,802	(58,418)	351,646	7,650
Capital lease obligations	22	483	(11)	494	173
Debt service requirements total	385,996	53,285	(58,561)	380,720	7,932
Other long-term obligations					
Accrued compensated absences	1,362	222	(206)	1,378	1,116
Pension obligation payable	--	229	--	229	--
Deferred credits and other liabilities	7,136	--	(814)	6,322	1,883
Airport activities total	394,494	53,736	(59,581)	388,649	10,931
Nonmajor activities					
General obligation bonds, net	13,660	--	(1,249)	12,411	1,650
Certificates of obligation, net	34,701	25,491	(1,576)	58,616	2,371
Contractual obligations	1,817	4,100	(806)	5,111	720
General obligation bonds and other tax supported debt total	50,178	29,591	(3,631)	76,138	4,741
Revenue bonds, net	234,046	53,859	(64,354)	223,551	3,520
Capital lease obligations	240	142	(132)	250	157
Debt service requirements total	284,464	83,592	(68,117)	299,939	8,418
Other long-term obligations					
Accrued compensated absences	4,928	636	(969)	4,595	4,072
Accrued landfill closure and postclosure costs	7,370	242	--	7,612	--
Pension obligation payable	--	667	--	667	--
Deferred credits and other liabilities	2,657	403	(3)	3,057	3,057
Nonmajor activities total	299,419	85,540	(69,089)	315,870	15,547
Total business-type activities					
General obligation bonds, net	23,019	--	(2,779)	20,240	3,173
Certificates of obligation, net	34,701	25,491	(1,576)	58,616	2,371
Contractual obligations	9,640	7,880	(2,945)	14,575	3,048
Other tax supported debt, net	11,527	--	(1,158)	10,369	1,095
General obligation bonds and other tax supported debt total	78,887	33,371	(8,458)	103,800	9,687
Commercial paper notes	128,484	187,132	--	315,616	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds, net	3,201,903	231,592	(463,737)	2,969,758	141,915
Contract revenue bonds	16,177	--	(2,437)	13,740	2,035
Capital lease obligations	15,165	814	(3,226)	12,753	3,422
Debt service requirements total	3,468,616	452,909	(477,858)	3,443,667	157,059
Other long-term obligations					
Accrued compensated absences	20,919	2,479	(3,288)	20,110	15,422
Accrued landfill closure and postclosure costs	7,370	242	--	7,612	--
Decommissioning expense payable	90,687	9,332	--	100,019	--
Pension obligation payable	--	2,804	--	2,804	--
Deferred credits and other liabilities	507,295	38,321	(18,319)	527,297	23,304
Business-type activities total	4,094,887	506,087	(499,465)	4,101,509	195,785
Total long-term liabilities	$ 5,105,352	654,000	(610,613)	5,148,739	354,834

This schedule excludes short-term liabilities of $48,781 for governmental activities and $221,008 for business-type activities and long-term interest payable of $166,868 for business-type activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Governmental Activities Long-Term Liabilities

General Obligation Bonds - General obligation debt is collateralized by the full faith and credit of the City. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies, and is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. General obligation debt issued to finance capital assets of enterprise funds is reported as an obligation of these enterprise funds, although the funds are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the enterprise funds to meet the debt service requirements from program revenues.

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2004, including those reported in certain proprietary funds (in thousands):

	Date Issued	Original Issue	Amount Outstanding at September 30, 2004	Aggregate Interest Requirements at September 30, 2004	Interest Rates of Debt Outstanding at September 30, 2004	Maturity Dates of Serial Debt
Series 1993	February 1993	$ 71,600	39,255	6,045 (1)	5.60 - 5.75%	9/1/2005-2009
Series 1995	October 1995	30,250	1,885	138 (1)	7.30%	9/1/2005
Series 1995	October 1995	8,660	420	20 (1)	4.75%	9/1/2005
Series 1996	October 1996	30,550	8,160	1,791 (1)	5.00 - 6.00%	9/1/2005-2009
Series 1997	October 1997	29,295	28,215	12,773 (1)	5.00 - 5.75%	9/1/2005-2017
Series 1997	October 1997	13,975	1,155	26 (2)	4.50%	11/1/2004
Series 1997	October 1997	2,120	1,610	637 (1)	4.60 - 5.25%	9/1/2005-2017
Series 1998	January 1998	110,300	104,590	34,000 (1)	4.60 - 5.25%	9/1/2005-2016
Assumed MUD Debt	December 1997	33,680	12,037	5,892 (3)	4.40 - 10.50%	11/15/2004-2018
Series 1998	October 1998	13,430	13,030	5,871 (1)	4.40 - 7.13%	9/1/2005-2018
Series 1998	October 1998	22,770	18,455	7,291 (1)	4.10 - 4.75%	9/1/2005-2018
Series 1998	October 1998	14,975	4,340	177 (2)	4.00%	11/1/2004-2005
Series 1999	October 1999	51,100	50,390	29,410 (1)	4.50- 5.75%	9/1/2005-2019
Series 1999	October 1999	10,335	4,130	299 (2)	4.75%	11/1/2004-2006
Series 1999	October 1999	5,590	4,670	2,263 (1)	5.00 - 6.00%	9/1/2005-2019
Series 2000	October 2000	52,930	51,045	32,178 (1)	4.40 - 6.00%	9/1/2005-2020
Series 2000	October 2000	6,060	5,320	2,715 (1)	5.00 - 5.38%	9/1/2005-2020
Series 2001	June 2001	123,445	62,995	16,040 (1)	4.75 - 5.50%	9/1/2005-2022
Series 2001	October 2001	79,650	78,685	41,089 (1)	4.00 - 5.25%	9/1/2005-2021
Series 2001	October 2001	2,650	1,825	173 (2)	3.00 - 3.88%	11/1/2004-2008
Series 2001	October 2001	65,335	56,750	22,013 (1)	4.38 - 5.25%	9/1/2005-2021
Series 2002	July 2002	12,190	12,190	4,507 (1)	3.00 - 5.00%	3/1/2005-2017
Series 2002	July 2002	2,495	2,130	258 (1)	4.00 - 5.00%	3/1/2005-2009
Series 2002	September 2002	99,615	99,100	48,053 (1)	2.50 - 5.00%	9/1/2005-2022
Series 2002	September 2002	8,690	7,130	690 (2)	2.50 - 4.00%	11/1/2004-2009
Series 2002	September 2002	34,095	31,950	15,822 (1)	2.50 - 5.38%	9/1/2005-2022
Series 2003	June 2003	62,585	58,150	10,743 (1)	2.25 - 5.00%	9/1/2006-2013
Series 2003	September 2003	68,855	68,555	37,677 (1)	2.00 - 5.00%	9/1/2006-2023
Series 2003A	September 2003	2,530	2,325	623 (1)	4.00 - 5.00%	9/1/2005-2013
Series 2003	September 2003	4,450	4,310	2,183 (1)	4.00 - 4.80%	9/1/2005-2023
Series 2003	September 2003	8,610	8,135	833 (2)	2.00 - 3.38%	11/1/2004-2010
Series 2004	September 2004	67,835	67,835	37,244 (1)	3.00 - 5.00%	9/1/2007-2024
Series 2004A	September 2004	2,430	2,430	724 (1)	4.00 - 4.75%	9/1/2006-2014
Series 2004	September 2004	25,000	25,000	14,462 (1)	2.00 - 5.00%	9/1/2005-2024
Series 2004	September 2004	21,830	21,830	2,622 (2)	1.85 - 3.35%	5/1/2005-2011
			$ 960,032			

(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 four times a year on March 1, May 15, September 1, and November 15.

10 – DEBT AND NON-DEBT LIABILITIES, continued

In September 2004, the City issued Public Improvement and Refunding Bonds, Series 2004, in the amount of $67,835,000. The proceeds from the issue will be used as follows: street improvements ($35,503,000); right of way acquisition and utility relocation ($15,000,000); parks and recreation facilities ($11,532,000); libraries ($2,875,000); and to refund a court settlement ($2,925,000). These bonds will be amortized serially on September 1 of each year from 2007 to 2024. Certain of these bonds are callable beginning September 1, 2014. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these bonds, at rates ranging from 3% to 5%, are $37,244,485.

In September 2004, the City issued Public Improvement Refunding Bonds, Taxable Series 2004A, in the amount of $2,430,000. Proceeds from the issue will be used to finance certain payment obligations relating to the City's liability under a settlement agreement. These bonds will be amortized serially on September 1 of each year from 2006 to 2014. These bonds are not subject to optional redemption prior to maturity. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these bonds, at rates ranging from 4% to 4.75%, are $723,615.

In September 2004, the City issued Certificates of Obligation, Series 2004, in the amount of $25,000,000. The proceeds from the issue will be used as follows: convention center garage ($16,400,000); School for the Deaf renovation ($600,000); and closed landfill remediation at Mabel Davis Park ($8,000,000). These certificates of obligation will be amortized serially on September 1 of each year from 2005 to 2024. Certain of these obligations are callable beginning September 1, 2014. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2005. Total interest requirements for these obligations, at rates ranging from 2% to 5%, are $14,462,050.

In September 2004, the City issued Public Property Finance Contractual Obligations, Series 2004, in the amount of $21,830,000. The proceeds from the issue will be used as follows: systems backup and enhancements ($500,000); communications technology upgrades ($11,420,000); public works capital equipment ($2,100,000); Solid Waste Services capital equipment ($2,000,000); fire capital equipment ($2,030,000); and capital equipment vehicles ($3,780,000). These contractual obligations will be amortized serially on May 1 and November 1 of each year from 2005 to 2011. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2005. These contractual obligations are not subject to optional redemption prior to maturity. The total interest requirements for these obligations, at rates ranging from 1.85% to 3.35%, are $2,622,163.

General obligation bonds authorized and unissued amounted to $123,275,000 at September 30, 2004. Bond ratings at September 30, 2004, were Aa2 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's) and AA+ (Fitch).

c -- Business -Type Activities Long-Term Liabilities

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

Combined Utility Systems Debt -- General - The City's Electric Fund and Water and Wastewater Fund comprise the Combined Utility Systems, which issue Combined Utility Systems revenue bonds to finance Electric Fund and Water and Wastewater Fund 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, 2004, exclusive of discounts, premiums and loss on refundings consist of $929,104,135 prior lien bonds and $253,444,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $862,408,727 at September 30, 2004. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2004 for the prior lien and subordinate lien bonds were, respectively, A2 and A2 (Moody's Investor Services, Inc.), A+ and A (Standard & Poor's), and A+ and A+ (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.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Some of these bonds are callable prior to maturity at the option of the City. The term bonds are subject to a mandatory redemption prior to the maturity dates as defined in the respective official statements.

The net proceeds of each of the refunding bond issuances were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service. As a result, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the financial statements. The accounting gains and losses due to the advance refunding of debt have been deferred and are being amortized over the life of the refunding bonds by the straight-line method. However, a gain or loss on refunded bonds is recognized when funds from current operations are used.

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1990B Refunding	February 1990	$ 236,009	3,668
1992 Refunding	March 1992	265,806	30,116
1992A Refunding	May 1992	351,706	108,111
1993 Refunding	February 1993	203,166	88,841
1993A Refunding	June 1993	263,410	35,029
1994 Refunding	October 1994	142,559	26,894
1995 Refunding	June 1995	151,770	4,000
1996AB Refunding	September 1996	249,235	227,940
1997 Refunding	August 1997	227,215	218,210
1998 Refunding	August 1998	180,000	169,575
1998A Refunding	August 1998	123,020	16,720
1998 Refunding	November 1998	139,965	139,730
1998A Refunding	November 1998	105,350	105,350
1998B	November 1998	10,000	8,365
			$ 1,182,549

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2004 were P-1 (Moody's Investor Services, Inc.), A-1 (Standard & Poor's), and F1+ (Fitch). The notes will be in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2004, the Electric Fund had outstanding commercial paper notes of $94,984,000 and the Water and Wastewater Fund had $220,632,000, of commercial paper notes outstanding. Interest rates on the notes range from 1.11% to 1.64%, adjusted daily, and 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.

10 – DEBT AND NON-DEBT LIABILITIES, continued

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 one 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, 2004 were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

The taxable notes will be 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, 2004, the Electric Fund and the Water and Wastewater Fund had no taxable notes outstanding.

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.

Electric Utility System Revenue Debt -- Revenue Bond Defeasance - In August 2004 the City defeased $84,328,789 of the City's outstanding Combined Utility System Prior Lien Revenue Refunding Bonds, Series 1993 and Series 1993A issued for the Electric Utility System. A total of $87,928,103 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligations for the defeased debt and the liability has been removed from the financial statements. The City recognized an accounting loss of $17,008,036 on this defeasance.

Bond ratings at September 30, 2004 were A3 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
2001 Refunding	February 2001	$ 126,700	126,200
2002 Refunding	March 2002	74,750	74,750
2002A Refunding	August 2002	172,880	159,085
2003 Refunding	March 2003	182,100	182,100
			$ 542,135

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 August 2004, the City issued Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004, in an aggregate principal amount of $132,475,000. Proceeds from the variable rate bond refunding were used to refund $126,605,000 of the City's outstanding Combined Utility System Revenue Refunding Bonds, Series 1993, Series 1993A, Series 1994, and Subordinate Lien Revenue Bonds, Series 1994 issued for the Water and Wastewater Utility System. The debt service requirements on the variable rate refunding bonds were $187,919,782 with interest calculated using a constant rate of 3.66%. During fiscal year 2004, interest rates on the bonds ranged from 1.30% to 1.70%, adjusted weekly at market rates, and subsequent rates changes cannot exceed the maximum rate of 12%. The City realized an economic gain of $17,385,292 on this transaction. The change in net cash flows that resulted was a decrease of $21,137,829. An accounting loss of $7,080,369, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on this refunding.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Water and Wastewater System Revenue Debt -- Revenue Bond Defeasance - In August 2004, the City defeased $46,446,211 of the City's outstanding Combined Utility System Prior Lien Revenue Refunding Bonds, Series 1992A, Series 1993 and Series 1993A issued for the Water and Wastewater Utility System. A total of $51,693,235 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligations for the defeased debt and the liability has been removed from the financial statements. The City recognized an accounting loss of $10,035,826 on this defeasance.

Bond ratings at September 30, 2004 were A2 (Moody's Investor Services, Inc.), A (Standard & Poor's), and A+ (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, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
Maple Run MUD, 1992	May 1992	$ 17,955	9,130
Tanglewood Forest MUD, 1993	December 1993	1,350	145
North Austin MUD #1, 2003 RFD	August 2003	4,510	4,510
2000 Refunding	June 2000	100,000	98,500
2001A Refunding	June 2001	152,180	149,680
2001B Refunding	June 2001	73,200	72,000
2001C Refunding	December 2001	95,380	80,980
2002A Refunding	August 2002	139,695	132,400
2003 Refunding	March 2003	121,500	121,500
2004 Refunding	August 2004	132,475	132,475
			$ 801,320

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, 2004 the total Airport System obligation for prior lien bonds is $360,125,000 exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior lien bonds are $287,431,616 at September 30, 2004. Revenue bonds authorized and unissued amount to $735,795,000 at that date.

Airport System Revenue Debt -- Revenue Bond Refunding Issues - In December 2003, the City issued Airport System Prior Lien Revenue Refunding Bonds, Series 2003, in an aggregate principal amount of $54,250,000. Proceeds from the prior lien bond refunding were used to refund $52,290,000 of the City's outstanding Airport System Prior Lien Revenue Bonds, Series 1995A. The debt service requirements on the prior lien refunding bonds were $85,899,110. The City realized an economic gain of $3,132,423 on this transaction. The change in net cash flows that resulted was a decrease of $3,418,051. An accounting loss of $5,717,945, which will be deferred and amortized in accordance with GASB Statement No. 23, was recognized on this refunding. These bonds are callable beginning November 15, 2013.

Bond ratings at September 30, 2004 for the prior lien bonds were NUR (Moody's Investor Services, Inc.), A- (Standard & Poor's), and NUR (Fitch).

The following table summarizes all airport system original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1989	September 1989	$ 30,000	1,000
1995A	August 1995	362,205	276,700
1995B Refunding	August 1995	31,040	28,175
2003	December 2003	54,250	54,250
			$ 360,125

10 – DEBT AND NON-DEBT LIABILITIES, continued

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue Airport System variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A, adopted by the City Council on February 5, 1998. At September 30, 2004, 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 $384,941, including accrued interest, at September 30, 2004 and was restricted within the Airport System. During fiscal year 2004, interest rates on the notes ranged from 0.90% to 1.73%, adjusted weekly at market rates, and subsequent rates 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 bond rating at September 30, 2004 for the airport variable rate notes was P-1 (Moody's Investor Services, Inc.).

Nonmajor fund:
Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues Convention Center revenue bonds and Hotel Occupancy Tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. At September 30, 2004 the total Convention Center obligation for prior and subordinate lien bonds is $228,140,000, exclusive of discounts, premiums and loss on refundings. Aggregate interest requirements for all prior and subordinate lien bonds are $186,899,903 at September 30, 2004. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2004.

Convention Center Revenue Debt -- Revenue Bond Refunding Issues - In February 2004, the City issued Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004, in an aggregate principal amount of $52,715,000. Proceeds from the prior lien bond refunding were used to refund $60,960,000 of the City's outstanding Convention Center Prior Lien Revenue Bonds, Series 1993A. The debt service requirements on the revenue bonds were $79,004,526. The City realized an economic gain of $3,717,537 on this transaction. The change in net cash flows that resulted was a decrease of $11,462,427. An accounting loss of $2,601,339, which will be deferred and amortized in accordance with GASB Statement No. 23, was recognized on this refunding. These bonds are callable beginning November 15, 2013.

Bond ratings at September 30, 2004 for the revenue bonds were NUR (Moody's Investor Services, Inc.), NUR (Standard & Poor's), and NUR (Fitch).

The following table summarizes all Convention Center original and refunding revenue bonds outstanding at September 30, 2004 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2004
1999 Refunding	June 1999	$ 6,445	2,205
1999A	June 1999	25,000	24,570
1999 Refunding	September 1999	110,000	109,000
1999	November 1999	40,000	39,650
2004 Refunding	February 2004	52,715	52,715
			$ 228,140

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements

Governmental Activities (in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Certificates of Obligation Principal	Certificates of Obligation Interest	Contractual Obligations Principal	Contractual Obligations Interest
2005	$ 41,470	35,346	5,034	4,335	6,162	844
2006	48,593	33,355	5,175	4,109	5,961	756
2007	48,539	30,963	5,456	3,877	4,766	597
2008	45,706	28,590	5,733	3,602	4,455	483
2009	43,553	26,423	6,053	3,330	4,538	360
2010-2014	224,725	99,701	31,133	12,063	8,088	353
2015-2019	186,712	48,623	23,516	5,659	--	--
2020-2024	90,723	10,192	8,921	777	--	--
	730,021	313,193	91,021	37,752	33,970	3,393
Less: Unamortized bond discounts	(382)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(1,041)	--	--	--	--	--
Add: Unamortized bond premiums	9,935	--	--	--	--	--
Net debt service requirements	738,533	313,193	91,021	37,752	33,970	3,393

Fiscal Year Ended September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Governmental Debt Service Requirements Principal	Total Governmental Debt Service Requirements Interest	Total Governmental Debt Service Requirements Total
2005	475	9	53,141	40,534	93,675
2006	286	6	60,015	38,226	98,241
2007	52	--	58,813	35,437	94,250
2008	--	--	55,894	32,675	88,569
2009	--	--	54,144	30,113	84,257
2010-2014	--	--	263,946	112,117	376,063
2015-2019	--	--	210,228	54,282	264,510
2020-2024	--	--	99,644	10,969	110,613
	813	15	855,825	354,353	1,210,178
Less: Unamortized bond discounts	--	--	(382)	--	(382)
Unamortized gain(loss) on bond refundings	--	--	(1,041)	--	(1,041)
Add: Unamortized bond premiums	--	--	9,935	--	9,935
Net debt service requirements	$ 813	15	864,337	354,353	1,218,690

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
2005	$ 5	69	485	47	94,984	91
2006	5	68	358	30	--	--
2007	53	68	202	19	--	--
2008	88	65	140	14	--	--
2009	98	60	146	11	--	--
2010-2014	588	222	231	8	--	--
2015-2019	483	57	--	--	--	--
Net debt service requirements	1,320	609	1,562	129	94,984	91

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Electric Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2005	89,949	67,906	1,983	457	187,406	68,570	255,976
2006	75,905	63,057	1,960	332	78,228	63,487	141,715
2007	101,312	58,866	2,003	202	103,570	59,155	162,725
2008	87,063	59,036	29	61	87,320	59,176	146,496
2009	75,650	75,666	31	60	75,925	75,797	151,722
2010-2014	428,579	292,981	178	274	429,576	293,485	723,061
2015-2019	204,147	102,612	229	224	204,859	102,893	307,752
2020-2024	144,025	51,898	294	159	144,319	52,057	196,376
2025-2029	108,267	17,839	377	75	108,644	17,914	126,558
2030-2034	18,500	938	102	4	18,602	942	19,544
	1,333,397	790,799	7,186	1,848	1,438,449	793,476	2,231,925
Less: Unamortized bond discounts	(8,750)	--	--	--	(8,750)	--	(8,750)
Unamortized gain(loss) on bond refundings	(104,386)	--	--	--	(104,386)	--	(104,386)
Add: Unamortized bond premiums	38,440	--	--	--	38,440	--	38,440
Net debt service requirements	$ 1,258,701	790,799	7,186	1,848	1,363,753	793,476	2,157,229

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt Principal	Tax Supported Debt Interest
2005	$ 1,473	413	1,779	207	1,095	1,223
2006	854	340	1,671	170	864	1,189
2007	1,143	296	1,059	120	642	430
2008	789	237	853	93	594	401
2009	524	196	784	69	532	374
2010-2014	2,531	527	1,641	80	3,321	1,427
2015-2019	578	93	--	--	3,360	406
2020-2024	88	7	--	--	--	--
	7,980	2,109	7,787	739	10,408	5,450
Less: Unamortized bond discounts	(28)	--	--	--	(67)	--
Unamortized gain(loss) on bond refundings	(2,283)	--	--	--	--	--
Add: Unamortized bond premiums	375	--	--	--	28	--
Net debt service requirements	6,044	2,109	7,787	739	10,369	5,450

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Bonds Principal	Revenue Bonds Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest
2005	220,632	222	40,796	54,053	2,035	670
2006	--	--	42,584	52,019	2,025	573
2007	--	--	44,095	50,378	2,170	466
2008	--	--	50,992	50,951	2,325	345
2009	--	--	47,567	58,673	2,475	216
2010-2014	--	--	260,858	277,273	2,755	75
2015-2019	--	--	269,391	259,816	--	--
2020-2024	--	--	215,497	87,440	--	--
2025-2029	--	--	171,042	34,082	--	--
2030-2034	--	--	36,000	2,709	--	--
	220,632	222	1,178,822	927,394	13,785	2,345
Less: Unamortized bond discounts	--	--	(10,264)	--	(26)	--
Unamortized gain(loss) on bond refundings	--	--	(56,652)	--	(55)	--
Add: Unamortized bond premiums	--	--	23,954	--	36	--
Net debt service requirements	$ 220,632	222	1,135,860	927,394	13,740	2,345

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Water and Wastewater Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	Capital Lease Obligations		Total Water and Wastewater Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2005	$ 1,109	335	268,919	57,123	326,042
2006	1,164	249	49,162	54,540	103,702
2007	1,225	155	50,334	51,845	102,179
2008	1,325	54	56,878	52,081	108,959
2009	--	--	51,882	59,528	111,410
2010-2014	--	--	271,106	279,382	550,488
2015-2019	--	--	273,329	260,315	533,644
2020-2024	--	--	215,585	87,447	303,032
2025-2029	--	--	171,042	34,082	205,124
2030-2034	--	--	36,000	2,709	38,709
	4,823	793	1,444,237	939,052	2,383,289
Less: Unamortized bond discounts	--	--	(10,385)	--	(10,385)
Unamortized gain(loss) on bond refundings	--	--	(58,990)	--	(58,990)
Add: Unamortized bond premiums	--	--	24,393	--	24,393
Net debt service requirements	$ 4,823	793	1,399,255	939,052	2,338,307

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Airport Business-Type Activities
(in thousands)

Fiscal Year Ended September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Revenue Notes (1) Principal	Revenue Notes (1) Interest
2005	$ 45	23	64	4	--	484
2006	18	21	40	2	--	484
2007	49	20	11	--	--	484
2008	36	17	--	--	--	484
2009	31	16	--	--	--	484
2010-2014	168	52	--	--	--	2,420
2015-2019	95	12	--	--	28,000	1,699
2020-2024	6	1	--	--	--	--
	448	162	115	6	28,000	6,539
Less: Unamortized bond discounts	(1)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	9	--	--	--	--	--
Add: Unamortized bond premiums	9	--	--	--	--	--
Net debt service requirements	465	162	115	6	28,000	6,539

Fiscal Year Ended September 30	Revenue Bonds Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Airport Debt Service Requirements Principal	Total Airport Debt Service Requirements Interest	Total Airport Debt Service Requirements Total
2005	7,650	21,169	173	13	7,932	21,693	29,625
2006	8,415	20,659	170	9	8,643	21,175	29,818
2007	7,720	20,180	151	4	7,931	20,688	28,619
2008	9,965	19,710	--	--	10,001	20,211	30,212
2009	10,535	19,167	--	--	10,566	19,667	30,233
2010-2014	63,100	85,875	--	--	63,268	88,347	151,615
2015-2019	88,530	63,915	--	--	116,625	65,626	182,251
2020-2024	111,835	33,501	--	--	111,841	33,502	145,343
2025-2029	52,375	3,256	--	--	52,375	3,256	55,631
	360,125	287,432	494	26	389,182	294,165	683,347
Less: Unamortized bond discounts	(6,022)	--	--	--	(6,023)	--	(6,023)
Unamortized gain(loss) on bond refundings	(6,790)	--	--	--	(6,781)	--	(6,781)
Add: Unamortized bond premiums	4,333	--	--	--	4,342	--	4,342
Net debt service requirements	$ 351,646	287,432	494	26	380,720	294,165	674,885

(1) These are variable rate notes with 1.73% interest.

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
2005	$ 1,650	639	2,371	2,624	720	103
2006	1,636	563	2,150	2,539	730	116
2007	994	480	2,259	2,466	647	99
2008	1,261	433	2,372	2,378	641	85
2009	1,106	369	2,497	2,286	672	67
2010-2014	5,162	949	14,542	9,722	1,701	84
2015-2019	977	95	17,994	5,920	--	--
2020-2024	40	4	13,278	1,718	--	--
	12,826	3,532	57,463	29,653	5,111	554
Less: Unamortized bond discounts	(35)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(921)	--	--	--	--	--
Add: Unamortized bond premiums	541	--	1,153	--	--	--
Net debt service requirements	12,411	3,532	58,616	29,653	5,111	554

Fiscal Year Ended September 30	Revenue Bonds		Capital Lease Obligations		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2005	3,520	12,284	157	3	8,418	15,653	24,071
2006	3,830	12,077	80	1	8,426	15,296	23,722
2007	3,525	11,878	13	--	7,438	14,923	22,361
2008	5,815	11,669	--	--	10,089	14,565	24,654
2009	7,210	11,406	--	--	11,485	14,128	25,613
2010-2014	41,280	51,634	--	--	62,685	62,389	125,074
2015-2019	53,465	39,059	--	--	72,436	45,074	117,510
2020-2024	44,885	24,928	--	--	58,203	26,650	84,853
2025-2029	52,245	11,603	--	--	52,245	11,603	63,848
2030-2034	12,365	362	--	--	12,365	362	12,727
	228,140	186,900	250	4	303,790	220,643	524,433
Less: Unamortized bond discounts	(1,182)	--	--	--	(1,217)	--	(1,217)
Unamortized gain(loss) on bond refundings	(7,745)	--	--	--	(8,666)	--	(8,666)
Add: Unamortized bond premiums	4,338	--	--	--	6,032	--	6,032
Net debt service requirements	$ 223,551	186,900	250	4	299,939	220,643	520,582

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities (in thousands)

Fiscal Year Ended September 30	General Obligation Bonds		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 3,173	1,144	2,371	2,624	3,048	361
2006	2,513	992	2,150	2,539	2,799	318
2007	2,239	864	2,259	2,466	1,919	238
2008	2,174	752	2,372	2,378	1,634	192
2009	1,759	641	2,497	2,286	1,602	147
2010-2014	8,449	1,750	14,542	9,722	3,573	172
2015-2019	2,133	257	17,994	5,920	--	--
2020-2024	134	12	13,278	1,718	--	--
	22,574	6,412	57,463	29,653	14,575	1,428
Less: Unamortized bond discounts	(64)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(3,195)	--	--	--	--	--
Add: Unamortized bond premiums	925	--	1,153	--	--	--
Net debt service requirements	20,240	6,412	58,616	29,653	14,575	1,428

Fiscal Year Ended September 30	Tax Supported Debt		Commercial Paper Notes (1)		Revenue Notes (2)	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	1,095	1,223	315,616	313	--	484
2006	864	1,189	--	--	--	484
2007	642	430	--	--	--	484
2008	594	401	--	--	--	484
2009	532	374	--	--	--	484
2010-2014	3,321	1,427	--	--	--	2,420
2015-2019	3,360	406	--	--	28,000	1,699
	10,408	5,450	315,616	313	28,000	6,539
Less: Unamortized bond discounts	(67)	--	--	--	--	--
Add: Unamortized bond premiums	28	--	--	--	--	--
Net debt service requirements	$ 10,369	5,450	315,616	313	28,000	6,539

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

(2) These are variable rate notes with 1.73% interest.

10 – DEBT AND NON-DEBT LIABILITIES, continued

d -- Debt Service Requirements, continued

Business-Type Activities (in thousands)

Fiscal Year Ended September 30	Revenue Bonds		Municipal Utility District Contract Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 141,915	155,412	2,035	670	3,422	808
2006	130,734	147,812	2,025	573	3,374	591
2007	156,652	141,302	2,170	466	3,392	361
2008	153,835	141,366	2,325	345	1,354	115
2009	140,962	164,912	2,475	216	31	60
2010-2014	793,817	707,763	2,755	75	178	274
2015-2019	615,533	465,402	--	--	229	224
2020-2024	516,242	197,767	--	--	294	159
2025-2029	383,929	66,780	--	--	377	75
2030-2034	66,865	4,009	--	--	102	4
	3,100,484	2,192,525	13,785	2,345	12,753	2,671
Less: Unamortized bond discounts	(26,218)	--	(26)	--	--	--
Unamortized gain(loss) on bond refundings	(175,573)	--	(55)	--	--	--
Add: Unamortized bond premiums	71,065	--	36	--	--	--
Net debt service requirements	2,969,758	2,192,525	13,740	2,345	12,753	2,671

Fiscal Year Ended September 30	Total Business-Type Activities Debt Service Requirements		
	Principal	Interest	Total
2005	472,675	163,039	635,714
2006	144,459	154,498	298,957
2007	169,273	146,611	315,884
2008	164,288	146,033	310,321
2009	149,858	169,120	318,978
2010-2014	826,635	723,603	1,550,238
2015-2019	667,249	473,908	1,141,157
2020-2024	529,948	199,656	729,604
2025-2029	384,306	66,855	451,161
2030-2034	66,967	4,013	70,980
	3,575,658	2,247,336	5,822,994
Less: Unamortized bond discounts	(26,375)	--	(26,375)
Unamortized gain(loss) on bond refundings	(178,823)	--	(178,823)
Add: Unamortized bond premiums	73,207	--	73,207
Net debt service requirements	$ 3,443,667	2,247,336	5,691,003

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997 the City issued several series of bonds; the aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Since 1997, the City has issued various series of bonds, with the original issues totaling $84.4 million; and $83.6 million is outstanding at September 30, 2004.

The City has issued various facility revenue bonds to provide for facilities located at the 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 City and various third parties. The original issues totaled $367.4 million, with $360.5 million outstanding at September 30, 2004.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2004, are as follows (in thousands):

		Amount	
Receivable Fund	**Payable Fund**	**Current**	**Long-Term**
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 9	--
	Nonmajor governmental funds	28,819	--
	Water and Wastewater	--	4,234
	Nonmajor enterprise funds	--	1,647
	Internal service funds	--	278
Business-type funds:			
Electric	Internal service funds	21	419
	Nonmajor enterprise funds	--	2,579
Water and Wastewater (restricted)	Internal service funds	27	161
	Nonmajor governmental funds	6	--
Airport (restricted)	General Fund	617	1,851
	Nonmajor governmental funds	--	230
Nonmajor enterprise funds	Nonmajor governmental funds	1,164	116
Internal service funds	Nonmajor governmental funds	16	--
	Internal service funds	394	--
		$ 31,073	11,515

Interfund receivables and payables reflect temporary loans between funds. Of the above current amount, $13.4 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.

Interfund transfers during fiscal year 2004 were as follows (in thousands):

	Transfers In				
Transfers Out	**General Fund**	**Nonmajor Governmental**	**Nonmajor Enterprise**	**Internal Service Funds**	**Total**
General Fund	$ --	11,413	37,353	--	48,766
Nonmajor governmental funds	--	16,092	23,690	--	39,782
Electric	76,674	--	--	--	76,674
Water and Wastewater	19,220	2,848	--	--	22,068
Nonmajor enterprise funds	--	1,565	58	--	1,623
Internal service funds	--	1,062	--	17	1,079
Total transfers out	$ 95,894	32,980	61,101	17	189,992

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund operating transfers are authorized through City Council approval. Significant transfers include the Electric and Water and Wastewater transfers to the General Fund, which are comparable to a return on investment to owners.

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2004. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with City funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was $43.3 million as of September 30, 2004. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

The original cost of the Austin Energy's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of the City in accordance with its accounting policies. Each participant issued its own debt to finance its portion of construction costs. The City's portion was financed through utility revenue bonds. In addition, each participant has the obligation to finance its portion of any operating and capital costs, as well as its deficits.

A management committee of four members governs FPP; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the project and appoints project management.

b -- South Texas Project

Austin Energy is one of four 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 Texas Genco LP, formerly known as Reliant Energy, American Electric Power, formerly known as Central Power and Light Company, 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, 2004, Austin Energy's investment in the STP was approximately $564 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 own funding for STP. 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 committee. A member of the 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.

14 – COMMITMENTS AND CONTINGENCIES, continued

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant-operating license submit information to the NRC indicating the minimum funding required to decommission the plant. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2004, Austin Energy funded its share of the estimated decommissioning liability as follows:

	2004
Estimated cost to decommission STP	$ 245,191,822
Restricted decommissioning fund assets	101,808,700

Austin Energy and other STP participants have provided the required information to the NRC and have been collecting decommissioning funds through rates since 1989. Austin Energy has established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2004, Austin Energy collected $4,958,221 for decommissioning expenses.

d -- Energy Risk Management Program

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

Austin Energy has entered into brokerage agreements with the following organizations to execute the exchange traded instruments for Austin Energy's risk management activities:

Brokerage	Credit Rating
Citigroup Global Market Holding Inc.	AA-
Man Group	A3

The hedging related contracts are reported at cost on the statement of net assets. The gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2004, Austin Energy's options, futures, and basis swaps, valued at mark-to-market, netted to an unrealized loss of $58,022. This reflects the difference between the cost and the fair market value of these contracts at September 30, 2004. Initial margins are flat fees per contract and are paid in cash. Fair market values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by the New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the financial statements at September 30, 2004.

Futures	
Contracts effective date	August 2004
Contracts maturity date	Through January 2006
Initial margin	$ 135,000
Cost	2,680,000
Fair market value	2,826,000
Unrealized Gain/(Loss)	146,000

Options	
Contracts effective date	June through September 2004
Contracts maturity date	Through December 2007
Fair Value	$ (259,382)
Unrealized Gain/(Loss)	(1,662,082)

14 – COMMITMENTS AND CONTINGENCIES, continued

The options and future contracts expose Austin Energy to a minimal amount of credit risk. In the event of default or nonperformance by brokers or the exchange, the operations of Austin Energy will not be materially affected. However, Austin Energy does not expect the brokerages to fail to meet their obligations given their high credit rating and the strict and deep credit requirements upheld by the New York Mercantile Exchange of which these brokerage houses are members. Termination risk for exchange traded instruments is greatly reduced by the strict rules and guidelines set up by the exchange, which is governed by the Commodity Futures Trade Commission.

<u>Swaps</u>	
Contracts effective date	August through September 2004
Contracts maturity date	Through September 2007
Cost	$ 9,126,500
Fair market value	10,584,560
Unrealized Gain/(Loss)	1,458,060

The swap agreements expose Austin Energy to credit, termination, and non-performance risk. However, Austin Energy does not expect the swap counterparty to fail to meet its obligation given its high credit rating of A by S&P, and A3 by Moody's. Austin Energy's exposure to termination and non-performance risk is minimal due to the high credit rating of the counterparty, and the contractual provisions under the ISDA (International Swaps and Derivatives Association) agreement applied to the swaps.

e -- Derivative Instruments

Swap for the Water & Wastewater System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into a swap in connection with its Series 2004 Water and Wastewater System Variable Rate Revenue Refunding Bonds (the "Series 2004 Bonds"). The variable rate bonds were issued to advance refund various outstanding Combined Utility System Revenue Refunding Bonds. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City. The swap had closing costs of $561,302.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swap, as of September 30, 2004, are included in the table below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2004 Bonds were issued on August 27, 2004 with a principal amount of $132,475,000. The swap was structured to match the principal amortization structure and dates of the Series 2004 Bonds. The counterparty to the swap is JPMorgan Chase Bank. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Water & Wastewater Variable Rate Revenue Refunding Bonds, Series 2004	May 15, 2024	JP Morgan	Aa2/AA-/AA-	68% of 1-month LIBOR	3.657%	$ (5,161,263)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against *potential* increases in long-term interest rates.

Fair value. The swap had a negative fair value as of September 30, 2004 of $(5,161,263). This fair value takes into consideration the prevailing interest rate, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the London InterBank Offered Rate (LIBOR) swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

14 – COMMITMENTS AND CONTINGENCIES, continued

Credit risk. As of September 30, 2004, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to credit risk in the amount of the derivative's fair value. This amount may become positive if interest rates increase in the future. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The current credit ratings of the JPMorgan Chase Bank are Aa2/AA-/AA- by Moody's/Standard & Poor's/Fitch, respectively. The City will be exposed to interest rate risk only if the counterparty defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. Collateralization of the fair value of the swap is required should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. Basis risk exists since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. Exposure to basis risk may occur should the floating rate be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 68% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is 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 insurance to mitigate the possibility of termination risk.

Swap payments and associated debt. As of September 30, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ended	Water and Wastewater Variable-Rate Bonds (in thousands)		Interest Rate	
September 30	Principal	Interest	Swaps, Net	Total
2005	$ 5,900	2,180	2,510	4,690
2006	3,000	2,123	2,444	4,567
2007	7,000	2,029	2,335	4,364
2008	1,200	1,975	2,273	4,248
2009	--	1,961	2,258	4,219
2010-2014	26,095	9,229	10,624	19,853
2015-2019	53,740	4,461	5,134	9,595
2020-2024	35,540	1,704	1,962	3,666
Total	$ 132,475	25,662	29,540	55,202

14 – COMMITMENTS AND CONTINGENCIES, continued

Swap for the Airport System

Objective of the swap. In order to lower its borrowing costs, on July 2, 2004 the City entered into an interest rate swap in connection with its Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds"). The variable rate bonds will be issued to forward refund various outstanding bonds of the airport. The swap was used to hedge the interest rate on the variable rate refunding bonds to a fixed rate and the synthetic fixed rate refunding produces a lower expected interest rate cost to the City.

Terms, fair values, and credit risk. The terms, including the counterparty credit ratings of the outstanding swaps, as of September 30, 2004, are included below. The City's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds. The Series 2005 Bonds will be issued on August 17, 2005 with a principal amount of $306,225,000. The swap was structured to match the likely principal amortization structure and dates of the Series 2005 Bonds. The counterparty to the swap is Morgan Stanley Capital Services, Inc ("Morgan Stanley") with a guarantee from Morgan Stanley. The table below contains a summary of the terms and fair value of the swap.

Related Bonds	Maturity	Counterparty	CP Rating by Moody's/S&P/Fitch	Variable Rate Received	Fixed Rate Paid	Market Value
Airport System Subordinate Lien Variable Rate Revenue Refunding Bonds, Series 2005	Nov 15, 2025	Morgan Stanley	Aa3/A+/AA-	71% of 1-month LIBOR	4.051%	$ (11,507,263)

The combination of variable rate bonds and a floating-to-fixed swap creates synthetic fixed-rate debt for the City. The transaction allowed the City to create a synthetic fixed rate on the Bonds in advance of issuance, protecting the City against *potential* increases in long-term interest rates. Other than the aforementioned swap agreement, there are no other monetary fees for the swap transaction.

Fair value. The swap had a negative fair value as of September 30, 2004 of $(11,507,263). This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap.

Credit risk. As of September 30, 2004, the City was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair values of the swap become positive, the City would be exposed to credit risk in the amount of the swap's fair value. The City is exposed to credit risk in the amount of the derivative's fair value. This amount may become positive if interest rates increase in the future. However, if interest rates decline and the fair value of the swap were to remain negative, the City would not be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

The swap agreement contains a collateral agreement with the counterparty. The swap requires collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds in the agreement. The City purchased swap insurance to mitigate the need to post collateral as long as the insurer, Financial Security Assurance, maintains a credit rating above A2/A by Moody's/S&P.

Basis risk. Basis risk is the risk that the interest rate paid by the City on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. Basis risk exists since the City receives a percentage of LIBOR to offset the actual variable bond rate the City pays on its bonds. The City may be exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

14 – COMMITMENTS AND CONTINGENCIES, continued

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the City's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The City is receiving 71% of LIBOR (a taxable index) on the swap and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. The additional termination events in the agreement are limited to non-issuance of the Series 2005 Bonds and credit related events only and the ratings triggers are substantially below the current credit rating of the City. Additionally, the City purchased insurance to mitigate the possibility of termination risk.

Market-access risk. Market access risk describes the possibility that the City may not be able to access the debt market efficiently on the anticipated issuance date. This outcome is estimated to be very unlikely.

f -- Certificates of Participation

The City has entered into several capital lease arrangements through the issuance of Certificates of Participation as follows:

$ 23,060,000 Certificates of Participation, City of Austin, Texas Electric Utility Office Project, Series 1987

$ 14,000,000 Certificates of Participation, City of Austin, Texas Water and Wastewater Utility Office Project, Series 1987

The certificates represent proportionate interests in lease payments to be made by the City to a third-party lessor. The City has title to the office projects, pursuant to general warranty deeds; however, the trustee maintains a vendor's lien and superior title to the properties until all sums due are paid in full.

The City's obligations under the lease agreements are subject to and dependent upon annual appropriations by the City Council and do not obligate the City to levy or pledge any form of taxation. Thus, the certificates are treated as capital lease obligations rather than as long-term bonds and are recorded as a liability in the respective utility's funds.

The following table presents information regarding these certificates:

Description	Electric Fund Office Project (1)	Water and Wastewater Fund Office Project (1)
Date issued	February 1987	August 1987
Amount issued	$ 23,060,000	$ 14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and	May 15 and
	September 15	November 15
Maturity dates	September 15	November 15
	1988 - 2007	1989 - 2007
Present value of lease payments	$ 5,600,493	$ 4,890,980
Reserve Fund (2)	$ 2,000,000	$ 1,250,000

(1) Subject to mandatory redemption upon the occurrence of certain events.
(2) Held by trustee, to be used to make final payments.

14 – COMMITMENTS AND CONTINGENCIES, continued

g -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and State grant programs, financed primarily by the U.S. Housing and Urban Development (HUD) Department, U.S. Health and Human Services (HHS) Department, and U.S. Department of Transportation (DOT). The City's programs are subject to program compliance audits by the granting agencies. Management believes that no material liability will arise from any such audits.

h -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate funds to the federal government. The estimated amounts payable at September 30, 2004 are as follows (in thousands):

	Business-type Activities			
Governmental Activities	Electric	Water and Wastewater	Nonmajor	Total
$ 244	1,320	406	20	$ 1,990

i -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* (Capital Budget) that is an anticipated spending plan for projects in the upcoming and future years. The City's 2005 Capital Budget includes new appropriations of $231.9 million for the City's enterprise funds and $56.8 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

The key projects in progress include parks development and improvements, financial and administrative, transportation improvements, electric system improvements, water and wastewater system improvements and annexations and airport improvements as shown below (in thousands). Remaining commitments represent current unspent budget and future costs required to complete projects.

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Parks development and improvements	$ 107,159	13,672
Financial and administrative	37,007	11,187
Transportation improvements	367,144	80,405
Other governmental	132,143	27,207
Business-type activities:		
Electric system improvements	1,225,334	180,971
Water and wastewater system improvements and annexations	1,263,028	703,268
Airport improvements	96,139	129,786
Nonmajor enterprise	142,443	222,458
Total	$ 3,370,397	1,368,954

j -- Operating Lease with Daughters of Charity Health Services of Austin

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton"). Under the terms of the lease, Seton will operate City-owned Brackenridge Hospital and will provide all necessary medical services for residents of Austin regardless of their ability to pay. The City will reimburse Seton for services provided through three programs. Under the Charity Care Program, the City will reimburse Seton a maximum of $5.6 million annually for providing medical care to the medically indigent; provided however, that Seton must first provide charity care in the amount of 4% of net revenues as required by State law. Under the Medical Assistance Program (MAP), the City paid Seton approximately $10.6 million in fiscal year 2004 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately $5.8 million during fiscal year 2004 for providing physician services to patients in the first two programs.

14 – COMMITMENTS AND CONTINGENCIES, continued

In May 2003, the City amended the lease agreement to accommodate capacity issues related to the Children's Hospital at Brackenridge. In order to meet future community needs for pediatric medical services, the City Council approved moving the Children's Hospital to the former site of Robert Mueller Airport. The new Children's Hospital will be owned and operated by Seton. Other provisions of the amendment include lengthening the lease term from an original term of 30 years to 60 years (with an optional 30 year extension), increasing the breach of contract penalty from $5 million to $50 million, and adding a requirement that Seton spend a minimum of $50 million for capital improvements at Brackenridge over the next 20 years; of which $30 million must be spent within the next 10 years. The lease amendment also strengthens financial provisions related to the operation of the Austin Women's Hospital. The cost of the leased assets as of September 30, 2004 is as follows (in thousands):

	Cost	Accumulated Depreciation
Land and other nondepreciable assets	$ 745	--
Property, plant and equipment in service	73,977	(38,499)

Due to the creation of the Travis County Hospital District, assets associated with Brackenridge Hospital, Children's Hospital and the Austin Women's Hospital will convey to the Travis County Hospital District. For further information, please refer to the Subsequent Events Note (Note 16).

k -- 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, the City reports in the Solid Waste Services Fund, a nonmajor enterprise fund, a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The $7.6 million reported as accrued landfill closure and postclosure costs at September 30, 2004, represents the cumulative amount reported to date based on the use of 82.3% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.6 million as the remaining estimated capacity is filled over the next eight years. The total estimated costs of $9.2 million include costs of closure in 2012 of $2.3 million and postclosure costs over the subsequent thirty years of $6.9 million. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. 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.

l -- Risk-Related Contingencies

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

Fund name	Description
Employee Benefits	City employees and retirees may choose between a self-insured PPO or an HMO. Approximately 27% of City employees and 55% of retirees use the HMO option; approximately 73% of City employees and 45% 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. Excludes losses and claims related to health benefits or workers' compensation. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	This self-insured program charges premiums to other City funds each year based on historical costs.

14 – COMMITMENTS AND CONTINGENCIES, continued

The City purchases stop loss insurance for the City's PPO. This stop loss insurance covers individual claims that exceed $500,000 per calendar year beginning in calendar year 2002 and $150,000 per calendar year prior to calendar year 2002, up to a maximum of $1 million. During fiscal year 2004, no claims exceeded the stop loss limit of $500,000; During fiscal year 2003, one claim exceeded the stop loss limit of $500,000; and no claims exceeded the stop loss limit of $500,000 in fiscal year 2002. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. There have been no claims settlements in excess of the insurance coverage that has been procured. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Workers' Compensation Fund; liabilities for the Liability Reserve Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 2004. The possible range of loss is $27.4 to $41.2 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

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

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2004	2003	2004	2003	2004	2003
Liability balances, beginning of year	$ 5,541	4,618	20,080	21,899	9,127	6,864
Claims and changes in estimates	4,460	5,328	3,601	9,586	4,592	6,587
Claim payments	(5,061)	(4,405)	(10,523)	(11,405)	(4,377)	(4,324)
Liability balances, end of year	$ 4,940	5,541	13,158	20,080	9,342	9,127

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $4.4 million discounted at 4.78% in 2004 and $4.9 million discounted at 5.02% in 2003.

In fiscal year 2004, the City reached a settlement agreement in a litigation matter with Christopher Ochoa in the amount of $4.8 million. This amount is included in the financial statements as presented.

m -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of $11.5 million at September 30, 2004. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2005 and future years.

The EPA issued an Administrative Order to the Water and Wastewater Utility on April 29, 1999. The Administrative Order requires the Utility perform a series of activities designed to result in an improved system free from sanitary sewer overflows. These activities include Infiltration/Inflow, Sanitary Sewer Evaluation Studies, as well as subsequent design and construction of necessary improvements to the wastewater collection system to eliminate overflows by December 2007. Construction costs are estimated to be $150 million and the Utility is on schedule to comply with the Administrative Order.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $1.5 million in the financial statements.

14 – COMMITMENTS AND CONTINGENCIES, continued

n -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2004 was $19.2 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, including the certificates of participation, as lessee for financing equipment purchases for Electric and Water and Wastewater Utilities and for financing personal computers for both governmental and business-type departments. 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 assets recorded at September 30, 2004, under capital lease obligations (in thousands):

		Business-type Activities				
Assets	**Governmental Activities**	**Electric**	**Water and Wastewater**	**Airport**	**Nonmajor**	**Total**
Building and improvements	$ --	21,604	12,750	--	--	34,354
Equipment	2,289	1,334	284	917	652	3,187
Accumulated depreciation	(1,157)	(10,169)	(4,432)	(59)	(300)	(14,960)
Net assets	$ 1,132	12,769	8,602	858	352	22,581

15 – OTHER POST-EMPLOYMENT BENEFITS

In addition to making contributions to the three pension systems, the City provided certain other post-employment benefits to its retirees. Other post-employment benefits include access to medical and dental insurance for the retiree and the retiree's family and $1,000 of life insurance on the retiree only.

All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical and dental plan(s) in which they participate. Eligible dependents of the retiree include a legally married spouse, unmarried children under age 25 who are dependent upon the retiree for support, including natural children, stepchildren, legally adopted children, children for whom the retiree has obtained court-ordered guardianship/conservatorship, qualified children placed pending adoption, and grandchildren who qualify as a dependent on the retiree's or retiree's spouse's federal income tax return, and eligible disabled children beyond 25 years of age if covered prior to age 25. A surviving spouse of a deceased retiree may continue medical coverage until the date the surviving spouse remarries. A surviving spouse of a deceased retiree may continue dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee. Other surviving dependents of a deceased retiree may continue medical and dental coverage for 36 months by paying the entire premium plus a 2 percent administrative fee.

The City is under no obligation, statutory or otherwise, to offer other post-employment benefits or to pay any portion of the cost of other post-employment benefits to any retirees. Allocation of City funds to pay other post-employment benefits or to make other post-employment benefits available is determined on an annual basis by the City Council as part of the budget process.

The City pays a portion of the retiree's medical insurance premium and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection and years of service. The percentage of the medical insurance premium paid by the City ranges as follows:

Years of Service	Retiree only	Dependent only
Less than 5 years	14% - 16%	8% - 15%
5 to 9 years	22% - 24%	13% - 23%
10 to 14 years	38% - 40%	23% - 38%
15 to 20 years	55% - 56%	33% - 53%
Greater than 20 years	79% - 80%	49% - 75%

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

The City pays 100% of the retiree's life insurance premium. Group dental coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental premium.

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,443 retirees was $13.7 million in 2004, and $12.5 million in 2003 for 2,298 retirees.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2003, the City's portion of this obligation, $7,883,039, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS

a -- Water and Wastewater System Revenue Bond Refunding Issue

In October 2004, the City issued $165,145,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2004A. Proceeds from the bonds were used to refund $175,000,000 of the City's outstanding Tax-Exempt Commercial Paper issued for the Water and Wastewater System. The refunding resulted in future interest requirements to service the debt of $134,342,208. No change in net cash flows resulted from this transaction, and no accounting gain or loss was recognized on this refunding.

b -- Travis County Hospital District

In May 2004, voters in Travis County approved the creation of the Travis County Hospital District. In August 2004, the City and Travis County appointed members to serve on the Board of the District, which is comprised of nine members. The Board consists of four appointees from the City, four from Travis County, and one selected jointly. The District budget, which is required to be approved by the Travis County Commissioner's Court, was approved for operations beginning on October 1, 2004.

On October 1, 2004, the City transferred $10.7 million to the District to fund a significant portion of a financial reserve fund. Of this amount, $3 million was transferred from remaining operating and capital reserves that existed in the Primary Care Fund at the end of fiscal year 2004. The City's General Fund transferred the remaining amount of $7.7 million.

Certain City assets, obligations and rights will transfer to the District, including title to the land and buildings of Brackenridge Hospital, Children's Hospital and the Austin Women's Hospital. In addition, upon federal approval related to transfer of the federally-qualified status of the Community Health Center, assets associated with the City's Federally Qualified Health Centers will also transfer to the District. On November 22, 2004, the Board approved the conveyance of land, buildings, and equipment pertaining to Brackenridge Hospital, Children's Hospital and Austin Women's Hospital.

The District has assumed the rights and obligations related to the lease with Seton to operate Brackenridge Hospital and the Children's Hospital. The assumption of the lease includes provisions for the District to continue funding certain indigent healthcare costs previously funded by the City. The District has also assumed the agreement with the University of Texas Medical Branch at Galveston to operate Austin Women's Hospital. An interlocal agreement approved by the District allows the City to operate the Federally Qualified Health Centers and administer the City and County Medical Assistance Programs.

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2004
(In thousands)

	2004					
	Actual	Adjustments (1) (2)	Actual-Budget Basis	Budget Original	Budget Final	Variance Positive (Negative) (3)
REVENUES						
Taxes	$ 281,720	--	281,720	273,751	273,751	7,969
Franchise fees	29,018	--	29,018	27,132	27,132	1,886
Fines, forfeitures and penalties	16,976	--	16,976	17,317	17,317	(341)
Licenses, permits and inspections	15,317	--	15,317	16,884	16,884	(1,567)
Charges for services/goods	15,565	(1,185)	14,380	15,239	15,239	(859)
Interest and other	19,168	(475)	18,693	13,167	13,167	5,526
Total revenues	377,764	(1,660)	376,104	363,490	363,490	12,614
EXPENDITURES						
General government						
Municipal Court	8,199	32	8,231	8,713	8,613	382
Public safety						
Police	159,344	(1,652)	157,692	161,445	162,745	5,053
Fire	82,786	(14)	82,772	84,089	84,089	1,317
Emergency Medical Services	19,956	(437)	19,519	20,058	20,058	539
Transportation, planning and sustainability						
Transportation, Planning and Sustainability	8,493	311	8,804	9,277	9,277	473
Street lighting	176	--	176	160	160	(16)
Public health:						
Health	15,728	(244)	15,484	16,362	16,362	878
Social services management	9,579	505	10,084	10,293	10,293	209
Public recreation and culture						
Parks and Recreation	26,952	(271)	26,681	26,788	26,788	107
Austin Public Library	16,303	(116)	16,187	16,587	16,587	400
Urban growth management						
Neighborhood Planning and Zoning	3,088	6	3,094	3,413	3,413	319
Development Services and Watershed Protection	7,158	(220)	6,938	7,433	7,433	495
General city responsibilities (4)	46,983	(32,823)	14,160	12,705	12,705	(1,455)
Total expenditures	404,745	(34,923)	369,822	377,323	378,523	8,701
Excess (deficiency) of revenues over expenditures	(26,981)	33,263	6,282	(13,833)	(15,033)	21,315
OTHER FINANCING SOURCES (USES)						
Capital leases	634	(634)	--	--	--	--
Transfers in	95,894	1,725	97,619	97,619	97,619	--
Transfers out	(48,766)	(36,968)	(85,734)	(83,786)	(83,886)	(1,848)
Total other financing sources (uses)	47,762	(35,877)	11,885	13,833	13,733	(1,848)
Excess (deficiency) of revenues and other sources over expenditures and other uses	20,781	(2,614)	18,167	--	(1,300)	19,467
Special items - hospital district reserve payment	(7,700)	7,700	--	--	--	--
Fund balance at beginning of year	93,206	(58,854)	34,352	34,245	34,245	107
Fund balance at end of year	$ 106,287	(53,768)	52,519	34,245	32,945	19,574

(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.

BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on cash and available resources (budget basis) which differs from generally accepted accounting principles (GAAP basis). In governmental funds, 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.

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP-basis and budget reporting for the General Fund are the reporting of encumbrances and the reporting of certain operating transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and as an expenditure in the general city responsibilities activity on the budget basis. Adjustments necessary to convert the excess revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund are provided, as follows (in thousands):

	General Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ 20,781
Adjustments - increases (decreases) due to:	
Unbudgeted revenues	(475)
Net compensated absences accrual	(126)
Outstanding encumbrances established in current year	(4,247)
Payments against prior year encumbrances	2,550
Advance from Airport Fund	(450)
Other	134
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ 18,167

c -- Budget Amendments

The original budget of the General Fund was amended twice during fiscal year 2004 for increased public safety costs and an increase in transfers out offset by a decrease in expenditures for Municipal Court.

The original and amended budget is presented in the accompanying financial statements. The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The amended expenditure budget for these general city requirements includes the following: tuition reimbursement ($85,000), accrued payroll ($1,435,000), expenditures for workers' compensation ($7,146,683), liability reserve ($2,500,000) and public safety ($1,538,700).

APPENDIX C

Form 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 AND REFUNDING BONDS,
SERIES 2005,
DATED AUGUST 15, 2005,
IN THE PRINCIPAL AMOUNT OF $19,535,000

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 $19,535,000. The Bonds bear interest from the date and mature on the dates specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the ordinance of the City authorizing the issuance of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

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

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. 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. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

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

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

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

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 2005,
DATED AUGUST 15, 2005,
IN THE PRINCIPAL AMOUNT OF $7,185,000

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 $7,185,000. 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 and the Ordinance constitute valid and legally binding obligations of the City; and that the ad valorem taxes, upon all taxable property within the City, necessary to pay the interest on and principal of said 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 the 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 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 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 2005,
DATED AUGUST 15, 2005,
IN THE PRINCIPAL AMOUNT OF $14,940,000

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 $14,940,000. 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 and the Ordinance constitute valid and legally binding obligations of the City; and that the ad valorem taxes, upon all taxable property within the City, necessary to pay the interest on and principal of said 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.

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.

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.

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,

APPENDIX D

Form of Ambac Specimen Insurance Policy

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the “Insurance Trustee”), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the “Obligations”) which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder’s presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder’s rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder’s duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder’s duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders’ rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term “Holder” means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, “Due for Payment”, when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, “Nonpayment” means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

APPENDIX E

Form of MBIA Specimen Insurance Policy

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FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ______________________________
Assistant Secretary

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

STD-TX-6
4/95

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