OFFICIAL STATEMENT DATED DECEMBER 16, 2003

New Issue: Book–Entry–Only System

In the opinion of Bond Counsel, (a) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law assuming continuing compliance with certain covenants described herein and (b) interest on the Bonds is not a specific item of tax preference for purposes of the alternative minimum tax on individuals and corporations, except as described herein in the discussion regarding the adjusted current earnings adjustment for corporations. See "TAX MATTERS - Tax Exemption" herein for a discussion of the opinion of Bond Counsel.

$54,250,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Airport System Prior Lien Revenue Refunding Bonds, Series 2003

Dated: December 1, 2003 **Due:** November 15, as shown below

The $54,250,000 City of Austin, Texas Airport System Prior Lien Revenue Refunding Bonds, Series 2003 (the "Bonds"), are limited special obligations of the City of Austin, Texas (the "City"), issued pursuant to an ordinance adopted by the City on December 11, 2003 (the "Ordinance"). Interest on the Bonds is payable on May 15, 2004 and semiannually thereafter on November 15 and May 15 of each year until maturity or prior redemption. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book–Entry–Only System will affect the method and timing of payment and the method of transfer. See "Description of the Bonds – Book–Entry–Only System" herein.

The Bonds are subject to optional redemption prior to maturity as more fully described herein. See "Description of the Bonds – Redemption" herein.

The Bonds, together with any additional Prior Lien Bonds (hereinafter defined) heretofore or hereafter issued, are limited special obligations of the City payable from, and shall be equally and ratably secured by a first lien on, the Net Revenues (hereinafter defined) of the Airport System (hereinafter defined) and certain funds established by the Ordinance. No mortgage of any of the physical properties forming a part of the Airport System or any lien thereon or security interest therein has been given. The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds. See "Security for the Prior Lien Bonds" herein.

MBIA

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the Bonds. See "BOND INSURANCE" herein.

MATURITY SCHEDULE

Maturity Date (November 15)	Principal Amount	Interest Rate	Price or Yield	Maturity Date (November 15)	Principal Amount	Interest Rate	Price or Yield
2006	$ 5,000	3.000%	1.950%	2013	$ 260,000	4.000%	3.760%
2007	1,780,000	3.000%	2.250%	2014	270,000	4.000%	3.880%*
2008	1,850,000	4.000%	2.620%	2015	280,000	4.000%	4.000%
2009	1,935,000	4.000%	2.900%	2016	16,015,000	5.250%	4.110%*
2010	2,015,000	4.000%	3.190%	2017	16,845,000	5.250%	4.190%*
2011	2,115,000	5.000%	3.440%	2018	2,210,000	5.250%	4.270%*
2012	8,670,000	5.000%	3.650%				

(Accrued Interest from December 1, 2003 to be added)

*Priced to Call Date.

The Bonds are offered for delivery when, as and if issued, subject to the opinions of the Attorney General of the State of Texas and Vinson & Elkins L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. Certain additional legal matters will be passed on for the City by McCall, Parkhurst & Horton L.L.P. Certain legal matters will be passed on for the Underwriters by their counsel, Locke Liddell & Sapp LLP. It is expected that the Bonds will be tendered for delivery through DTC on or about January 13, 2004.

MORGAN STANLEY

APEX PRYOR SECURITIES **FIRST SOUTHWEST COMPANY** **JPMORGAN**
LEHMAN BROTHERS **MORGAN KEEGAN & COMPANY, INC.** **RAMIREZ & CO., INC.**
SIEBERT BRANDFORD SHANK & CO., LLC **UBS FINANCIAL SERVICES INC.**

CITY OF AUSTIN, TEXAS

Elected Officials

Name	Office	Term Expires June 15
Will Wynn	Mayor	2006
Daryl Slusher	Councilmember Place 1	2005
Raul Alvarez	Councilmember Place 2	2006
Jackie Goodman, Mayor Pro Tem	Councilmember Place 3	2005
Betty Dunkerley	Councilmember Place 4	2005
Brewster McCracken	Councilmember Place 5	2006
Danny Thomas	Councilmember Place 6	2006

Appointed Officials

Toby Hammett Futrell	City Manager
Joe Canales	Deputy City Manager
Lisa Gordon	Assistant City Manager
John Stephens, CPA	Acting Assistant City Manager
Laura Huffman	Assistant City Manager
Vickie Schubert, CPA	Acting Director of Financial Services
David Allan Smith	City Attorney
Shirley A. Brown	City Clerk

BOND COUNSEL
Vinson & Elkins L.L.P.
Austin, Texas

SECURITIES COUNSEL FOR THE CITY
McCall, Parkhurst & Horton L.L.P.
Dallas and Austin, Texas

FINANCIAL ADVISOR
Public Financial Management
Austin, Texas

AUDITORS
KPMG LLP and Richard Mendoza, CPA
Austin, Texas

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This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman, or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of the Bonds, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE ORDINANCE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE ON EXEMPTIONS CONTAINED IN SUCH ACTS.

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

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

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

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OFFICIAL STATEMENT

relating to

$54,250,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Airport System Prior Lien Revenue Refunding Bonds, Series 2003

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to set forth information concerning the City of Austin, Texas (the "City"), the Airport System (as hereinafter defined), and the City's Airport System Prior Lien Revenue Refunding Bonds, Series 2003 (the "Bonds"). Unless otherwise indicated, capitalized terms used in this Official Statement shall have the meanings established in the Ordinance. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Selected Definitions".

The Bonds are being issued pursuant to Chapter 1207 and Chapter 1371, Texas Government Code, as amended, Chapter 22, Texas Transportation Code, as amended, and the ordinance of the City Council adopted on December 11, 2003 (the "Ordinance").

The Prior Lien Bonds and the Revenue Bonds hereafter mentioned will be the only revenue bonds outstanding payable from the Net Revenues (as hereinafter defined) of the Airport System although the Airport System has and will continue to transfer to the general fund of the City from excess revenues which revenues are to be dedicated for the payment of approximately $2 million of outstanding general obligation bonds issued for Airport System purposes. Under certain circumstances, the Ordinance permits the issuance of Additional Prior Lien Bonds as Prior Lien Bonds which rank on a parity with the Bonds as to lien upon and security of payment from the Net Revenues. See "SECURITY FOR THE PRIOR LIEN BONDS – Additional Prior Lien Bonds".

PLAN OF FINANCING

Purpose of Refunding Bonds

The Bonds are being issued to refund $52,290,000 of the Airport System Prior Lien Revenue Bonds, Series 1995A (the "Refunded Bonds") and to pay costs of issuance. The refunding will result in debt service savings to the Airport System. See "APPENDIX F – SCHEDULE OF REFUNDED BONDS" for a listing of the Refunded Bonds.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and JPMorgan Chase Bank, Dallas, Texas (the "Escrow Agent"). The Ordinance provides that the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount which, together with other funds of the City used for such purpose, will be sufficient to accomplish the discharge, final payment and defeasance of the Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

The Arbitrage Group, Inc., a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the Bonds.

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

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, or any additional amounts required to pay the principal of and interest on the Refunded Bonds, if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

SOURCES AND USES OF FUNDS

The following table sets forth the estimated application of proceeds of the Bonds.

Sources of Funds:	
Principal Amount of the Bonds	$54,250,000.00
Original Issue Premium	4,550,094.30
Accrued Interest	314,810.42
Total Sources of Funds	$59,114,904.72
Uses of Funds:	
Deposit to Escrow Fund	$57,783,317.42
Underwriter's Discount	280,339.44
Costs of Issuance (Includes Bond Insurance Premium)	736,437.44
Deposit to Debt Service Fund	314,810.42
Total Uses of Funds	$59,114,904.72

DESCRIPTION OF THE BONDS

Form and Denominations

The Bonds will be dated December 1, 2003 and will bear interest from such date at the rates set forth on the cover page hereof, Interest on the Bonds will be payable on May 15 and November 15 of each year, commencing May 15, 2004. The Bonds shall be issued solely as fully registered securities in the principal amount of $5,000 or any integral multiple thereof.

The principal of and the premium, if any, on the Bonds shall be payable in lawful money of the United States of America at the corporate trust office in New York, New York (the "Designated Payment/Transfer Office") of Deutsche Bank Trust Company Americas (the "Paying Agent/Registrar"), and the interest on the Bonds shall be paid by check or draft mailed, by first-class mail, by the Paying Agent/Registrar to the respective registered owners thereof at their addresses as they appear on the registration books kept by the Paying Agent/Registrar pertaining to the registration of the Bonds on the previous May 1 or November 1, as applicable. In lieu of mailing such interest payment, such other method may be used at the risk and expense of a registered owner, if requested by the registered owner and acceptable to the Paying Agent/Registrar. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with arrangements between the City and the securities depository.

Redemption

On November 15, 2013, or on any date thereafter, the City shall have the option of calling the Bonds maturing thereafter for redemption prior to maturity, in whole or in part in integral multiples of $5,000 (but if redeemed in part, the maturities to be redeemed shall be selected by the City at its discretion, and if less than all the Bonds of a single maturity are to be redeemed, those to be redeemed shall be selected by the Paying Agent/Registrar by lot), for an amount equal to the principal amount of the Bonds so called for redemption plus accrued interest thereon to the date fixed for redemption.

By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the redemption price of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

Redemption Notice

Notice of optional redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least 30 days prior to the date fixed for redemption by sending written notice by first-class mail to the registered owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notice shall state the redemption date, the redemption price, the amount of accrued interest payable on the redemption date, the place at which Bonds are to be surrendered for payment and, if less than the entire principal amount of a Bond is to be redeemed, the portion thereof to be redeemed. Any notice given as provided in this paragraph shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the redemption price of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption. When the Bonds have been called for redemption in whole or in part and due provision has been made to redeem them, the Bonds or portions thereof so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the registered owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Defeasance

The Ordinance provides that the City may discharge its obligation to the Owners of any or all of the Bonds to pay principal, interest and redemption premium (if any) thereon, or any portion thereof, by depositing with the Paying Agent/Registrar cash in an amount equal to the principal, redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption, or any portion thereof to be discharged, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of $100,000,000, pursuant to an escrow or trust agreement, cash and/or direct obligations of, or obligations the principal and interest of which are guaranteed by, the United States of America in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption or any portion thereof to be discharged. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Discharge by Deposit" for additional provisions relating to the defeasance of the Bonds.

Under Texas law, upon such deposit as described above, such Bonds shall no longer be regarded to be Outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or to take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds 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 Ordinance. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds are described herein.

DTC will act as securities depository for the Bonds (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 of the Securities, each in the aggregate principal amount of the Securities, 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 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 the 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 neither the City nor the Underwriters take any responsibility for the accuracy thereof.

Paying Agent/Registrar

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

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar, in lieu of the Bond 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. New Bonds issued in an exchange or transfer will be delivered to the registered owner or assignee of the registered owner within 72 hours after the receipt thereof to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

SECURITY FOR THE PRIOR LIEN BONDS

Pledge

The Prior Lien Bonds are limited special obligations of the City and are payable from and are equally and ratably secured solely by a first lien on the Net Revenues of the Airport System and a first lien on the moneys on deposit in the Debt Service Fund and the Debt Service Reserve Fund. The Bonds are Prior Lien Bonds under the Ordinance. For definitions of the "Airport System," "Net Revenues," "Prior Lien Bonds," and "Operation and Maintenance Expenses," see "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Selected Definitions".

The Ordinance does not constitute a mortgage of any of the physical properties forming a part of the Airport System or create any lien thereon or security interest therein. The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.

Rate Covenant

The City covenants in the Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year, the Net Revenues will be at least sufficient to equal the **larger** of either (i) all amounts required to be deposited in such Fiscal Year to the credit of the Debt Service Fund and the Debt Service Reserve Fund, and to pay any Debt Service Requirements in such Fiscal Year on Revenue Bonds and Subordinate Obligations, **or** (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for the Prior Lien Bonds for such Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long as principal of and interest on the Prior Lien Bonds are paid when due.

Pursuant to the Ordinance, so long as any Prior Lien Bonds remain Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and deliver to the chief budget officer of the City, for submission to the City Council, a recommended annual budget for the Airport System for such Fiscal Year. The City shall adopt annual budgets for the Airport System for each Fiscal Year, each of which shall contain an estimate of Gross Revenues and only such budgeted expenditures as will produce Net Revenues in an amount not less than the Net Revenues necessary to comply with the rate covenant set forth above. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for such purposes by such budget, as it may from time to time be amended. The City Manager supervises each department of the City and is responsible for the preparation and presentation of the overall budget.

Operations at and the revenues generated by ABIA operations have been negatively impacted by a variety of factors, including the events of September 11, 2001, hostilities in the Middle East, the general downturn in the national economy, and the Severe Acute Respiratory Syndrome ("SARS") outbreak. The Airport System has supplemented revenues available for the payment of operation and maintenance expenses and debt service through the transfer of funds from other available Airport sources, including specifically from the Airport Capital Fund. For the Fiscal Year ended September 30, 2002, the Airport System transferred $6,992,897 to the Airport Operating Fund and for the Fiscal Year ended September 30, 2003, the Airport System transferred $7,332,360 to the Airport Operating Fund. The moneys transferred were originally intended to be used to pay for ongoing capital improvement projects at the Airport. Anticipated capital improvement projects at the Airport have been scaled back by approximately 50%; reduction in the projects undertaken has not adversely affected ongoing operations at the Airport. As is the case with other airports around the country, Airport management continues to explore opportunities to increase non-airline generated revenues at the Airport (e.g., parking, concessions, real estate and other activities).

Set forth below is a table showing the actual and budgeted transfers to the Airport Operating Fund.

Austin-Bergstrom International Airport
Transfer from Airport Capital Fund to
Airport Operating Fund

Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Budgeted
$6,992,897	$7,332,360	$7,384,492

The transfers to the Airport Operating Fund enable the City to satisfy the rate covenant described above as well as satisfying the tests governing the issuance of Additional Prior Lien Bonds.

Debt Service Reserve Fund

The Ordinance and the ordinances authorizing the Prior Lien Bonds establish a Debt Service Reserve Fund for the benefit of all Prior Lien Bonds and require that an amount equal to the Debt Service Reserve Fund Requirement be accumulated and maintained therein in accordance with such ordinances. The Debt Service Reserve Fund Requirement is defined as the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Prior Lien Bonds then Outstanding including the Bonds and Prior Lien Bonds then being issued. The Ordinance and the ordinances authorizing the Prior Lien Bonds also provide for the use of a Debt Service Reserve Fund Surety Bond in lieu of a cash deposit. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Funds and Flow of Funds - Debt Service Reserve Fund." On January 15, 1998 a Debt Service Reserve Fund Surety Bond in the amount of $30,429,177.48 was substituted for the money then held in the Debt Service Reserve Fund. Any amounts withdrawn from the Debt Service Reserve Fund for the payment of Prior Lien Bonds must be replenished, after providing for certain other payments required by the Ordinance, in eighteen equal monthly installments.

By reason of the issuance of the Bonds, a surety bond in the amount equal to the Required Reserve Amount issued by MBIA Insurance Corporation shall be deposited to the credit of the Reserve Fund to fully fund the Required Reserve amount of $29,412,267.12.

In connection with the issuance of the Debt Service Reserve Fund Surety Bond, the City and MBIA Insurance Corporation ("MBIA") entered into a Financial Guaranty Agreement (the "Agreement"). Pursuant to the Agreement, the City has agreed to reimburse MBIA together with interest with respect to any draw on the Debt Service Reserve Fund Surety Bond. The reimbursement period shall be 18 months following payment to the Debt Service Reserve Fund pursuant to a Debt Service Reserve Fund Surety Bond payment. The City has never drawn on the Debt Service Reserve Fund Surety Bond.

In connection with the issuance of the Bonds, the City and MBIA will enter into a Financial Guaranty Agreement, pursuant to which MBIA will issue a new Debt Service Reserve Fund Surety Bond to replace the existing Debt Service Reserve Fund Surety Bond. The new Debt Service Reserve Fund Surety Bond will be applicable to the Bonds and the Series 1989 Bonds, Series 1995A Bonds and Series 1995B Bonds that remain outstanding after the delivery of the Bonds. See "BOND INSURANCE – Debt Service Reserve Fund Surety Bond".

Additional Prior Lien Bonds

The City has reserved the right to issue Additional Prior Lien Bonds on a parity with the Bonds and the Prior Lien Bonds for any lawful Airport System purpose upon the meeting of certain conditions including the following: (i) certain officials of the City certify that upon issuance of such Additional Prior Lien Bonds the City will not be in default under any terms or provisions of any Prior Lien Bonds or the provisions of the ordinances pursuant to which they were issued, and upon the issuance of such Additional Prior Lien Bonds the Debt Service Fund and Debt Service Reserve Fund will have the required amounts on deposit or contained therein; and (ii) a written report of an Airport Consultant indicates that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three (3) consecutive Fiscal Years beginning in the earlier of (a) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Prior Lien Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or (b) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Prior Lien Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Prior Lien Bonds, investment income thereon or from other appropriated sources (other than Net Revenues) are equal to at least 125 percent of the Debt Service Requirements on all Prior Lien Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Prior Lien Bonds to be issued.

In lieu of the certification described in (ii) above, the City's Director of Financial Services may provide a certificate showing that, for either the City's most recently completed Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all Prior Lien Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Prior Lien Bonds proposed to be issued.

If Additional Prior Lien Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds which are then Outstanding, neither the report of the Airport Consultant nor the certificate of the City's Director of

Financial Services described above is required so long as the maximum annual Debt Service Requirements in any Fiscal Year after the issuance of such Additional Prior Lien Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of the Additional Prior Lien Bonds. The Bonds are to be issued in satisfaction of this provision of the Ordinance.

Revenue Bonds

The City has reserved the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Prior Lien Bonds. Although referred to in the Ordinance as "Revenue Bonds", such bonds, notes or other obligations may bear any name or designation provided by the ordinance authorizing their issuance. Such Revenue Bonds may be secured by any other source of revenues lawfully available for such purposes, whether or not pledged as security for the Prior Lien Bonds. See "Debt Service Requirements".

Subordinate Obligations

The City has reserved the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Prior Lien Bonds and Revenue Bonds. Although referred to in the Ordinance as "Subordinate Obligations", such bonds, notes or other obligations may bear any name or designation provided by the ordinance authorizing their issuance. Such Subordinate Obligations may be further secured by any other source of revenues lawfully available for such purposes, whether or not pledged as security for the Prior Lien Bonds or the Revenue Bonds. See "Debt Service Requirements".

Special Facilities Bonds

The City has reserved the right to issue from time to time, in one or more series, Special Facilities Bonds as provided in the Ordinance to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Prior Lien Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds. See "Debt Service Requirements".

Flow of Funds

The Ordinance creates five special funds in addition to the Construction Fund. Gross Revenues as received are required to be deposited into the Revenue Fund established by the Ordinance, and moneys in such fund are required to be applied and allocated on a monthly basis in the manner and the priority established by the Ordinance. See "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Funds and Flow of Funds".

BOND INSURANCE

MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. A specimen of MBIA's policy is included as Appendix E hereto.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent/Registrar 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 Bonds 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 MBIA's 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); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds 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 Bonds. 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 Bonds 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 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent/Registrar or any other paying agent for the Bonds.

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/Registrar or any owner of a Bond 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 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 Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank National Association, U.S. Bank National Association shall disburse to such owners or the Paying Agent/Registrar payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

Debt Service Reserve Fund Surety Bond

Application has been made to MBIA for a commitment to issue a surety bond in substitution for Surety Bonds currently held in the Debt Service Reserve Fund (the "Debt Service Reserve Fund Surety Bond"). Since the reserve fund requirements are being reduced as a result of the refunding of the Refunded Bonds, the City is pursuing the substitution with MBIA. The Debt Service Reserve Fund Surety Bond will provide that upon receipt of notice by MBIA from the paying agent for the Prior Lien Bonds to which the Debt Service Reserve Fund Surety Bond applies to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal or (at maturity or pursuant to mandatory redemption requirements) and interest on any Prior Lien Bonds to which the Debt Service Reserve Fund Surety Bond applies, MBIA will promptly deposit with such paying agent an amount sufficient to pay the principal of and interest on such Prior Lien Bonds or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of (i) three (3) days after receipt by MBIA of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond; or (ii) the payment date of the Prior Lien Bonds as specified in the Demand for Payment presented to MBIA, MBIA will make a deposit of funds in an account with U.S. Bank National Association, in New York, New York, or its successor, sufficient for payment of amounts which are then due (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by MBIA with a paying agent that have not been reimbursed by the City. The City and MBIA entered into a Guaranty Agreement dated December 16, 2003 (the "Agreement"). Pursuant to the Agreement, the City is required to reimburse MBIA, within eighteen (18) months of any deposit, the amount of such deposit made by MBIA with a paying agent under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required deposits to the Debt Service Fund have been made.

Under the terms of the Agreement, a paying agent is required to reimburse MBIA, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated before any deposit is made to the Revenue Fund. No optional redemption of Prior Lien Bonds may be made until the Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond is provided as an alternative to the City depositing funds equal to debt service for outstanding Prior Lien Bonds to which the Debt Service Reserve Fund Surety Bond applies. The Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to the Debt Service Reserve Fund Requirement for the Prior Lien Bonds to which the Debt Service Reserve Fund Surety Bond applies and the premium therefore will be fully paid by the City at the time of the delivery of the Bonds.

MBIA

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. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

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". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

MBIA Information

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

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002; and
(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. 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 SEC filings including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, 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 Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of $9.2 billion (audited), total liabilities of $6.0 billion (audited), and total capital and surplus of $3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2003 MBIA had admitted assets of $9.9 billion (unaudited), total liabilities of $6.4 billion (unaudited), and total capital and surplus of $3.5 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

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 the Bonds, 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 Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event MBIA is unable to fulfill its contractual obligation under its bond insurance 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.

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DEBT SERVICE REQUIREMENTS*

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds (a)	The Bonds Principal	The Bonds Interest	Total Prior Lien Requirements	Estimated Debt Service Subordinate Lien Series A Notes (b)	Estimated Total Combined Debt Service Requirements
2004	$ 27,696,258	$ -	$ 1,229,260	$ 28,925,518	$ 1,680,000	$ 30,605,518
2005	26,120,903	-	2,698,375	28,819,278	1,680,000	30,499,278
2006	26,375,774	-	2,698,375	29,074,149	1,680,000	30,754,149
2007	25,196,201	5,000	2,698,300	27,899,501	1,680,000	29,579,501
2008	25,223,836	1,780,000	2,671,525	29,675,361	1,680,000	31,355,361
2009	25,243,939	1,850,000	2,607,825	29,701,764	1,680,000	31,381,764
2010	25,277,820	1,935,000	2,532,125	29,744,945	1,680,000	31,424,945
2011	25,296,645	2,015,000	2,453,125	29,764,770	1,680,000	31,444,770
2012	25,322,713	2,115,000	2,359,950	29,797,663	1,680,000	31,477,663
2013	19,056,884	8,670,000	2,090,325	29,817,209	1,680,000	31,497,209
2014	27,721,871	260,000	1,868,375	29,850,246	1,680,000	31,530,246
2015	27,761,010	270,000	1,857,775	29,888,785	1,680,000	31,568,785
2016	27,790,335	280,000	1,846,775	29,917,110	1,680,000	31,597,110
2017	13,489,753	16,015,000	1,420,781	30,925,534	1,680,000	32,605,534
2018	13,475,916	16,845,000	558,206	30,879,123	28,280,000	59,159,123
2019	28,566,558	2,210,000	58,013	30,834,570	-	30,834,570
2020	30,809,638	-	-	30,809,638	-	30,809,638
2021	30,747,109	-	-	30,747,109	-	30,747,109
2022	27,967,488	-	-	27,967,488	-	27,967,488
2023	27,925,500	-	-	27,925,500	-	27,925,500
2024	27,886,284	-	-	27,886,284	-	27,886,284
2025	27,839,788	-	-	27,839,788	-	27,839,788
2026	27,790,803	-	-	27,790,803	-	27,790,803

(a) Excludes the Refunded Bonds.

(b) Estimated at an assumed interest rate of 6.00%.

* As of November 1, 2003.

THE AIRPORT SYSTEM

ABIA

The Airport System is comprised of airport, heliport and aviation facilities or any interest therein owned, operated or controlled in whole or in part by the City and includes Austin Bergstrom International Airport ("ABIA"), but expressly excludes any heliport or heliports operated by City Departments other than the Aviation Department. ABIA is classified by the Federal Aviation Administration ("FAA") as a medium hub airport. According to Airports Council International, ABIA is the 48th largest airport in the United States based on 2002 enplanements.

On May 23, 1999, ABIA commenced operations at which time Robert Mueller Municipal Airport ceased operations. ABIA includes the passenger terminal building, support facilities and a network of public and restricted use roads. The terminal building, the adjacent aircraft parking apron and the related support facilities are located between the independent parallel runways. The terminal building contains 675,000 square feet of integrated terminal core and concourse areas with 25 gates (24 domestic and one international gate and associated Federal Inspection Services area). The existing terminal building may be expanded to add up to five additional gates. Any additional gate expansion beyond that described in the previous sentence would be accomplished through construction of a new south terminal and possible other satellite terminals. No such expansion is currently contemplated.

A parking garage is directly adjacent to the landside of the terminal. The structure is a three-level concrete facility with a capacity of 3,600 vehicles, including approximately 1,200 rental car ready return spaces. Two pedestrian connector bridges between the elevated road structure and the parking garage provide access from the terminal building to the parking garage. The public and employee parking lots provide parking for approximately 11,500 vehicles.

The east runway consists of a 9,000-foot by 150-foot concrete runway and a parallel 75-foot-wide taxiway, taxiway connectors and high-speed exits. The midfield cross taxiways consist of two 4,300-foot by 75-foot concrete parallel taxiways. The west runway consists of a 12,250-foot concrete runway and parallel taxiway and a new cross taxiway. Included in both are grading, drainage, pavement, paint stripping, lighting, signage, and utilities.

The terminal access road provides northerly access to the terminal complex from State Highway 71 via a looped, six-lane access road. The road encircles the parking garage and employee and public parking lots and splits into upper and lower levels in front of the terminal building, providing access for departures and arrivals. The overall length of the road is approximately two miles, including the elevated departure section.

ABIA also includes various aprons and taxiways to support other ABIA users, including the Texas Department of Transportation, Texas Army National Guard, and corporate and general aviation plus support facilities for the airlines such as the Belly Freight and Ground Service Maintenance facilities. The airline/cargo fuel farm tank capacity is 1,200,000 gallons. The City has cargo development agreements for five buildings and 1,116,422 square feet of ground space. The City has awarded a cargo development agreement for up to 200,000 square feet of additional cargo area.

The City has adopted height and compatibility ordinances for the areas surrounding ABIA and has completed its Noise Study guidelines. The Federal Aviation Administration ("FAA") approved the noise study as submitted on August 10, 1994 and again in November 2000. Land use measures include acquisition of aviation easements with sound insulation, where possible, or property acquisition when sound insulation is not feasible. The scope of noise mitigation included the soundproofing of approximately 225 single-family residence units, 320 multifamily residence units, and 185 commercial lodging units. It also included the relocation of four schools at a cost of $47.5 million. The total program cost is approximately $71.4 million.

Capital Program

The Airport's Five Year Capital Improvement Program beginning FY 2004 totaling $123,551,000 is funded primarily from cash by Capital Fund contributions (45%), and anticipated Federal Aviation Administration and Transportation Security Administration grant funding (52%). The projects for the five year program fall into five categories: Airfield/Apron - $15,474,000; Terminal - $58,750,000; Parking and Roadways - $18,445,000; Noise Mitigation - $23,915,000; and $6,967,000 – for miscellaneous issues including building roof repairs, equipment, environmental impact statement update and Aircraft Rescue and Fire Fighting ("ARFF") building expansion.

Master Plan

The Master Plan update was completed in early 2003. The plan sets trigger points utilizing passenger, operations and vehicular statistics over the planning period of twenty years. Specific recommendations and/or updates of the Master Plan include:

- updated aviation demand forecasts;
- landside and airside facility requirements;
- evaluated airport development alternatives;
- prepared a airport layout plan;
- developed a financial plan; and
- evaluated potential environmental impacts.

The City is waiting for official approval of the update from the FAA.

AIRLINE AGREEMENTS

The Department of Aviation has entered into Airline Use and Lease Agreements with seven major passenger air carriers. The initial term of the Airline Use and Lease Agreements ran from May 23, 1999, the opening date of ABIA, through September 30, 2003, and the agreements have been automatically extended for one additional term of five years ending September 30, 2008. The Airline Use and Lease Agreements specify the methodologies for setting terminal rents, landing fees, apron fees, terminal equipment fees and other charges to be paid by the signatory airlines.

In addition, the Department of Aviation has entered into Operating Agreements with air cargo carriers serving ABIA and with certain charter passenger carriers and smaller passenger carriers. Carriers having Operating Agreements pay the same signatory rates as do carriers having Airline Use and Lease Agreements, but do not participate in setting airport fees and charges. The Operating Agreements have a shorter term (year to year) than the Airline Use and Lease Agreements. See "Certain Investment Considerations – Airline Industry – Effect of Bankruptcy on Airline Use and Lease Agreements."

United Air Lines, Inc. ("United"), one of the ABIA's signatory airlines, filed for relief under Chapter 11 of the Bankruptcy Code on December 9, 2002 and continues to operate flights out of ABIA as debtor-in-possession. The City has asserted claims against United, primarily for rent for the month of December 2002, in the amount of $78,328.89. United leases two gates at ABIA, and as yet, has not assumed or rejected its ABIA Use and Lease Agreement.

Rate-Making Approach at ABIA

The airlines agree to pay signatory airline rates and charges at ABIA calculated according to the rate-making procedures contained in the Airline Use and Lease Agreements, adjusted to include an allocated portion of debt service and coverage on all Airport System debt in the aeronautical rate base. The City believes that the rate-making methodology, costs included in the aeronautical rate base, and cost center allocation methodology assumed in the financial forecasts are fair and reasonable and substantially in conformance with the FAA Policy Regarding Airport Rates and Charges issued on January 30, 1995.

AIRPORT MANAGEMENT

Jim Smith, Executive Director of Aviation. Mr. Smith is responsible for the City's Department of Aviation. He served in executive capacities in Norfolk, Virginia and Dayton, Ohio before joining the City in 1984. Since coming to Austin he has served as Director of Planning and Development, Director of Public Works and Transportation, Assistant City Manager and now Executive Director of the Department of Aviation. He has a Bachelor of Science Degree from the City University of New York and a Master of Public Administration Degree from the University of Dayton.

Charles W. Gates, Director, Finance and Administration. Mr. Gates is responsible for Finance, Business Development, and Network Services. Mr. Gates came to Austin from Dayton, Ohio where he was Superintendent of Aviation Administration for the City of Dayton. He is a graduate of the University of Dayton with a Bachelor of Science in Business Administration in Accounting. He is actively involved in committee work in the Airports Council International and was appointed to the Board of Directors in January 1995. He is also active in the American Association of Airport Executives, the Airport Minority Advisory Council, the National Forum for Black Public Administrators, and served on the Board of Directors of the Austin Urban League. In June 1991, Mr. Gates received the National Achievers Award from the Airport Minority

Advisory Council for outstanding professional achievement as an aviation official. Prior to this position, Mr. Gates served as Director of Aviation.

Bruce Mills, Assistant Director, Aviation Security and Operations. After retiring from a long and distinguished career with the Austin Police Department ("APD"), Mr. Mills is responsible for the Operations Section and oversees all law enforcement activities to include foreign and domestic terrorism prevention/response, aircraft emergencies/accidents response, investigations to include counter drug, crime prevention, intelligence gathering and medical first responder activities. Additionally, he is responsible for the ARFF who are members of the Austin Fire Department tasked with fire fighting prevention and operations. In 1973 Mr. Mills began a career in law enforcement with APD as a Patrol Officer, working his way through the ranks and ultimately obtaining an Interim Chief of Police position from February 1997 – November 1997. Some of his accomplishments and experience include, Special Crimes, Homicide, Cadet Training, Uniform patrol, Crime Analysis, Criminal Investigations and Organized Crime Division. As a Deputy Chief of the Community Response Bureau he was responsible for planning, directing and coordinating the activities of personnel in areas such as Special Weapons and Tactics (SWAT), Explosive Ordinance Detail (EDO), Narcotics, Vice, Walking Beat, Mounted Patrol and Victims Services. During his career, he was awarded many distinguished honors and decorations to include the Medal of Valor and various certificates for Merit, Distinction and Appreciation. In 1990 Chief Mills received a Bachelor of Liberal Studies, Criminal Justice, from St. Edward's University (Austin, Texas) graduating Summa cum Laude. In 1993, he received his Master of Science in Criminal Justice Administration from Southwest Texas State University (San Marcos, Texas). He is also a graduate of the Southern Police Institute School of Justice Administration and the Austin Police Department's Police Science and Law Enforcement Academy.

Patti Edwards, Assistant Director, Aviation Maintenance. Ms. Edwards is responsible for all maintenance and custodial activities, which include buildings, grounds, airfield, roadways, motor pool and unimproved areas. She has been employed by the City's Aviation Department for over nine years. She has been in her current acting position since November 2001. Ms. Edwards has seventeen years experience in maintenance, landscape and construction. She is an active member of BOMA and AAAE.

Jamy Kazanoff, Assistant Director, Aviation Business Development. Ms. Kazanoff is responsible for airport marketing, business development and community relations for ABIA. She oversees the areas of properties and contracts management, advertising revenue, air cargo and passenger air service development, passenger assistance programs, media relations and serves as the point of contact with many Austin-area business and community groups. She has been employed by the City's Aviation Department for five years. Ms. Kazanoff has 19 years of marketing and business development experience, primarily serving in account executive positions with advertising agencies. She is actively involved in the Airports Council International (ACI) Marketing and Communications Committee, serving on the steering group and the ACI International Program Steering Group. She is a graduate of The University of Texas at Austin with a Bachelor of Journalism degree.

Barbara E. Tipple, CPA, Chief Financial Officer. Ms. Tipple is responsible for overall financial management of the Airport System, including financial accounting and reporting, day to day fiscal operations, budgeting, grants administration, airport rate setting and strategic planning. The City has employed her since 1982. She began working at Austin's airport in 1990 as a Senior Accountant and has been in her current position at the Airport System since 1999. Prior to 1982, she was employed in public accounting. She is a graduate of Lamar University with a Bachelor of Arts in History, completed her accounting and business education at Texas A&M University and The University of Texas at Austin and is a Certified Public Accountant.

AIRPORT STATISTICAL DATA

ABIA is the principal air carrier airport in the Austin Metropolitan Statistical Area ("MSA"), consisting of Hays, Travis, Bastrop, Caldwell and Williamson Counties. The Austin MSA population and economy generate more than 95 percent of the passengers enplaned at ABIA.

The secondary area of the Airport service region surrounds the Austin MSA and consists of Bastrop, Blanco, Burnet, Caldwell, Fayette, Lee and Llano Counties. The limits of the secondary area are generally defined by the availability of airline service at air carrier airports in nearby cities such as Dallas/Fort Worth (192 miles), Houston (164 miles) and San Antonio (78 miles). In the following analysis, economic and population data for the Austin MSA are used to represent the Airport service region.

Major Economic Activity

For general information regarding the City and its economy, see APPENDIX A hereto.

AIRLINES AND MARKET SHARE

Table 1
List of Airlines

As of the date of this Official Statement, ABIA is being served by the following airlines.

Passenger Airlines	All-Cargo Airlines
America West Airlines	Air Transport Int'l
American Airlines	Airborne Express
Atlantic Southeast ASA	Amerflight
Continental Airlines	Baron Aviation
Delta Air Lines	C&M Airways
Frontier	Custom Transport
Mexicana	DHL-Airways, Inc.
Northwest Airlines	Emery Worldwide
Skywest Airlines	Federal Express
Southwest Airlines	Lone Star Overnight
United Airlines	Martinaire, Inc.
	Mid-Atlantic Freight, Inc.
	Suburban Air Freight
	Telesis Express
	United Parcel Service

Source: City of Austin Department of Aviation.

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The following table presents the airlines' shares of enplaned passengers for Fiscal Years 1980, 1985, 1990, 1998, 1999, 2000, 2001, 2002 and 2003.

Table 2
Airline Market Shares
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

	Share of Enplaned Passengers								
Airline	Fiscal Year 1980	Fiscal Year 1985	Fiscal Year 1990	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003
Southwest	40.3%	35.0%	34.9%	33.4%	32.7%	37.9%	38.8%	37.6%	37.1%
American	-	22.1%	20.8%	28.2%	28.3%	24.1%	23.0%	24.1%	25.2%
Delta	4.0%	10.2%	14.8%	12.6%	12.1%	10.8%	9.5%	10.8%	8.9%
Continental	10.0%	8.3%	8.7%	10.3%	10.3%	10.0%	10.3%	11.2%	11.4%
America West	-	3.4%	5.2%	3.8%	3.7%	3.8%	3.9%	3.5%	2.9%
United	-	3.7%	4.1%	6.0%	6.2%	5.6%	5.9%	5.8%	3.8%
Northwest	-	-	2.8%	2.8%	3.2%	3.1%	3.2%	3.0%	3.4%
TWA	-	2.0%	2.5%	2.4%	2.8%	3.1%	3.2%	0.3%	-
USAir (b)	-	1.4%	1.1%	-	-	-	-	-	-
Conquest (b)	-	-	-	-	-	-	-	-	-
American Eagle	-	-	-	-	-	0.6%	-	-	-
Air Wisconsin	-	-	-	-	-	-	-	-	1.0%
Mesa Airlines	-	-	-	-	-	-	-	-	0.4%
Skywest	-	-	-	-	-	-	-	-	2.7%
Pinnacle	-	-	-	-	-	-	-	-	0.3%
Allegro	-	-	-	-	0.3%	-	-	0.3%	0.1%
Sun Country	-	-	-	-	0.2%	0.2%	0.2%	-	-
Casino Express	-	-	-	0.1%	0.1%	0.1%	-	-	-
Air Canada	-	-	-	-	-	0.1%	-	-	-
Braniff	25.9%	0.4%	-	-	-	-	-	-	-
Eastern	8.7%	2.2%	-	-	-	-	-	-	-
Pan American	-	1.0%	1.0%	-	-	-	-	-	-
Texas International	10.1%	-	-	-	-	-	-	-	-
TranStar	-	9.2%	-	-	-	-	-	-	-
Vanguard	-	-	-	-	-	-	0.8%	1.2%	-
Frontier								1.4%	1.8%
Sub-Total	99.0%	98.9%	95.9%	99.6%	99.9%	99.2%	98.0%	99.3%	99.0%
Commuters	1.0%	1.1%	4.1%	0.4%	0.1%	0.8%	2.0%	0.7%	1.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
(b) Discontinued service during FY1997.
Source: City of Austin, Department of Aviation.

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AIR CARGO ACTIVITIES

The following table sets forth the historical enplaned cargo activity for the period indicated.

Table 3
Historical Cargo Traffic
(represented in tons)
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

	Enplaned Cargo (in tons)			
Fiscal Year	Freight and Express (b)	Mail	Total	Annual Increase/(Decrease)
1982	2,249	1,694	3,943	0.5%
1983	2,543	1,971	4,514	14.5%
1984	3,806	2,643	6,449	42.9%
1985	3,405	3,208	6,613	2.5%
1986	3,137	3,305	6,442	(2.6)%
1987	4,501	3,527	8,028	24.6%
1988	8,225	3,603	11,828	47.3%
1989	12,220	3,836	16,056	35.7%
1990	16,155	3,925	20,080	25.1%
1991	12,367	3,800	16,167	(19.5)%
1992	17,379	3,938	21,317	31.9%
1993	23,463	4,145	27,608	29.5%
1994	27,093	4,120	31,213	13.1%
1995	31,652	4,405	36,057	15.5%
1996	37,923	4,309	42,232	17.1%
1997	41,179	5,174	46,353	9.8%
1998	50,378	5,297	55,675	20.1%
1999	61,291	4,982	66,273	19.0%
2000	76,219	5,035	81,254	22.6%
2001	78,621	5,091	83,712	3.0%
2002	71,485	1,793	73,278	(12.5)%
2003	68,313	1,641	69,954	(4.5)%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
(b) Includes small packages.
Source: City of Austin, Department of Aviation.

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The following table sets forth the percentage of total enplaned freight per all-cargo airline.

Table 4
Enplaned Freight Per All-Cargo Airline
Austin-Bergstrom International Airport
(For Fiscal Years Ended September 30)

	Percentage of Total Enplaned Freight				
All-cargo Airlines	1999	2000	2001	2002	2003
Federal Express	32.6%	31.8%	23.8%	37.6%	40.2%
Burlington/ATI (a)	7.0%	5.2%	2.2%	0.7%	0.0%
Airborne Express	15.4%	14.9%	11.5%	15.5%	17.4%
Emery Worldwide	5.5%	5.0%	3.8%	1.0%	2.3%
Baron Aviation	1.4%	1.0%	0.9%	1.2%	1.5%
UPS	10.4%	7.3%	8.0%	10.2%	11.0%
Eagle	10.5%	-	0.0%	0.0%	0.0%
Express One	-	14.1%	25.8%	2.7%	0.0%
DHL	-	0.0%	2.6%	5.6%	5.4%
Custom Air	-	-	-	7.0%	9.7%
Quest				8.6%	0.0%
Other (b)	6.9%	11.9%	9.5%	2.3%	3.8%
Subtotal	89.7%	91.2%	88.1%	92.5%	91.3%
Passenger Airlines	10.3%	8.8%	11.9%	7.6%	8.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(a) Prior to July 2000 Air Transport International (ATI) was Burlington Air Express (BAX).
(b) Air Cargo Carriers, DHL Worldwide Express, Lone Star Overnight, Kitty Hawk, Custom Air Transport,, Capital Cargo, Quest Cargo, Empire Airlines, Martinaire, Mid-Atlantic, Telesis Express, Amerijet, and C&M Airways.

Source: City of Austin, Department of Aviation.

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ORIGIN AND DESTINATION MARKETS

Table 5
Domestic Origin-Destination Patterns and Airline Service
Scheduled Domestic Airlines
Austin-Bergstrom International Airport
12 Months Ended June 30, 2003

Rank	City of Origin or Destination (a)	Air Miles from Austin	Percent of Scheduled Airline Passengers	Daily Scheduled Nonstop Departures (b)
1	Dallas – Fort Worth (c)	187	9.0%	32
2	Los Angeles (d)	1,216	5.2%	4
3	Houston (e)	147	4.1%	20
4	Chicago (f)	970	3.9%	10
5	Las Vegas	1,083	3.8%	3
6	New York (g)	1,509	3.8%	2
7	San Jose	1,467	3.3%	2
8	Denver	768	3.3%	7
9	Phoenix	867	3.2%	9
10	Baltimore	1,337	2.5%	2
11	Atlanta	810	2.4%	6
12	El Paso	524	2.3%	4
13	San Francisco (h)	1,496	2.1%	0
14	Washington, DC (i)	1,302	2.0%	0
15	San Diego	1,157	1.8%	1
16	Orlando	992	1.8%	1
17	Seattle	1,761	1.8%	0
18	Lubbock	336	1.7%	2
19	Nashville	752	1.5%	2
20	St. Louis	715	1.3%	3
21	New Orleans	456	1.3%	0
22	Miami (j)	1,105	1.3%	0
23	Minneapolis	1,037	1.3%	3
24	Raleigh/Durham	1,164	1.3%	0
25	Harlingen	283	1.2%	1
26	Portland	1,706	1.1%	0
27	Detroit	1,144	1.1%,	1
28	Kansas City	643	1.1%	0
29	Tampa	928	1.1%	1
30	Boston	1,692	1.0%	0
31	Albuquerque	612	1.0%	0
32	Sacramento	1,474	1.0%	0
33	Midland	289	1.0%	0
	Cities Listed		75.5%	116
	Other Cities		24.5%	10
			100.0%	126

(a) Cities with 1% or more of total inbound and outbound passengers in 10% sample.
(b) Official Airline Guide, June 2003.
(c) Dallas/Ft. Worth International Airport and Dallas Love Field.
(d) Los Angeles International, Burbank-Glendale-Pasadena, Long Beach, Ontario International and John Wayne (Orange County) airports.
(e) Chicago O'Hare International and Midway airports.
(f) Houston Intercontinental and William P. Hobby airports.
(g) John F. Kennedy International, LaGuardia and Newark International airports.
(h) San Francisco and Oakland International airports.
(i) Washington Dulles International and Washington Ronald Reagan National airports.
(j) Miami and Ft. Lauderdale-Hollywood International airports.

Sources: US Department of Transportation "Origin-Destination Survey of Domestic Passengers" Official Airline Guide, June 2003, Prepared by BACK Aviation Solutions.

HISTORICAL AIRLINE TRAFFIC

Table 6
Historical Airline Traffic
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

Fiscal Year	Enplaned Passengers	Annual Percent Increase/(Decrease)	Aircraft Departures Annual	Aircraft Departures Daily	Passenger Enplaned Per Departure
1980	886,947		20,724	57	43
1981	954,104	7.6%	19,832	54	48
1982	1,094,921	14.8%	19,393	53	56
1983	1,189,791	8.7%	22,015	60	54
1984	1,553,266	30.5%	30,406	83	51
1985	1,836,205	18.2%	34,382	94	53
1986	1,802,014	(1.9)%	30,854	85	58
1987	1,930,879	7.2%	33,231	91	58
1988	1,889,110	(2.2)%	31,441	86	60
1989	2,068,961	9.5%	37,323	102	55
1990	2,154,705	4.1%	39,918	109	54
1991	2,062,815	(4.3)%	36,300	99	57
1992	2,144,173	3.9%	36,176	99	59
1993	2,292,646	6.9%	36,759	101	62
1994	2,469,889	7.7%	40,900	112	60
1995	2,659,724	7.7%	46,944	129	57
1996	2,790,470	4.9%	48,756	134	57
1997	2,949,169	5.7%	42,292	116	70
1998	3,002,417	1.8%	43,721	120	69
1999	3,223,913	7.4%	44,318	121	73
2000	3,866,956	19.9%	45,411	124	85
2001	3,867,625	0.0%	45,294	124	85
2002	3,402,463	(12.0)%	41,960	115	81
2003	3,425,064	0.7%	43,752	120	78

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
Source: City of Austin, Department of Aviation.

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AIRCRAFT OPERATIONS

Historical aircraft operations from Fiscal Year 1980 through Fiscal Year 2003 are set forth on the following table.

Table 7
Historical Aircraft Operations
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
(For Fiscal Years Ended September 30)

Fiscal Year	Air Carrier	Air Taxi/Commuter	General Aviation	Military	Total Operations
1980	32,951	18,630	130,403	11,599	193,583
1981	34,375	15,053	132,524	8,319	190,271
1982	34,757	15,644	131,378	6,765	188,544
1983	39,653	16,390	131,590	7,644	195,277
1984	56,464	14,648	150,325	8,462	229,899
1985	60,151	17,376	149,073	8,450	235,050
1986	60,317	11,093	133,691	7,671	212,772
1987	65,398	10,043	115,448	6,469	197,358
1988	62,647	11,577	108,939	7,088	190,251
1989	61,789	23,195	92,703	7,221	184,908
1990	61,353	28,892	95,602	7,149	192,996
1991	61,698	19,822	95,254	6,057	182,831
1992	63,627	19,030	97,616	6,523	186,796
1993	64,945	20,925	95,467	6,689	188,026
1994	71,531	22,539	92,953	5,018	192,041
1995	76,224	22,445	96,078	5,695	200,442
1996	80,136	21,200	107,450	6,269	215,055
1997	82,763	15,051	104,184	5,153	207,151
1998	87,435	14,470	95,460	4,131	201,496
1999	103,186	13,062	73,891	4,377	194,516
2000	99,631	16,416	82,747	5,063	203,857
2001	102,655	15,758	98,187	7,968	224,568
2002	93,206	17,628	97,431	8,333	216,598
2003	92,600	21,989	88,977	13,806	217,372

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
Source: 1980-1993: U.S. Department of Transportation, Federal Aviation Administration, "Air Traffic Activity", fiscal year editions.
1994-2003: City of Austin, Department of Aviation.

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AIRCRAFT LANDED WEIGHT

Historical aircraft landed weight at Robert Mueller Municipal Airport and Austin-Bergstrom International Airport from Fiscal Year 1980 through Fiscal Year 2003 are set forth on the following table.

Table 8
Historical Aircraft Landed Weight
Robert Mueller Municipal Airport and Austin-Bergstrom International Airport (a)
Fiscal Years 1980 – 2003
(in 1,000-pound units)

Fiscal Year	Passenger Airlines	All-cargo Airlines	Total	Percent Increase/(Decrease)
1980	1,730,919	21,970	1,752,889	N/A
1981	2,164,812	34,765	2,199,577	25.5%
1982	2,193,535	27,610	2,221,145	1.0%
1983	2,446,617	35,544	2,482,161	11.8%
1984	3,465,099	105,670	3,570,769	43.9%
1985	3,709,995	134,726	3,844,721	7.7%
1986	3,598,608	119,074	3,717,682	(3.3)%
1987	3,962,387	151,505	4,113,892	10.7%
1988	3,744,765	271,978	4,016,743	(2.4)%
1989	3,648,818	360,041	4,008,859	(0.2)%
1990	3,831,860	230,986	4,062,846	1.3%
1991	3,797,219	106,061	3,903,280	(3.9)%
1992	3,922,625	189,602	4,112,227	5.35%
1993	3,963,281	322,486	4,285,767	4.2%
1994	4,247,865	358,404	4,606,269	7.5%
1995	4,332,391	399,579	4,731,970	2.7%
1996	4,322,633	495,613	4,818,246	1.8%
1997	4,405,228	526,098	4,931,326	2.3%
1998	4,556,204	653,290	5,209,494	5.6%
1999	5,061,755	820,936	5,882,691	12.9%
2000	5,236,831	938,223	6,175,054	5.5%
2001	5,536,571	995,417	6,531,988	11.0%
2002	4,982,834	798,371	5,781,205	(6.4)%
2003	4,845,473	768,318	5,613,791	(2.9)%

(a) Robert Mueller Municipal Airport closed and Austin-Bergstrom International Airport opened on May 23, 1999.
Source: City of Austin, Department of Aviation.

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HISTORICAL FINANCIAL DATA

The City, as operator of the Airport System, currently accounts for its activities according to generally accepted accounting principles through an enterprise fund. The City's financial statements for the Fiscal Year ended September 30, 2002 are included as APPENDIX B hereto. The following table represents the historical operating results of the Airport enterprise fund for Fiscal Year 1999 through 2002 based on the published financial statements of the City, as reported on by the City's certified public accountants, together with the unaudited results for the Fiscal Year ended September 30, 2003.

TABLE 9
Comparative Statements of Revenues, Expenses and Changes in Retained Earnings/Net Assets
City of Austin, Texas
Airport Fund
(Fiscal Year Ended September 30)
(in thousands)

	1999	2000	2001	2002	Unaudited 2003
Revenue					
User Fees and Rental	$ 54,580	$ 60,518	$ 68,528	$ 64,418	$ 63,239
Operating Revenues	54,580	60,518	68,528	64,418	63,239
Expenses					
Operating Expenses before Depreciation	27,640	33,325	39,363	37,265	40,698
Depreciation	17,122	16,054	15,188	16,210	15,950
Total Operating Expenses	44,762	49,379	54,551	53,475	56,648
Operating Income before Nonoperating Revenues (Expenses) and Operating Transfers	9,818	11,139	13,977	10,943	6,591
Nonoperating Revenues (Expenses)					
Interest and other revenues	7,950	8,112	6,083	4,039	1,784
Unrealized Gain on Investments	-	-	-	-	-
Interest on Revenue Bonds and Other Debt	(25,567)	(26,199)	(24,340)	(23,648)	(23,236)
Interest Capitalized during Construction	18,601	-	1,237	435	685
Capital Contributions	-	-	9,568	8,905	7,524
Passenger Facility Charges (1)	-	9,408	9,999	8,359	8,214
Amortization of Bond Issue Cost	(109)	(109)	(105)	(105)	(105)
Other Nonoperating Expenses	(777)	(416)	(120)	(207)	(761)
Total Nonoperating Revenues (Expenses)	100	(9,204)	2,324	(11,127)	(5,895)
Income before Operating Transfers	9,917	1,934	16,302	(184)	696
Operating Transfers:					
Operating Transfers In	-	-			(654)
Operating Transfers Out	-	-	(133)	(50)	606
Income before Extraordinary Loss	9,917	1,934	16,169	(234)	648
Extraordinary Loss – Bond Debt Extinguishment	-	-	-	-	-
Net Income	9,917	1,934	16,169	(234)	648
Add depreciation transferred to contributors	2,839	2,277	2,468	-	-
Net increase in retained earnings	12,756	4,212	18,637	158,557	648
Retained earnings at beginning of year, as previously reported	-	139,699	143,911	162,547	321,104
Prior Period Adjustment	-	-	-	-	-
Retained Earnings/Net Assets at beginning of year, as restated (2)	$126,943	$139,699	$143,911	$162,547	$321,752
Retained Earnings/Net Assets at end of year (2)	$139,699	$143,911	$162,547	$321,104	$321,752

(1) PFC Revenue reported as non-operating revenue beginning FYE 2000.
(2) City of Austin implemented GASB 34 effective FYE 2002

TABLE 10
Revenue Detail by Fiscal Year
Austin-Bergstrom International Airport

	Fiscal Year 1999 Actual	Fiscal Year 2000 Actual	Fiscal Year 2001 Actual	Fiscal Year 2002 Actual	Fiscal Year 2003 Unaudited
Airline Revenue					
Landing Fees	$10,576,771	$11,907,116	$15,772,043	$12,497,134	$16,650,881
Terminal Rental & Other Fees	8,696,582	11,712,874	12,896,688	15,089,328	13,071,248
Total Airline Revenue	$19,273,353	$23,619,990	$28,668,731	$27,586,462	$29,722,129
Non-Airline Revenue					
Parking	$14,809,706	$20,701,007	$23,172,282	$21,413,969	$17,857,135
Other Concessions	8,604,985	10,838,202	11,396,771	10,502,221	9,934,122
Other Rentals and Fees	11,892,126	5,358,302	5,290,658	4,915,102	5,725,144
Total Non-Airline Revenue	$35,306,817	$36,897,511	$39,859,711	$36,831,292	$33,516,401
Total Revenue	$54,580,170	$60,517,501	$68,528,442	$64,417,754	$63,238,530

AIRLINE INFORMATION

Revenues of the Airport System may be affected by the ability of the airlines operating at ABIA, individually and collectively, to meet their respective obligations. Each of said airlines (or their respective parent corporations) is subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, including financial information, as of particular dates concerning each of the airlines operating at ABIA (or their respective parent corporations) is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected in the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20659, and at the SEC's regional offices at 219 South Dearborn Street, Chicago, Illinois 60604; 26 Federal Plaza, New York, New York 10278; and 5757 Wilshire Boulevard, Suite 500 East, Los Angeles, California 90036-3648 and copies of such reports and statements can be obtained from the Public Reference Section of the SEC at the above address at prescribed rates. In addition, each airline operating at ABIA is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (the "U.S. DOT"). Such reports can be inspected at the following location: Office of Aviation Information Management, Data Requirements and Public Reports Division, Research and Special Programs Administration, Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. DOT at prescribed rates.

CERTAIN INVESTMENT CONSIDERATIONS

General

Since the events of September 11, 2001, ABIA, as well as the rest of the aviation industry, has faced numerous challenges. Following the terrorist events, the aviation industry continued to face obstacles as airline traffic and revenue remained soft, the economy weakened, air traffic demand continued to decrease, and airlines' expenses continued to increase. The aviation industry continues to face obstacles including hostilities in Iraq, elevated oil prices, increased fare discounting, escalating security costs, and the outbreak of SARS. All of this has had an impact on the operational levels at airports across the country, including ABIA. The City and the Department of Aviation have been seeking to respond to these series of challenges.

The principal of and interest on the Prior Lien Bonds is payable pursuant to the Ordinance solely from the Net Revenues of the Airport System and moneys on deposit in the Debt Service Fund and the Debt Service Reserve Fund. The ability to pay debt service on the Prior Lien Bonds will depend on the receipt of sufficient Gross Revenues, including the receipt of PFC (hereinafter defined) revenues pledged as payment for the Prior Lien Bonds.

The Airport System's ability to generate Gross Revenues, including any PFC revenues, depends upon sufficient levels of aviation activity and passenger traffic at ABIA. The achievement of increased passenger traffic will depend partly on the profitability of the airline industry and the ability of individual airlines to provide sufficient capacity to meet demand. A weak economy, war and the threat of terrorist activity reduces demand for air travel. To the extent the Airport System is unable to make up for revenue shortfalls, the City's ability to pay debt service on the Prior Lien Bonds may be adversely affected.

In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement, and should specifically consider certain risks associated with the Bonds, which are Prior Lien Bonds under the terms of the Ordinance. There follows a discussion of some, but not necessarily all, of the possible considerations and risks which should be carefully evaluated by prospective purchasers of the Bonds prior to purchasing any Bonds. The Bonds may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the Bonds and should confer with their own legal and financial advisors before considering a purchase of the Bonds.

Passenger Facility Charges

Application. Under the Aviation Safety and Capacity Act of 1990 (the "PFC Act"), as modified by the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century ("AIR-21"), the Federal Aviation Administration ("FAA") may authorize a public agency to impose a Passenger Facility Charge ("PFC") of $1.00, $2.00, $3.00, $4.00, or $4.50 on each passenger enplaned at any commercial service airport controlled by the public agency, subject to certain limitations. On December 20, 1994, the Department of Aviation filed with the FAA a PFC application totaling $337.8 million for funding a portion of the construction and the financing costs related to ABIA. The scope of the application, to impose and use a $3.00 Passenger Facility Charge, included construction costs of a passenger terminal complex, airfield facilities, and landside facilities on a pay-as-you-go basis and the financing costs associated with these Passenger Facility Charge qualifying scopes of work. The FAA approved application number 95-03-C00-AUS on February 8, 1995 for a total of $333,232,479. PFC collections authorized by this application began in August, 1995. Amounts totaling $27.2 million, collections through September, 1998 together with over collections posted on two earlier applications, were used towards the actual construction costs of the PFC qualifying scopes of work. Beginning October, 1998, interest earned and Passenger Facility Charges collected were used for the debt costs associated with the Passenger Facility Charge qualifying scope of work. As of September, 2003, Passenger Facility Charge collections and interest earned on collections totaled $74.04 million.

The Aviation Department is in the process of amending its current outstanding PFC application to seek an increase in (i) the PFC collection rate from $3.00 to $4.50, and the PFC eligibility amount of the debt service related to the original project funding for the construction of ABIA. See APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Use of Passenger Facility Charges."

Sufficiency. The Airport System's ability to collect PFC revenues will vary depending on the actual number of passenger enplanements at ABIA. If the number of enplaned passengers at ABIA falls below projections, actual PFC revenues will fall short of projections. Such a shortfall in PFC collections could have an adverse affect on the timely payment of debt service on bonds secured by a pledge of PFC revenues. This adverse impact could be direct or indirect, if the PFC shortfall results in sufficient increases in landing fees as to impact negatively ABIA's desirability to the airline industry and thus ultimately impact the collection of landing fees at ABIA. Passenger traffic fell after September 11, 2001, and continues to be affected by the recent downturn in the economy and hostilities in the Middle East. There can be no assurance as to what passenger traffic, and ABIA revenues, will be in the future. In addition to its other effects, these circumstances will result in a reduction of PFC collections at ABIA compared to what would have been otherwise collected based on traffic that existed prior to September 11, 2001.

Availability. The authority to impose and use PFCs is subject to the terms and conditions of the PFC Act, AIR-21 and the related regulations thereto. Failure to comply with the requirements of applicable law, such as the failure to use PFCs strictly for approved PFC projects, may cause the FAA to terminate or reduce the Airport System's authority to impose and collect PFCs. In addition, notwithstanding FAA regulations requiring airlines to collect PFCs to account for PFC collections separately and indicating that those PFC collections are to be regarded as funds held in trust by the collecting airline for the beneficial interest of the public agency imposing the PFC, in the event of a bankruptcy proceeding involving a collecting airline, there is the possibility that a bankruptcy court could hold that the PFCs in the airline's custody are not to be treated as trust funds and that ABIA is not entitled to any priority over other creditors of the collecting airline as to such funds. Also, there is no assurance that the PFC Act, AIR-21, or any other relevant legislation or regulation will not be repealed or amended to adversely affect the Airport System's ability to collect PFCs. The occurrence of any of these events could have an adverse impact on the timely payment of debt service on bonds secured in part by the pledge of PFCs.

No assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the City, or that the Airport System will collect such PFC revenues in amounts or at times sufficient to pay debt service. The amount of actual PFC revenues collected, and the rate of collection, will vary depending on the actual levels of qualified passenger enplanements at ABIA, and will not necessarily correlate in any way to the debt service requirements of the obligations to which PFC revenues have been pledged. Regardless of the amount of PFC revenues, the City will be able to apply such revenues to pay debt service only to the extent the City applied bond proceeds to pay the costs of PFC approved projects described in the PFC application that was authorized by the FAA. In addition, the FAA may terminate ABIA's ability to impose PFCs, subject to formal and informal procedural safeguards, if (1) ABIA fails to use its PFC revenues for approved projects in accordance with the FAA's approval, the PFC Act or the regulations promulgated thereunder, or (2) ABIA otherwise violates the PFC Act or regulations.

Airline Industry

General Factors Affecting Air Carrier Revenues. The revenues of both the Airport System and the airlines serving ABIA may be materially affected by many factors including, without limitation, the following: declining demand; service and cost competition; mergers; the availability and cost of fuel and other necessary supplies; high fixed costs; high capital requirements; the cost and availability of financing; technological changes; national and international disasters and hostilities; the cost and availability of employees; strikes and other employee disruptions; the maintenance and replacement requirements of aircraft; the availability of routes and slots at various airports; litigations liability; regulation by the federal government; environmental risks and regulations; noise abatement concerns and regulation; deregulation; federal and state bankruptcy and insolvency laws; acts of war and terrorism; world health concerns such as the outbreak of SARS and other risks. Many airlines, as a result of these and other factors, have operated at a loss in the past and several have filed for bankruptcy, ceased operations and/or have merged with other airlines. Historically, the airline industry's results have correlated with the performance of the economy. The September 11, 2001 attacks, the war in the Middle East and their aftermath have resulted in a further adverse effect on airline industry earnings, the full extent of which cannot be predicted. Major carriers have either filed or announced the possibility of filing for federal bankruptcy protection, including US Airways (although it emerged from bankruptcy on March 31, 2003), United and American. Vanguard Airlines also has sought federal bankruptcy protection. Further bankruptcy filings, liquidations or major restructuring by members of the airline industry remain possible.

General Factors Affecting Airline Activity. Numerous factors affect air traffic generally and air traffic at ABIA specifically. Demand for air travel is influenced by factors such as population, levels of disposable income, the nature, level and concentration of industrial and commercial activity in the service area and the price of air travel. The price of air travel is, in turn, affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure and hubbing strategies of the airlines serving the airport, the willingness of competing airlines to enter into an airport market, the cost of operating at an airport, the price of fuel and any operating constraints (due to capacity, environmental concerns or other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport. In addition, the onset of war and the threat of renewed terrorist attacks may dampen air traffic. Although the City has developed contingency plans that make assumptions as to factors described above and suggest a prudent response to such events, the City may anticipate but can never predict the occurrence of any particular event or trend that could adversely impact airline traffic and/or Airport System revenues.

Effect of Bankruptcy on Airline Use and Lease Agreements. The profitability of the airline industry has declined drastically since 2000, with most airlines, until recently, posting significant losses every fiscal quarter since the beginning of 2001. As a result, increasing numbers of carriers have already declared or are threatened with bankruptcy. Currently, United and Vanguard are the only active airlines at ABIA in bankruptcy. The City believes that United plans to reorganize and continue operations, although United has not yet taken action to assume or reject its Airline Use and Lease Agreement. Vanguard has rejected its Operating Agreement with ABIA, has ceased to do business, and has filed a liquidation plan in its Chapter 11 proceedings.

When an airline seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the City (1) within 60 days or later, if ordered by the court, with respect to its Airline Use and Lease Agreement or other leases of rental property, or (2) prior to the confirmation of a plan or reorganization with respect to any other agreement. In the event of assumption, the airline would be required to cure any prior defaults and to provide adequate assurance of future performance under the applicable Airline Use and Lease Agreement or other agreements. Rejection of an Airline Use and Lease Agreement or other agreement or executory contract would give rise to an unsecured claim of the City for damages, the amount of which in the case of an Airline Use and Lease Agreement or other agreement is limited by the Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (1) one year or rent or (2) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of an Airline Use and Lease Agreement or other agreement could be considerably less than the maximum amounts allowed under the Bankruptcy Code. Except for costs allocated to such airline for usage and rental of the terminal, concourse and ramps, amounts unpaid as a result of a rejection of an Airline Use and Lease Agreement or other agreement in connection with an airline in bankruptcy, such as airfield costs and costs associated with the baggage claim area would be passed on to the remaining airlines under their respective Airline Use and Lease Agreements, although there can be no assurance that such other airlines would be financially able to absorb the additional cost. Additionally, during the precedency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the City on account of goods and services provided prior to the bankruptcy. Thus, the City's stream of payments from a debtor airline would be interrupted to the extent of a pre-petition goods and services, including accrued rent and landing fees.

Uncertainties of the Airline Industry. The City's ability to derive revenues from its operation of ABIA depends on many factors, many of which are not subject to the City's control. Revenues may be affected by the ability of the airlines, individually and collectively, to meet their respective obligations under the Airline Use and Lease Agreements.

The airline industry has undergone significant changes including airline mergers, acquisitions, bankruptcies and closures. In addition, the financial results of the airline industry have been subject to substantial volatility since deregulation. The airline industry accumulated substantial losses from 1990 to 1994, before improving in 1995. The airline industry was generally profitable from 1995 to 1999. However, recent events, including the September 11, 2001 attacks, the general economic downturn in the industry and the war in the Middle East, have triggered record losses and caused the industry's worst financial performance in history.

As a result of the present condition of the airline industry, additional bankruptcy filings, liquidations or major restructuring by members of the airline industry remain possible. In response to mounting losses, Air Canada, US Airways and United Airlines filed for bankruptcy protection, although US Airways emerged from bankruptcy on March 31, 2003. At one point, United warned that it may have to cease operations and liquidate if costs are not further reduced. To lower costs, Delta Airlines has announced a restructuring of its airport hub operations to reduce costs.

Similarly, no assurances can be given regarding the future financial viability of American Airlines. American, like most other domestic carriers, is experiencing extreme financial distress. American has announced cutbacks throughout its system, including at ABIA. At one point, American retained bankruptcy counsel and considered filing for Chapter 11 bankruptcy protection. If American reduces or eliminates its activity at ABIA, its current level of activity may not be replaced by other carriers. American has received major concessions from its employee unions and others, which have currently reduced, but not eliminated, the possibility of American seeking bankruptcy protection.

The financial strength and stability of airlines serving ABIA are key determinants of future airline traffic. In addition, individual airline decisions regarding level of service, particularly hubbing activity, at ABIA will affect total emplacements. No assurance can be given as to the levels of aviation activity that will be achieved by ABIA. There is no assurance that ABIA, despite a demonstrated level of airline service and operations, will continue to maintain such levels in the future. The continued presence of the airlines serving ABIA, and the levels at which that service will be provided, are a function of a variety of factors. Future airline traffic of ABIA will be affected by, among other things, the growth or decline in the population and the economy of the Airport Service Region and by national and international economic conditions, acts of war and terrorism, federal regulatory actions, airline service, air fare levels and the operation of the air traffic control system.

Limitations of Remedies

The Bonds are not subject to acceleration under any circumstances or for any reason, including without limitation on the occurrence or continuance of an Event of Default. Upon the occurrence or continuation of an Event of Default, a Bondholder would only be entitled to principal and interest payments on the Bonds as they come due. Under certain circumstances, Holders of the Bonds may not be able to pursue certain remedies or enforce covenants contained in the Ordinance.

LITIGATION

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

TAX MATTERS

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (a) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (b) the Bonds are not "private activity bonds" under the Internal Revenue Code and, therefore, interest on the Bonds is not a specific item of tax preference for purposes of the alternative minimum tax on individuals and corporations except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Internal Revenue Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include (a) limitations on (i) the use of Bond proceeds, (ii) the use of the public use portions of ABIA and (iii) the investment of Bond proceeds prior to expenditure, (b) a requirement that excess arbitrage earned on the investment of Bond proceeds be paid periodically to the United States and (c) a requirement that the issuer file an information report with the Internal Revenue Service. The City has entered into certain covenants in the Ordinance necessary to establish compliance with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the City in the Ordinance pertaining to those sections of the Internal Revenue Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the City and the Underwriters with respect to matters solely within the knowledge of the City and the Underwriters, respectively, which Bond Counsel have not independently verified. Bond Counsel will further rely on the report of The Arbitrage Group, Inc., certified public accountants, regarding the mathematical accuracy of certain computations. If there should be a failure to comply with the covenants of the City in the Ordinance or if the foregoing report or representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

The Internal Revenue Code also currently imposes a 20 percent alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income". Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings", ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Under the Internal Revenue Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profit tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems 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 and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

The form of Bond Counsel's opinion is included as APPENDIX D hereto.

OTHER RELEVANT INFORMATION

Ratings

The Bonds received an underlying rating of "A-" by Standard & Poor's, a division of The McGraw-Hill Companies ("S&P"). The Bonds will be rated "Aaa" by Moody's, "AAA" by S&P, and AAA by Fitch as a result of the municipal bond insurance policy by MBIA. See "BOND INSURANCE" herein. 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 one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price and liquidity of the Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are 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 Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds 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 Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

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

Investment Authority and Investment Practices of the City

Available City funds are invested as 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. 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 that are 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 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; and (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. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, 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.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers 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 up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. 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.

Under Texas 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, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the 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 fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (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 Texas law, the City's 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 the 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 City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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 strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

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 family relationships 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, (3) require the registered principal 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) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

Legal Opinions and No-Litigation Certificate

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of Texas approving the Bonds and to the effect that the Bonds are valid and legally binding special obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS - Tax Exemption" herein, including the alternative minimum tax on 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 Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, "INTRODUCTION," "DESCRIPTION OF THE BONDS" (except the information included therein under the caption "Book-Entry-Only System"), "SECURITY FOR THE PRIOR LIEN BONDS", "TAX MATTERS", the subcaptions "Legal Investments and Eligibility to Secure Public Funds in Texas," "Investment Authority and Investment Practices of the City," "Legal Opinions and No-Litigation Certificate," "Continuing Disclosure of Information," (except the information included therein under the subheading "Compliance with Prior Undertakings") under the heading "OTHER RELEVANT INFORMATION" and APPENDICES C and D to verify that the information relating to the Bonds and the Ordinance contained under such captions accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain additional legal matters will be passed upon for the Underwriters by Locke Liddell & Sapp LLP. The opinion of Bond Counsel will accompany the Bonds deposited with DTC in connection with the use of the Book-Entry-Only System.

Financial Advisor

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

Underwriting

The Underwriters, for which Morgan Stanley & Co. Incorporated is acting as representative, have agreed, subject to certain conditions, to purchase the Bonds from the City at an aggregate discount of $280,339.44 from the initial offering price of the Bonds, plus accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

Continuing Disclosure of Information

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to 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 quantitative financial information and operating data with respect to the Airport System of the general type included in the main text of the Official Statement within the numbered tables only and in APPENDIX B. 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 2003. The City will provide the updated 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 updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide 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 Notices. The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIR and SID. The City has agreed to provide the foregoing information to each NRMSIR and any SID only. The information will be available to holders of Bonds 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 Municipal Advisory Council of Texas has been designated by the State of Texas as a SID, and the SEC staff has issued a no action letter confirming that it will accept that designation. The address of the Municipal Advisory Council 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 the 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 the 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 Airport System, 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, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Verification of Arithmetical and Mathematical Computations

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriters relating to (a) computation of forecasted receipts of principal and interest on the federal securities and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Bonds and the Federal Securities was examined by The Arbitrage Group, Inc., certified public accountants. Such computations were based solely on assumptions and information supplied by the City. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used for the reasonableness of the assumptions, or the achievability of the forecasted outcome. Such verification will be relied upon by Bond Counsel in rendering their opinion with respect to the tax exemption of interest on the Bonds and with respect to defeasance of the Refunded Bonds.

Compliance with Prior Undertakings

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

Forward - Looking Statements

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

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

Miscellaneous Information

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. This Official Statement, and the execution and delivery of this Official Statement, were authorized by the City Council.

/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

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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 Councilmembers. The Mayor and Councilmembers are elected at large for three-year staggered terms, with a maximum of two consecutive terms. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs.

The City is the cultural and creative hub of the Central Texas area, a metropolitan region with 670,000 residents. In recent years, both the population and economy of Austin have grown extraordinarily. The population increased 40 percent in the last decade, and the per capita income rose from $18,000 to $32,000 annually.

Austin is frequently recognized as a great place to live and/or work, with one of the most recent commendations in *Money* magazine's 16th Annual "Ten Best Places to Live in America," where Austin is ranked eighth. 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.

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, 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 100 live music venues, and is home to the annual South by Southwest (SXSW) music and film festivals each spring.

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 more than 30% of its adults having a college degree and over 88% of the workforce having some college education. With its seven institutions of higher learning and more than 94,000 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. Since then, Austin and the Central Texas area have been hit hard by the technology slump. Unemployment in the area has increased sharply over the last three years. Austin's unemployment rate averaged near 5 percent during 2002, with almost 24,000 people unemployed. Statewide unemployment was also almost 6 percent.

Layoffs and the nationwide slump in tourism have negatively impacted both sales tax and hotel tax revenues. Sales tax revenue for the City declined by 6 percent from the prior year and hotel-motel taxes declined by 20 percent. Early 2003 collections show a decline in sales tax, and an increase in hotel tax. Property taxes for 2003 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 next year for the local taxing jurisdictions, including the City. These financial statements include the impact of estimated refunds of 2002 taxes.

The drop in the hotel tax collections is consistent with the nationwide decline in travel and tourism. The decline in travel has impacted both the City's airport and convention revenues. The airport has experienced a decline in both passenger and cargo traffic. For electric and water and wastewater activities, mild weather conditions resulted in lower than anticipated revenues.

With these experiences, City management implemented savings efforts early in 2002, and successfully reduced expenditures during the year, with a focus on reducing administrative costs. The savings efforts concentrated on holding vacant positions open and on identifying savings opportunities. As part of the 2003 budget, over 300 vacant positions were cut from the budget. Early economic forecasts indicated 2003 to be a transition year, with the Austin area expected to experience a modest recovery. Early

2003 indicators however show a delay in the recovery. Moving into 2003, sales taxes continued to drop. City management is taking steps to reduce expenditures for 2003 by implementing a hiring freeze and developing plans to achieve operational efficiencies.

For the future, Austin's strengths continue to be the ones that lead to growth in the recent past: a highly capable workforce, innovation and entrepreneurship, clusters in knowledge industries, the presence of a world-class research university and several other institutions of higher learning, strong community assets and a superior quality of life. Austin has concentrated economic activity in four major areas: technology-related manufacturing and research; entertainment, including film, digital entertainment and live music; information, especially publishing and software; and professional services.

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.

Health and Safety Projects

Brackenridge Hospital is operated by Ascension Health under a lease agreement with the City. The City is constructing and negotiating an operating agreement to operate a separately licensed hospital on the fifth floor of Brackenridge Hospital. The new hospital will maintain access for anyone in need of reproductive health care services; maintain seamless delivery of services; and maintain the high quality of care currently available at Brackenridge Hospital. The facility is expected to open in early 2004.

The City, Travis County and local leaders are developing a plan for a hospital/health care district for Austin/Travis County. Such a district would allow for the creation of a dedicated funding source for the provision of health care and trauma services to all residents in Austin and Travis County.

Construction continues on a combined emergency center that is part of a major regional upgrade of all emergency communications systems and facilities. The center replaces the City of Austin and Travis County 9-1-1 Communications Centers and provides critical upgrades to the current emergency service systems. The center will also include the Austin and Travis County Regional Emergency Operations Center and integrates emergency services with a new, regional Transportation Management Center for the Texas Department of Transportation.

Convention and Cultural Projects

The Convention Center expanded facilities during 2002, with three additions: the Austin Convention Center expansion that doubled the size of the Center; the Palmer Events Center that is a new facility with 131,000 square feet, including 70,000 square feet of exhibit space; and the Palmer Events Parking Garage that is a four-story parking structure. The Events Center and parking garage were funded by a 5 percent increase in car rental tax.

The City continues with building a new City Hall and Public Plaza, which will be Austin's newest landmarks. The City Hall will overlook lovely Town Lake. New state legislation in 2001 allowed for use of the Construction Manager At-Risk model, in which the construction manager selection is based on qualifications and experience, and is not limited to the low-bid method of selection. The City has selected Hensel Phelps Construction Co. of Austin as the construction manager for the City Hall. Construction of the City Hall parking garage was completed in 2002.

Economic Development and Transportation Projects

A vital, on-going project is the redevelopment of the former Robert Mueller Municipal Airport (RMMA) site. The 709-acre site is envisioned as a transit-oriented community, including a town square, a mixed-use district, an employment center, a variety of residential uses, and possible site of a new hospital. The City selected Catellus Development Corporation as the developer for this long-term project and is currently negotiating the elements of the development agreement for the property.

The City is continuing work on transportation projects approved by the voters in 2000. Projects include State highway (SH) projects such as improvements to SH 183, which will improve access to Austin-Bergstrom International Airport, extension of Loop 1 North and construction of an east-west highway SH 45N in the northern portion of Travis County and SH 130, which will provide an alternative to IH 35 to the east of the City. Projects also include improved transportation options for pedestrians and bicyclists.

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. A key step in preparation for deregulation was to begin moving from issuing combined utility debt (combined electric and water and wastewater) to issuing debt specific to the electric utility. To proceed towards that goal, Austin Energy issued $247.6 million Electric Utility System revenue refunding bonds and refunded $281.9 million Combined Utility System revenue bonds during 2002.

During 2002, the Water and Wastewater Utility enhanced security for the water supply and distribution systems. It also launched a program in 2002 to stop sanitary sewer system overflows by the end of 2007. The Utility also began planning for treatment capacity expansions, including a future plant in 2029. The Utility reduced its total debt liability by issuing refunding bonds during the year. In addition, the Utility obtained bondholders' consent to replace a debt reserve fund with a surety bond; this action will result in releasing cash reserves that can be used to defease outstanding bonds.

Status of City Services

Since 1997, the City has conducted two surveys: Citizen Satisfaction and Survey of City Priorities. Highlights of the most recent surveys are, as follows:

- 97% of citizens express satisfaction with the services provided by Fire and EMS
- 91% of citizens are satisfied with 911 services
- 85% of citizens are satisfied with the services and programs provided by Parks and Recreation Department
- 87% of citizens are satisfied with the recycling services provided and 81% are satisfied with the garbage pickup
- Based on the most current information, Austin has the lowest infant mortality rate of the major cities in Texas
- 75% of citizens are satisfied with the health care available in Austin for low-income individuals
- Austin has the lowest property tax rate of the five major Texas cities.

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	1980	% of Total	1990	% of Total	2001	% of Total	2002	% of Total	August 31, 2003	% of Total
Manufacturing	30,550	12.9%	49,300	12.6%	86,500	12.6%	71,200	10.6%	58,900	8.9%
Government	80,950	34.3%	110,400	28.8%	140,700	20.5%	147,900	22.1%	145,800	21.9%
Trade	48,400	20.5%	78,400	20.4%	154,600	22.5%	153,100	22.8%	102,400	15.4%
Services and Miscellaneous	40,950	17.3%	97,200	25.3%	207,900	30.3%	201,800	30.1%	247,900	37.3%
Finance, Insurance and Real Estate	13,700	5.8%	23,400	6.1%	33,000	4.8%	34,100	5.1%	38,100	5.7%
Contract Construction	13,300	5.6%	12,000	3.1%	39,700	5.8%	39,800	5.9%	38,000	5.7%
Transportation, Communications & Utilities	7,200	3.1%	12,100	3.2%	22,400	3.3%	20,700	3.1%	31,800	4.8%
Mining	1,100	0.5%	700	0.2%	1,600	0.2%	1,700	0.3%	1,700	0.3%
Total	236,150	100.0%	383,500	100.0%	686,400	100.0%	670,300	100.0%	664,600	100.0%

(a) Austin MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided. Numbers for 2003 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of August 31, 2003.

Source: 2002 Comprehensive Annual Financial Report, Texas Workforce Commission.

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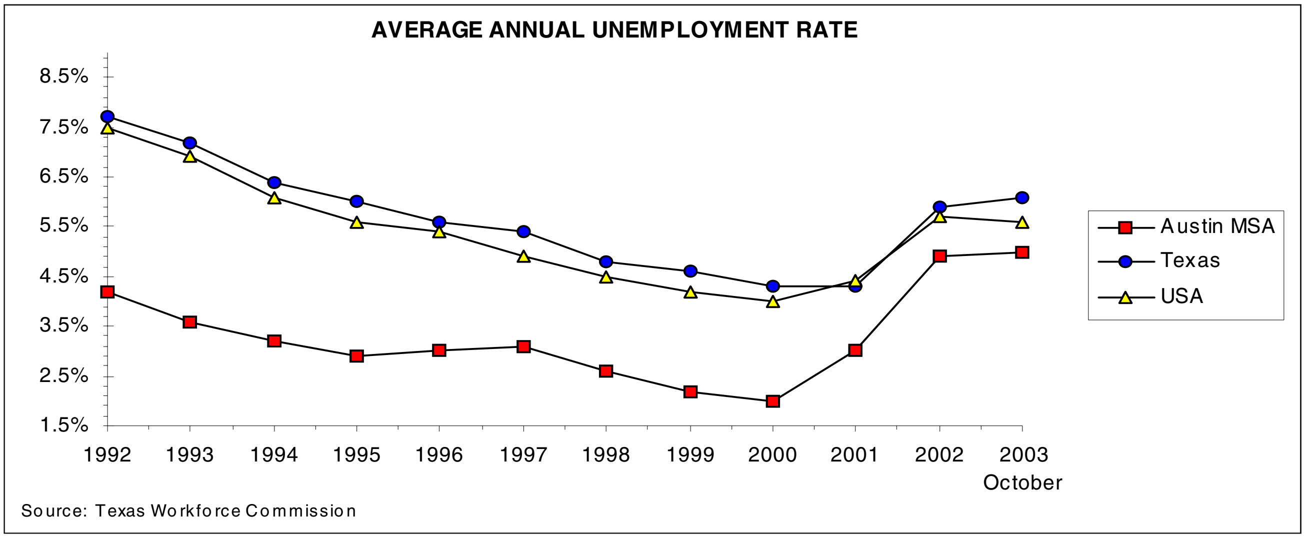
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1992	4.2%	7.7%	7.5%
1993	3.6%	7.2%	6.9%
1994	3.2%	6.4%	6.1%
1995	2.9%	6.0%	5.6%
1996	3.0%	5.6%	5.4%
1997	3.1%	5.4%	4.9%
1998	2.6%	4.8%	4.5%
1999	2.2%	4.6%	4.2%
2000	2.0%	4.3%	4.0%
2001	3.0%	4.3%	4.4%
2002	4.9%	5.9%	5.7%
2003 October	5.0%	6.1%	5.6%

Note: Information is updated periodically, data contained herein is latest provided.
Source: 2002 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-99	$ 7.596	1-1-00	$ 9.115	1-1-01	$ 9.298	1-1-02	$ 8.723	1-1-03	$ 8.249
2-1-99	12.450	2-1-00	12.565	2-1-01	13.733	2-1-02	13.405	2-1-03	11.463
3-1-99	7.581	3-1-00	9.078	3-1-01	9.169	3-1-02	8.345	3-1-03	8.218
4-1-99	7.507	4-1-00	8.363	4-1-01	9.243	4-1-02	8.322	4-1-03	7.981
5-1-99	10.290	5-1-00	11.500	5-1-01	12.091	5-1-02	10.746	5-1-03	10.644
6-1-99	8.253	6-1-00	9.344	6-1-01	9.199	6-1-02	9.253	6-1-03	8.519
7-1-99	8.008	7-1-00	9.651	7-1-01	9.605	7-1-02	9.287	7-1-03	7.908
8-1-99	11.046	8-1-00	11.768	8-1-01	11.456	8-1-02	10.289	8-1-03	10.414
9-1-99	8.375	9-1-00	9.220	9-1-01	9.279	9-1-02	8.695	9-1-03	8.510
10-1-99	9.853	10-1-00	9.938	10-1-01	8.974	10-1-02	8.884	10-1-03	8.832
11-1-99	11.987	11-1-00	10.463	11-1-01	10.260	11-1-02	10.157	11-1-03	10.686
12-1-99	9.713	12-1-00	9.746	12-1-01	9.142	12-1-02	8.859		

Source: City of Austin, Budget Office.

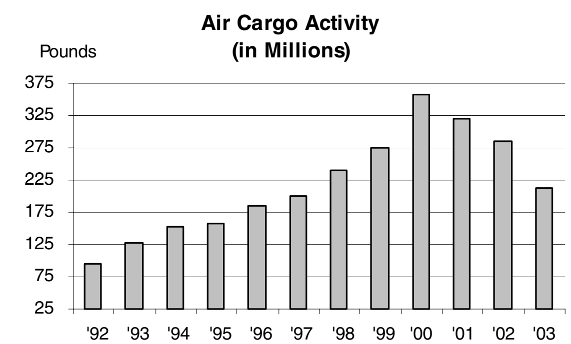
Ten Largest Employers (As of September 30, 2002)

Employer	Product or Service	Employees
The University of Texas at Austin	Education and Research	20,249
Dell Computer Corporation	Computers	16,000
City of Austin	City Government	10,922
Austin Independent School District	Education	10,408
Motorola, Inc.	Electronic Components	7,500
IBM Corporation	Office Machines	7,000
Seton Medical Center	Hospital	6,779
Internal Revenue Service	Federal Agency	5,800
HEB Grocery	Grocery/Pharmacy	5,666
Austin Community College	Education	4,600

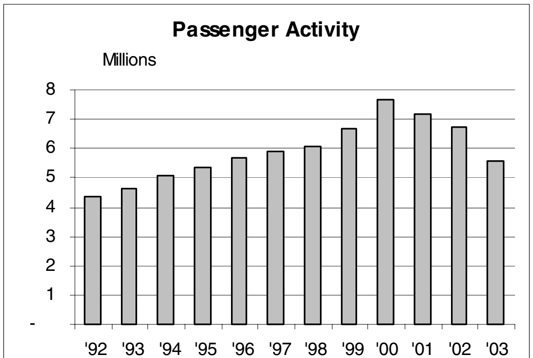
Source: 2002 Comprehensive Annual Financial Report.

Transportation - Austin-Bergstrom International Airport

The following charts reflect cargo traffic and enplaned and deplaned passengers.



Source: City of Austin Aviation Department 2003 through October. Information based on calendar year.



Source: City of Austin Aviation Department. 2003 through October. Information based on calendar year.

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 a 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 nine major 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), Mexicana (includes Aerocaribe), Northwest (includes Pinnacle Air), Southwest, and United (includes Skywest, Wisconsin Air, and Atlantic Coast Airlines). Non-stop service is available to 29 U.S. destinations and 2 international destinations.

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%

(1) All years are estimates from the City's Department of Development and Review 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, except for census years; 2000 data available April 2001.

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

Source: 2002 Comprehensive Annual Financial Report.

Wealth and Income Indicators

The Austin 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	$47,089	$25,109	16.7%	19.8%	17.1%	46.4%	$32,073
Austin MSA	49,077	24,227	16.1%	18.7%	16.4%	48.8%	23,819
Texas	38,669	18,279	22.8%	22.7%	18.0%	36.5%	13,236
USA	38,365	18,491	22.0%	23.5%	19.3%	35.3%	12,646

*Group A, $0 - $19,999 Group B, $20,000 - 34,999 Group C, $35,000 - 49,999 Group D, $50,000 and over
Source: 2002 Survey of Buying Power, Sales and Marketing Management.

Housing Units

The average rental rate for a 1,000 square foot apartment in the Austin MSA was $828 per month, with an occupancy rate of 88.3% for the month ending June 2003.

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 September	14,874	2,923,535,440	196,553

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

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
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 (2nd Quarter)	76.3%

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

Education

The Austin Independent School District had an enrollment of 78,499 for the fall of 2003. This reflects an increase of 1.93% in enrollment from the spring of 2003. 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	72,950
2000/01	77,050	73,427
2001/02	77,265	73,619
2002/03	77,009	74,752
2003/04 (1)	78,499	74,807

(1) Second 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 51,426 for the fall semester of 2003 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-San Marcos MSA were $2.4 billion in 2001. 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 City of Austin, Texas ("City"), as of and for the year ended September 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents under "Basic Financial Statements". These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1b, the City has implemented a new financial reporting model, as required by Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures* and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of October 1, 2001.

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 94 through 95 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
January 31, 2003

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This 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, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

This is the first year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements- and Management's Discussion and Analysis (MD&A) – for State and Local Governments*, as well as the related statements No. 37 and 38 and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. Because the reporting model changes significantly both the recording and presentation of financial data, the City has not restated prior fiscal years for the purpose of providing comparative information for the MD&A. The City will present comparative data in future years.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $3.4 billion (net assets). Of this amount $865 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by $125 million during the fiscal year.

As of September 30, 2002, the City's governmental activities reported combined net asset balances of $1.2 billion. Approximately 9% of this total amount, or $107 million, represents unrestricted net assets available for spending at the government's discretion.

At the close of the current fiscal year, unreserved fund balance for the General Fund was $88 million or 20% of total General Fund expenditures of $430 million.

The City's total long-term obligations increased $305 million during the current fiscal year. Governmental debt increased $231 million and business-type debt increased $74 million; business-type debt is self-supporting, and does not rely on tax revenues for repayment. The key factors in this increase included issuance of new debt, which was partially offset by payment or refunding of existing debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, which consist 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 statement, 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 or not the financial position of the City is improving or deteriorating.

- 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 pertaining to uncollected taxes and expenses pertaining to future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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 and wastewater utility, 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 left at the year-end. This information may be useful in determining what financial resources are available in the near future to finance the City's programs. Other funds are referred to as nonmajor funds and are presented as summary data.

Because the focus of governmental funds 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.

- Internal Service funds are used to report activities that provide supplies and services for many City programs and activities. The City uses internal service funds to account for 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 within 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.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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 used for fiduciary funds is much like that 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 on 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
Combined net assets of the City were, as follows (in thousands):

	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 576,628	2,006,640	2,583,268
Capital assets	1,688,064	4,774,427	6,462,491
Total assets	2,264,692	6,781,067	9,045,759
Other liabilities	185,118	438,202	623,320
Long-term liabilities	832,137	4,186,161	5,018,298
Total liabilities	1,017,255	4,624,363	5,641,618
Net assets:			
Invested in capital assets, net of related debt	1,111,491	1,196,098	2,307,589
Restricted	28,492	202,651	231,143
Unrestricted	107,454	757,955	865,409
Total net assets	$ 1,247,437	2,156,704	3,404,141

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $3.4 billion at the close of the current fiscal year. However, the largest portion of the City's net assets are restricted as to use or are invested in capital assets (e.g. land, building, and equipment - 68%), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. 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 of the City's net assets, $231 million (7%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $865 million (25%), may be used to meet the government's ongoing obligations to citizens and creditors.

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 the business-type activities.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets

Total net assets of the City increased by $124.5 million in the current year. Governmental net assets increased $42.5 million, which is attributable primarily to taxes and transfers from business-type activities. The business-type net assets increased by $82 million, with revenues and transfers exceeding expenses; revenues are produced primarily by the sale of electric utility services.

Changes in Net Assets
September 30, 2002
(in thousands)

	Governmental Activities	Business-Type Activities	Total
Program revenues:			
Charges for services	$ 84,349	1,174,755	1,259,104
Operating grants and contributions	53,374	--	53,374
Capital grants and contributions	1,203	43,537	44,740
General revenues:			
Property tax	224,396	--	224,396
Sales tax	115,441	--	115,441
Franchise fees and gross receipts tax	62,576	--	62,576
Grants and contributions not restricted specific programs	19,137	--	19,137
Interest and other	23,746	58,180	81,926
Total revenues	584,222	1,276,472	1,860,694
Program expenses:			
General government	75,941	--	75,941
Public safety	279,533	--	279,533
Transportation, planning and sustainability	15,694	--	15,694
Public health	75,033	--	75,033
Public recreation and culture	71,863	--	71,863
Urban growth management	54,287	--	54,287
Unallocated depreciation expense - infrastructure	34,074	--	34,074
Interest on debt	35,771	--	35,771
Electric	--	610,374	610,374
Water and Wastewater	--	251,171	251,171
Airport	--	76,546	76,546
Convention	--	36,344	36,344
Other	--	115,518	115,518
Total expenses	642,196	1,089,953	1,732,149
Excess before special items and transfers	(57,974)	186,519	128,545
Special items - purchased land lease rights	(4,000)	--	(4,000)
Transfers	104,519	(104,519)	--
Increase in net assets	42,545	82,000	124,545
Net assets, October 1	1,204,892	2,074,704	3,279,596
Net assets, September 30	$ 1,247,437	2,156,704	3,404,141

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

c -- Program Revenues and Expenses– Governmental Activities

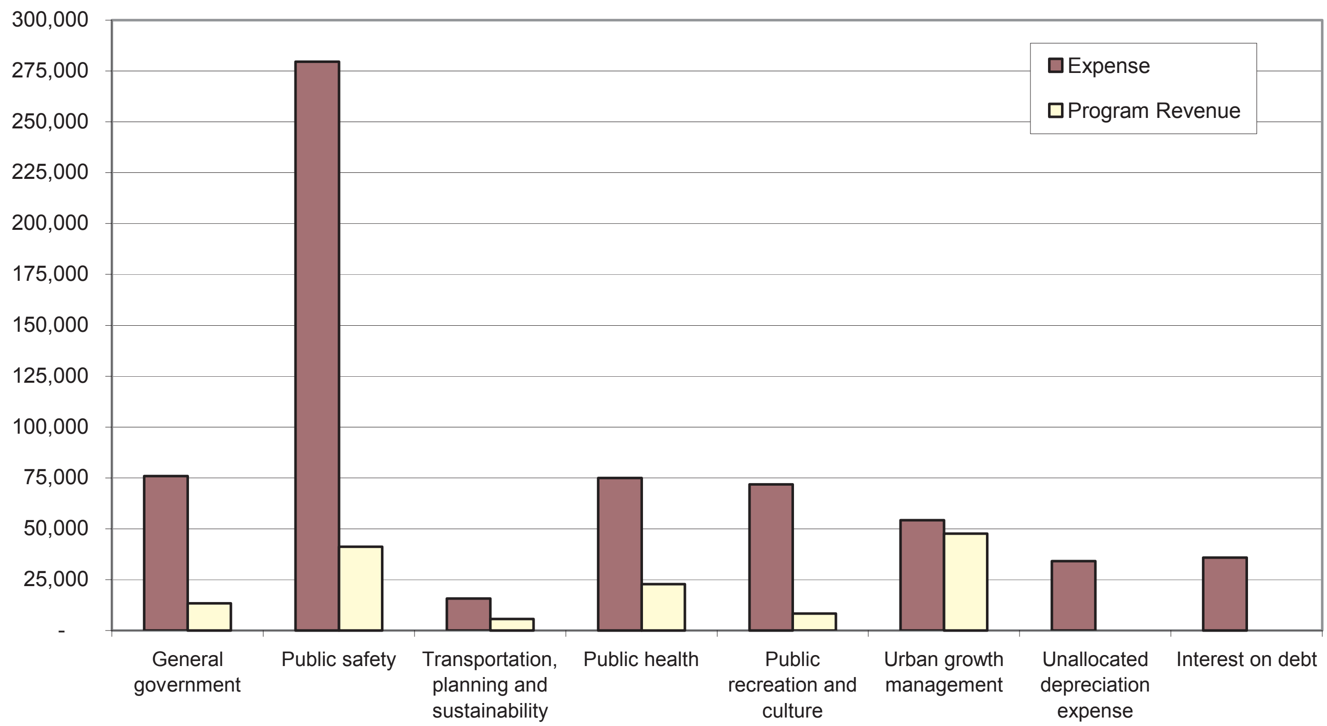
Governmental activities increased the City's net assets by $42.5 million, thereby accounting for 34% of growth in the net assets of the City. Key factors of this increase are as follows:

- The City's property tax revenue increased by $25.6 million, primarily as a result of increasing assessed value; the City's tax rate was reduced $.0066 per $100 assessed value.
- Sales and other taxes decreased during the year, with sales tax decreasing more than 6%.
- Transfers in from enterprise funds increased from the prior year.
- The most significant increase in expenses was in the public safety area, with costs related to post-September 11 activities and implementation of police pay and benefit changes.

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

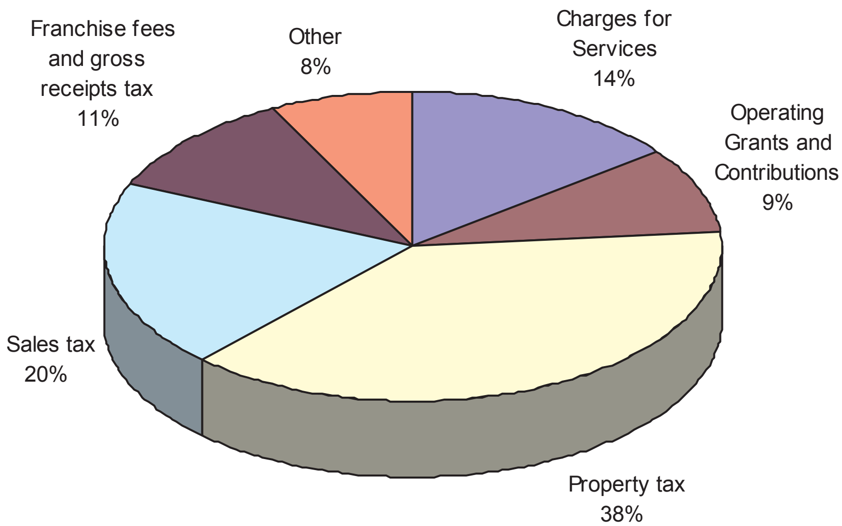
(in thousands)



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 program activities citywide. For governmental activities, without regard to program, property taxes are the largest source of revenue, followed by sales taxes and charges for services.

Government-wide Revenues by Source -- Governmental Activities



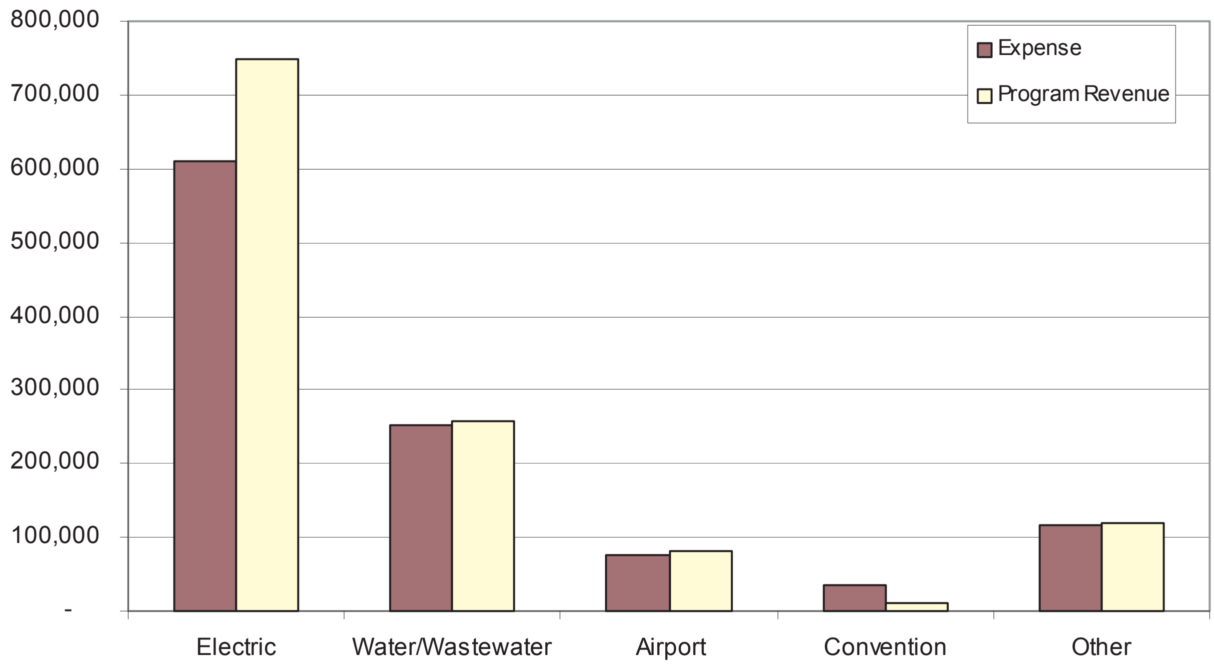
d – Program Revenues and Expenses -- Business-type activities
Business-type activities increased the City's net assets by $82 million, accounting for 66% of the total growth in the City's net assets. Net program expenses and revenues are, as follows:

- Electric net assets increased $138 million, primarily from charges for services. Both revenues and expenses decreased from the prior year.
- Water and Wastewater net assets increased $8 million, due primarily to cost containment actions by the utility.
- Airport net assets increased $5 million, a result of cost-containment measures put in place following September 11.
- Convention net assets decreased $26 million, due primarily to reduced interest income and hotel tax transfers.

As shown in the following chart, the Electric utility, with operating expenses of $610 million, is the City's largest business-type activity, followed by the Water and Wastewater utility ($251 million), the Airport ($77 million) and Convention Center ($36 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities, except these nonmajor funds: Parks and Recreation activities such as recreation and tennis, Primary Care and Solid Waste Services.

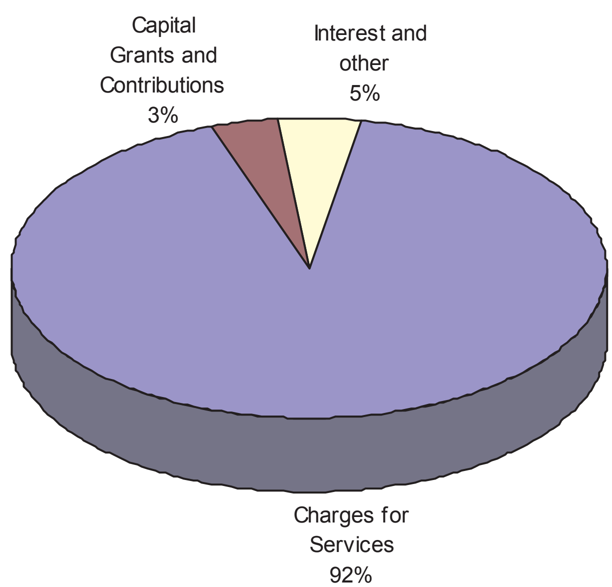
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



For all business-type activities, charges for services provide the largest percentage of revenues (92%), followed by interest and other revenues (5%) and capital grants and contributions (3%).

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 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 balances of resources that are available for spending. 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 for spending at the end of the fiscal year.

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 $88 million, while total fund balance was $94 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 20% of total General Fund expenditures of $430 million, and total fund balance represents 22% of expenditures. Fund balance amounts may also be designated by City Council for specified uses for the future; the unreserved and undesignated fund balance is $36 million.

The General Fund fund balance increased by $43 million during the fiscal year; undesignated fund balance increased by $12 million. Key factors in this increase were, as follows:

- $2 million increase in revenues, with the primary increase in property taxes
- $51 million increase in transfers in, with the primary increase from nonmajor enterprise funds.
- $34 million increase in expenditures, primarily in public safety.
- $21 million decrease in transfers out, with decreases primarily for Special Revenue and Capital Project funds.

Fund balance of the special revenue funds decreased $6 million in FY 2002, with the most significant impacts in the following funds (in millions): transferred Federally Qualified Health Center to the enterprise funds ($2); reduced tourism-related revenues or transfers of tourism-related revenues: PARD Cultural Projects ($1), Tourism and Promotion ($.5) and Vehicle Rental Tax ($1); and transfer from Environmental Remediation to capital projects ($2).

The capital projects fund balances increased $123 million due to the issuance of tax supported debt, with the most significant increases in fund balances in the following funds (in millions): Cultural arts and land ($21), Traffic signals ($47), CMTA Mobility ($19) and City hall, plaza, parking garage ($25).

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.

- Total Electric Fund net assets increased $105 million. Operating revenue for 2002 was $745 million, a decrease of approximately 8% from the prior year. This decrease was primarily due to reduced fuel costs, which are recovered as a component of the electric rate, and reduced demand due to moderate weather conditions. Operating expense before depreciation for 2002 was $401 million, a decrease of approximately 12% from the prior year. This decrease was primarily due to reduced fuel costs.

- Total Water and Wastewater Fund net assets decreased approximately $8 million. Operating revenue for 2002 was $230 million, an increase of approximately 4% from the prior year. Sales were less than projected due to economic conditions and wetter than normal weather conditions throughout the year. City Council approved a 7% and 4.5% rate increase for water and wastewater services, respectively, effective in November 2001 to meet increased annual revenue requirements for operations and maintenance and the Utility's capital improvements program. Operating expense before depreciation for 2002 was $112 million, an increase of approximately 10% over the prior year. The increase in expenses was due in part from unplanned security costs, a flood, and water transmission breaks and the related operating expenses. The utility implemented cost containment strategies to reduce other operating costs during 2002.

  Interest revenues were $9.6 million, a decrease of approximately 29% from prior year due to lower interest rates. The City issues revenue bonds for the construction of certain additions, improvements, and extensions of the City's water and wastewater delivery systems. The debt service requirements were reduced through a bond refunding and lower commercial paper interest costs due to reduced commercial paper issuances resulting from lower than planned spending for capital projects.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS, continued

- The Airport Fund net assets increased over $8 million in 2002. Operating revenues were $64 million, a decrease from the prior year, as airline traffic across the nation declined in the aftermath of September 11. Airport management took action to reduce operating expenses immediately, resulting in a decrease in expenses of approximately $2 million. The fund also incurred costs for new airport security requirements and the Airport management met the Federal mandate to staff security checkpoints with Federal employees. Nonoperating revenues and expenses and capital contributions resulted in the remaining increase in net assets.

OTHER INFORMATION

a -- General Fund budgetary highlights

The final amended budget for General Fund was $283 thousand more than the original budget. Changes in the budget include the following:

- $3 million net increase in revenues, with a $3 million decrease in sales tax budget and a $6 million increase in other revenues.
- $2 million increase in transfers in, primarily for homeland security for utility funds.
- $4 million increase in public safety expenses, funded by General Fund and by Electric and Water and Wastewater utility funds
- $1 million increase in transfers out

During the year, revenues were $8 million less than budgeted. Cost containment steps were put into place to reduce expenditures, thus setting aside resources for 2003. The expenditure budget was not formally amended to reflect the cost containment actions.

Costs on the City's basis of budgeting resulted in $380 million in charges to appropriations, as follows:

- Public safety costs of $239 million
- Public health costs of $54 million
- Public recreation and culture costs of $47 million
- Costs of general government; transportation, planning and sustainability; urban growth management and general city responsibilities of $40 million

Programs with significant savings included public safety; transportation, planning and sustainability; public health; and public recreation and culture.

b -- Capital Assets

The City's capital assets for governmental and business-type activities as of September 30, 2002, amount to $6.5 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 $319 million (5 percent), with an increase of almost 6 percent for governmental activities and an increase of almost 5 percent for business-type activities. Capital asset balances are, as follows:

Capital Assets, Net of Accumulated Depreciation
September 30, 2002
(in millions)

	Governmental Activities	Business-Type Activities	Total
Land and improvements	$ 151	267	418
Other assets not depreciated	17	1	18
Building and improvements	189	1,984	2,173
Equipment	17	1,571	1,588
Vehicles	34	36	70
Infrastructure	867	-	867
Completed assets not classified	190	555	745
Construction work in progress	223	311	534
Nuclear fuel, net of amortization	-	18	18
Plant held for future use	-	31	31
Total net assets	$ 1,688	4,774	6,462

OTHER INFORMATION, continued

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

- Governmental capital assets increased $95 million, with construction continuing on public safety facilities, a new City Hall and cultural and recreational facilities; included were increases in infrastructure assets of $32 million for annexations and developer dedications at estimated fair market value.
- Business-type activities purchased or completed construction on capital assets of $224 million, with Electric and Water and Wastewater funds continuing expansion or improvements to existing facilities. The Convention Center, a nonmajor fund, opened facilities during the year ($101 million).

Additional information on capital assets can be found in Note 7.

c -- Debt Administration
At the end of the current fiscal year, the City reported $4.5 billion in outstanding debt. Of this amount, $795 million is general obligation debt backed by the full faith and credit of the City; $3.7 billion is revenue bonds, commercial paper, and other bonded debt. In addition, the City reported other long-term obligations of $0.8 billion. Additional information can be found in Note 10.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

	Governmental Activities	Business-Type Activities	Total
General obligation bonds and other tax supported debt, net	$ 795	85	880
Revenue bonds, net	--	3,196	3,196
Commercial paper notes, net	--	358	358
Revenue notes	--	28	28
Capital lease obligations	--	17	17
Total	$ 795	3,684	4,479

During fiscal year 2002, the City's total long-term obligations increased by $305 million. The City issued new debt and refinanced some existing debt to take advantage of lower interest rates or changes in bond covenants. Issues include the following:

- Bonded debt for governmental functions increased $221 million, and will be used primarily for the following: public safety equipment and facilities; parks and library facilities; a new City Hall; street improvements, right of way acquisition and utility relocation; communication equipment; asbestos abatement; and refunding bonds of $14.7 million. Other obligations increased $10 million.
- Bonded debt for business-type functions increased $31 million, and will be used primarily for refunding utility bonds, utility relocation, convention center improvements, solid waste equipment and facilities improvements. During the year, the City continued efforts to separate debt for Electric and Water and Wastewater activities. In 2002, the City issued Electric refunding and Water and Wastewater refunding bonds to refund outstanding combined utility bonds. Other business-type obligations increased $43 million.

OTHER INFORMATION, continued

The City continues to maintain excellent credit ratings on debt issues, with ratings remaining unchanged during the year. The following are ratings at September 20, 2002 of the City's obligations for various debt instruments, 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+
Revenue bonds - prior lien	A2	A	A+
Revenue bonds - subordinate lien	A2	A-	A+
Commercial paper notes	P-1	A-1	F1+
Commercial paper notes - taxable	P-1	A-1+	F1+

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

The City's elected officials and management considered many factors when setting the fiscal year 2003 budget. With the events of September 11, the City's public safety costs increased and tourism-related revenues declined, and generally mild weather conditions reduced utility revenues. In addition, the technology slump has hit the City especially hard. The City is experiencing higher unemployment rates than in recent years.

In mid-2002, the City began a savings plan to build reserves for 2003. The City implemented aggressive cost containment saving measures, with City departments identifying one-time or on-going cost savings. City management reduced costs through implementation of process improvements for greater efficiencies. Examples of cost containment actions included restricting travel, reducing consultant costs, reducing costs of temporary personnel and overtime, and holding vacant positions open.

As part of the 2003 budget, the City maintained basic City services, retained the same tax rate, held utility rates unchanged and reduced the number of employee positions by cutting more than 300 vacant positions. In early 2003, City management provided information to the City Council to begin planning for the 2004 budget, which must address lower sales and property tax revenues.

e -- Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and 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 Services Department of the City of Austin, P.O. Box 1088, Austin, Texas 78767, or 512-974-3344 or on the web at http://www.ci.austin.tx.us/finance/.

(In thousands)

	Governmental Activities	Business-type Activities	2002 Total (†)
ASSETS			
Current assets:			
Cash	$ 112	51	163
Pooled investments and cash	463,777	143,156	606,933
Pooled investments and cash - designated	--	96,481	96,481
Total pooled investments and cash	463,777	239,637	703,414
Investments, at fair value - designated	16,794	169,068	185,862
Cash held by trustee	402	--	402
Working capital advances	--	3,833	3,833
Property taxes receivable	10,075	--	10,075
Less allowance for uncollectible taxes	(1,716)	--	(1,716)
Net property taxes receivable	8,359	--	8,359
Accounts and other taxes receivable	143,400	128,348	271,748
Less allowance for doubtful accounts	(79,876)	(8,108)	(87,984)
Net accounts receivable	63,524	120,240	183,764
Receivables from other governments	11,343	743	12,086
Notes receivable, net of allowance	7,225	--	7,225
Internal balances	(6,579)	2,584	--
Inventories, at cost	2,982	50,190	53,172
Real property held for resale	5,717	--	5,717
Prepaid expenses and other expenses	2,095	6,889	8,984
Total current assets	575,751	593,235	1,172,981
Restricted assets			
Pooled investments and cash	--	266,268	266,268
Investments, at fair value	--	248,840	248,840
Cash held by trustee	--	13,338	13,338
Investments held by trustee	--	77,539	77,539
Interest receivable	--	3,729	3,729
Receivable from other governments	--	1,684	1,684
Internal balances	--	3,995	--
Other receivables	--	800	800
Total restricted assets	--	616,193	612,198
Noncurrent assets:			
Noncurrent investments	--	65,000	65,000
Capital assets			
Land and other nondepreciable assets	168,470	267,836	436,306
Property, plant and equipment in service	1,802,722	6,143,458	7,946,180
Less accumulated depreciation	(506,583)	(1,997,224)	(2,503,807)
Net property, plant and equipment in service	1,296,139	4,146,234	5,442,373
Construction in progress	223,455	310,876	534,331
Nuclear fuel (net of amortization)	--	18,102	18,102
Plant held for future use	--	31,379	31,379
Total capital assets	1,688,064	4,774,427	6,462,491
Intangible assets, net of amortization	--	92,602	92,602
Other long-term assets	--	5,350	5,350
Deferred costs and expenses, net of amortization	877	634,260	635,137
Total noncurrent assets	1,688,941	5,571,639	7,260,580
Total assets	$ 2,264,692	6,781,067	9,045,759

(Continued)

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

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

(In thousands) (Continued)

	Governmental Activities	Business-type Activities	2002 Total (†)
LIABILITIES			
Current liabilities:			
Accounts payable	$ 36,366	52,415	88,781
Accrued payroll	8,689	5,320	14,009
Accrued compensated absences	4,762	12,416	17,178
Claims payable	23,529	--	23,529
Interest payable on other debt	4,244	2,166	6,410
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	45,467	3,142	48,609
Revenue bonds payable	--	2,355	2,355
Capital lease obligations payable	--	2,433	2,433
Tax anticipation notes payable	4,800	--	4,800
Deferred credits and other liabilities	57,261	25,292	82,553
Total current liabilities	185,118	105,539	290,657
Liabilities payable from restricted assets:			
Accounts and retainage payable	--	43,098	43,098
Accrued interest payable	--	63,834	63,834
Current portion of general obligation bonds payable	--	5,348	5,348
Current portion of revenue bonds payable	--	95,711	95,711
Customer and escrow deposits	--	7,076	7,076
Decommissioning expense payable	--	81,727	81,727
Nuclear fuel expense payable	--	33,234	33,234
Other liabilities	--	2,635	2,635
Total liabilities payable from restricted assets	--	332,663	332,663
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	59,438	8,763	68,201
Claims payable	9,852	--	9,852
Capital appreciation bond interest payable	--	141,390	141,390
Commercial paper notes payable, net of discount	--	358,351	358,351
Revenue notes payable	--	28,000	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	749,560	76,507	826,067
Revenue bonds payable, net of discount and inclusive of premium	--	3,098,022	3,098,022
Capital lease obligations payable	--	14,204	14,204
Accrued landfill closure and postclosure costs	--	7,188	7,188
Deferred credits and other liabilities	13,287	453,736	467,023
Total noncurrent liabilities	832,137	4,186,161	5,018,298
Total liabilities	1,017,255	4,624,363	5,641,618
NET ASSETS			
Invested in capital assets, net of related debt	1,111,491	1,196,098	2,307,589
Restricted for:			
Debt service	12,302	75,314	87,616
Bond reserve	--	18,687	18,687
Capital projects	14,678	88,508	103,186
Renewal and replacement	--	10,978	10,978
Passenger facility charges	--	9,164	9,164
Perpetual Care:			
Expendable	284	--	284
Nonexpendable	1,040	--	1,040
Other purposes	188	--	188
Unrestricted	107,454	757,955	865,409
Total net assets	$ 1,247,437	2,156,704	3,404,141

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

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

Statement of Activities
For the year ended September 30, 2002
(In thousands)

City of Austin, Texas
Exhibit A-2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: 2002 Total
Governmental activities							
General government	$ 75,941	12,964	322	--	(62,655)	--	(62,655)
Public safety	279,533	36,226	5,001	--	(238,306)	--	(238,306)
Transportation, planning and sustainability	15,694	4,948	82	619	(10,045)	--	(10,045)
Public health	75,033	6,969	15,691	202	(52,171)	--	(52,171)
Public recreation and culture	71,863	2,499	5,439	345	(63,580)	--	(63,580)
Urban growth management	54,287	20,743	26,839	37	(6,668)	--	(6,668)
Unallocated depreciation expense	34,074	--	--	--	(34,074)	--	(34,074)
Interest on debt	35,771	--	--	--	(35,771)	--	(35,771)
Total governmental activities	642,196	84,349	53,374	1,203	(503,270)	--	(503,270)
Business-type activities							
Electric	610,374	745,095	--	3,736	--	138,457	138,457
Water and Wastewater	251,171	229,534	--	27,413	--	5,776	5,776
Airport	76,546	72,777	--	8,905	--	5,136	5,136
Convention	36,344	10,376	--	--	--	(25,968)	(25,968)
Other	115,518	116,973	--	3,483	--	4,938	4,938
Total business-type activities	1,089,953	1,174,755	--	43,537	--	128,339	128,339
Total	$ 1,732,149	1,259,104	53,374	44,740	(503,270)	128,339	(374,931)

	Governmental Activities	Business-type Activities	2002 Total
General revenues:			
Property tax	224,396	--	224,396
Sales tax	115,441	--	115,441
Franchise fees and gross receipts tax	62,576	--	62,576
Grants and contributions not restricted to specific programs	19,137	--	19,137
Interest and other	23,746	58,180	81,926
Special items - purchased land lease rights	(4,000)	--	(4,000)
Transfers	104,519	(104,519)	--
Total general revenues and transfers	545,815	(46,339)	499,476
Change in net assets	42,545	82,000	124,545
Beginning net assets	1,204,892	2,074,704	3,279,596
Ending net assets	$ 1,247,437	2,156,704	3,404,141

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

(In thousands)

	2002		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 89	5	94
Pooled investments and cash	88,956	302,240	391,196
Investments, at fair value	--	16,794	16,794
Property taxes receivable	6,107	3,968	10,075
Less allowance for uncollectible taxes	(1,038)	(678)	(1,716)
Net property taxes receivable	5,069	3,290	8,359
Accounts and other taxes receivable	72,323	16,261	88,584
Less allowance for doubtful accounts	(43,477)	(388)	(43,865)
Net accounts receivable	28,846	15,873	44,719
Receivables from other governments	--	11,343	11,343
Notes receivable, net of allowance	--	7,225	7,225
Due from other funds	--	12,944	12,944
Advances to other funds	--	2,479	2,479
Inventories, at cost	881	--	881
Real property held for resale	--	5,717	5,717
Prepaid expenses and other assets	220	1,637	1,857
Total assets	124,061	379,547	503,608
LIABILITIES AND FUND BALANCES			
Accounts payable	4,721	26,492	31,213
Accrued payroll	6,771	41	6,812
Accrued compensated absences	605	6	611
Due to other funds	724	13,366	14,090
Deferred revenue	4,988	6,685	11,673
Advances from other funds	2,918	135	3,053
Tax anticipation notes payable	4,800	--	4,800
Deposits and other liabilities	4,916	43,035	47,951
Total liabilities	30,443	89,760	120,203
Fund balances			
Reserved:			
Encumbrances	4,951	87,508	92,459
Inventories and prepaid items	1,101	--	1,101
Notes receivable	--	7,225	7,225
Real property held for resale	--	5,717	5,717
Debt service	--	16,451	16,451
Permanent funds	--	1,040	1,040
Unreserved, designated:			
Emergencies	15,000	--	15,000
Contingencies	2,948	--	2,948
Future use	540	23,686	24,226
Public Health	33,000	--	33,000
Unreserved, undesignated:			
General Fund	36,078	--	36,078
Capital projects	--	147,876	147,876
Permanent funds	--	284	284
Total fund balances	93,618	289,787	383,405
Total liabilities and fund balances	$ 124,061	379,547	503,608

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

Total fund balances - Governmental funds	$ 383,405
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.	1,656,236
Other long-term assets are not available as current-period resources and are not reported in the funds.	27,923
Internal service funds are used by management to charge the costs of fleet maintenance, support services, information systems, employee benefits, liability reserve, workers compensation, radio communication, infrastructure support services and capital project management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	37,848
Long-term liabilities are not payable in the current period and are not reported in the funds.	(857,975)
Total net assets - Governmental activities	$ 1,247,437

(In thousands)

	2002		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	$ 143,056	72,782	215,838
Sales taxes	115,441	--	115,441
Franchise fees and other taxes	33,282	29,153	62,435
Fines, forfeitures and penalties	17,704	3,986	21,690
Licenses, permits and inspections	14,670	--	14,670
Charges for services/goods	15,579	25,220	40,799
Intergovernmental	--	62,141	62,141
Property owners' participation and contributions	--	13,214	13,214
Interest and other	6,028	19,373	25,401
Total revenues	345,760	225,869	571,629
EXPENDITURES			
Current:			
General government	54,397	1,044	55,441
Public safety	250,081	13,177	263,258
Transportation, planning and sustainability	10,342	3,476	13,818
Public health	54,525	20,528	75,053
Public recreation and culture	49,216	10,439	59,655
Urban growth management	11,676	45,844	57,520
Debt service:			
Principal	--	44,382	44,382
Interest	--	36,566	36,566
Fees and commissions	--	7	7
Capital outlay	--	174,239	174,239
Total expenditures	430,237	349,702	779,939
Excess (deficiency) of revenues over expenditures	(84,477)	(123,833)	(208,310)
OTHER FINANCING SOURCES (USES)			
Issuance of tax supported debt	--	254,505	254,505
Issuance of refunding bonds	--	14,685	14,685
Payment to escrow agent	--	(14,685)	(14,685)
Transfers in	137,084	39,794	176,878
Transfers out	(9,424)	(58,040)	(67,464)
Total other financing sources (uses)	127,660	236,259	363,919
Excess (deficiency) of revenues and other sources over expenditures and other uses	43,183	112,426	155,609
Special items - purchased land lease rights	--	(4,000)	(4,000)
Net change in fund balances	43,183	108,426	151,609
Fund balances at beginning of year	50,435	181,361	231,796
Fund balances at end of year	$ 93,618	289,787	383,405

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, 2002
(In thousands)

Net change in fund balances - Governmental funds	$ 151,609
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.	98,531
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.	28,160
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.	(14,011)
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, discounts, 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.	(216,864)
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.	2,623
The net revenue of certain activities of internal service funds is reported with governmental activities.	(7,503)
Change in net assets - Governmental activities	$ 42,545

Proprietary Funds
Statement of Net Assets
September 30, 2002
(In thousands)

	Electric	Water and Wastewater	Airport
ASSETS			
Current assets:			
Cash	$ 18	12	6
Pooled investments and cash	96,041	16,154	6,605
Pooled investments and cash - designated	38,546	37,856	--
Total pooled investments and cash	134,587	54,010	6,605
Investments, at fair value - designated	158,660	10,408	--
Cash held by trustee	--	--	--
Working capital advances	3,709	--	--
Accounts receivable	88,648	23,052	1,459
Less allowance for doubtful accounts	(3,217)	(995)	(150)
Net accounts receivable	85,431	22,057	1,309
Receivables from other governments	--	--	--
Due from other funds	--	--	--
Inventories, at cost	48,812	833	--
Prepaid expenses and other assets	6,621	115	1
Total current assets	437,838	87,435	7,921
Restricted assets			
Pooled investments and cash	59,147	55,735	83,135
Investments, at fair value	130,668	79,563	25,709
Cash held by trustee	7,722	5,616	--
Investments held by trustee	77,539	--	--
Interest receivable	2,767	695	--
Receivable from other governments	210	--	1,474
Due from other funds	--	27	700
Advances to other funds	--	215	3,029
Other receivables	273	527	--
Total restricted assets	278,326	142,378	114,047
Noncurrent assets:			
Noncurrent investments	65,000	--	--
Capital assets			
Land and other nondepreciable assets	32,877	135,325	59,095
Property, plant and equipment in service	2,988,488	2,104,864	615,577
Less accumulated depreciation	(1,203,986)	(616,552)	(72,379)
Net property, plant and equipment in service	1,784,502	1,488,312	543,198
Construction in progress	160,485	104,100	7,802
Nuclear fuel (net of amortization)	18,102	--	--
Plant held for future use	31,379	--	--
Total capital assets	2,027,345	1,727,737	610,095
Intangible assets, net of amortization	--	92,602	--
Other long-term assets	3,961	1,389	--
Deferred costs and expenses, net of amortization	361,735	251,776	2,191
Total noncurrent assets	2,458,041	2,073,504	612,286
Total assets	$ 3,174,205	2,303,317	734,254

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

	Nonmajor Enterprise Funds	2002 Total	Governmental Activities- Internal Service Funds
ASSETS			
Current assets:			
Cash	15	51	18
Pooled investments and cash	24,356	143,156	72,581
Pooled investments and cash - designated	20,079	96,481	--
Total pooled investments and cash	44,435	239,637	72,581
Investments, at fair value - designated	--	169,068	--
Cash held by trustee	--	--	402
Working capital advances	124	3,833	--
Accounts receivable	15,189	128,348	742
Less allowance for doubtful accounts	(3,746)	(8,108)	(222)
Net accounts receivable	11,443	120,240	520
Receivables from other governments	743	743	--
Due from other funds	1,689	1,689	--
Inventories, at cost	545	50,190	2,101
Prepaid expenses and other assets	152	6,889	238
Total current assets	59,146	592,340	75,860
Restricted assets			
Pooled investments and cash	68,251	266,268	--
Investments, at fair value	12,900	248,840	--
Cash held by trustee	--	13,338	--
Investments held by trustee	--	77,539	--
Interest receivable	267	3,729	--
Receivable from other governments	--	1,684	--
Due from other funds	--	727	--
Advances to other funds	24	3,268	--
Other receivables	--	800	--
Total restricted assets	81,442	616,193	--
Noncurrent assets:			
Noncurrent investments	--	65,000	--
Capital assets			
Land and other nondepreciable assets	40,539	267,836	486
Property, plant and equipment in service	434,529	6,143,458	54,807
Less accumulated depreciation	(104,307)	(1,997,224)	(23,465)
Net property, plant and equipment in service	330,222	4,146,234	31,342
Construction in progress	38,489	310,876	--
Nuclear fuel (net of amortization)	--	18,102	--
Plant held for future use	--	31,379	--
Total capital assets	409,250	4,774,427	31,828
Intangible assets, net of amortization	--	92,602	--
Other long-term assets	--	5,350	--
Deferred costs and expenses, net of amortization	18,558	634,260	7
Total noncurrent assets	427,808	5,571,639	31,835
Total assets	568,396	6,780,172	107,695

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

Proprietary Funds
Statement of Net Assets
September 30, 2002
(In thousands)

	Electric	Water and Wastewater	Airport
LIABILITIES			
Current liabilities:			
Accounts payable	$ 40,056	2,251	4,995
Accrued payroll	2,209	1,221	392
Accrued compensated absences	5,447	2,983	794
Claims payable	--	--	--
Due to other funds	--	--	--
Interest payable on other debt	641	1,308	7
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	--	--	135
Revenue bonds payable	--	2,355	--
Capital lease obligations payable	1,533	900	--
Deferred credits and other liabilities	22,534	1,906	288
Total current liabilities	72,420	12,924	6,611
Liabilities payable from restricted assets:			
Accounts and retainage payable	19,671	16,199	1,697
Accrued interest payable	29,315	20,880	8,514
Current portion of general obligation bonds payable	363	4,615	--
Current portion of revenue bonds payable	67,081	19,745	5,630
Customer and escrow deposits	3,892	1,313	420
Decommissioning expense payable	81,727	--	--
Nuclear fuel expense payable	33,234	--	--
Other liabilities	1,616	246	773
Total liabilities payable from restricted assets	236,899	62,998	17,034
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	4,489	1,982	452
Claims payable	--	--	--
Advances from other funds	--	1,733	--
Capital appreciation bond interest payable	80,583	60,807	--
Commercial paper notes payable, net of discount	200,509	157,842	--
Revenue notes payable	--	--	28,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	2,367	27,055	725
Revenue bonds payable, net of discount and inclusive of premium	1,345,895	1,161,974	356,710
Capital lease obligations payable	8,504	5,700	--
Accrued landfill closure and postclosure costs	--	--	--
Deferred credits and other liabilities	62,477	387,637	3,618
Total noncurrent liabilities	1,704,824	1,804,730	389,505
Total liabilities	2,014,143	1,880,652	413,150
NET ASSETS			
Invested in capital assets, net of related debt	612,186	203,249	221,482
Restricted for:			
Debt service	40,862	14,979	19,435
Bond reserve	5,632	13,055	--
Capital projects	--	--	53,116
Renewal and replacement	--	--	10,000
Passenger facility charges	--	--	9,164
Unrestricted	501,382	191,382	7,907
Total net assets	$ 1,160,062	422,665	321,104
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	1,597	1,461	454
Total net assets - Business-type activities	$ 1,161,659	424,126	321,558

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

	Nonmajor Enterprise Funds	2002 Total	Governmental Activities- Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	5,113	52,415	5,153
Accrued payroll	1,498	5,320	1,877
Accrued compensated absences	3,192	12,416	4,151
Claims payable	--	--	23,529
Due to other funds	1,243	1,243	27
Interest payable on other debt	210	2,166	95
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	3,007	3,142	1,482
Revenue bonds payable	--	2,355	--
Capital lease obligations payable	--	2,433	--
Deferred credits and other liabilities	564	25,292	1,057
Total current liabilities	14,827	106,782	37,371
Liabilities payable from restricted assets:			
Accounts and retainage payable	5,531	43,098	--
Accrued interest payable	5,125	63,834	--
Current portion of general obligation bonds payable	370	5,348	--
Current portion of revenue bonds payable	3,255	95,711	--
Customer and escrow deposits	1,451	7,076	--
Decommissioning expense payable	--	81,727	--
Nuclear fuel expense payable	--	33,234	--
Other liabilities	--	2,635	--
Total liabilities payable from restricted assets	15,732	332,663	--
Noncurrent liabilities, net of current portion:			
Accrued compensated absences	1,840	8,763	2,727
Claims payable	--	--	9,852
Advances from other funds	639	2,372	322
Capital appreciation bond interest payable	--	141,390	--
Commercial paper notes payable, net of discount	--	358,351	--
Revenue notes payable	--	28,000	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	46,360	76,507	15,065
Revenue bonds payable, net of discount and inclusive of premium	233,443	3,098,022	--
Capital lease obligations payable	--	14,204	--
Accrued landfill closure and postclosure costs	7,188	7,188	--
Deferred credits and other liabilities	4	453,736	--
Total noncurrent liabilities	289,474	4,188,533	27,966
Total liabilities	320,033	4,627,978	65,337
NET ASSETS			
Invested in capital assets, net of related debt	159,181	1,196,098	15,288
Restricted for:			
Debt service	38	75,314	--
Bond reserve	--	18,687	--
Capital projects	35,392	88,508	12,388
Renewal and replacement	978	10,978	--
Passenger facility charges	--	9,164	--
Unrestricted	52,774	753,445	14,682
Total net assets	248,363	2,152,194	42,358
Reconciliation to government-wide Statement of Net Assets			
Adjustment to consolidate internal service activities	998	4,510	
Total net assets - Business-type activities	249,361	2,156,704	

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, 2002
(In thousands)

	Electric	Water and Wastewater	Airport
OPERATING REVENUES			
Utility services	$ 745,095	229,534	--
User fees and rentals	--	--	64,418
Billings to departments	--	--	--
Employee contributions	--	--	--
Operating revenues from other governments	--	--	--
Other operating revenues	--	--	--
Total operating revenues	745,095	229,534	64,418
OPERATING EXPENSES			
Operating expenses before depreciation	401,439	112,340	37,265
Depreciation and amortization	90,253	54,240	16,210
Total operating expenses	491,692	166,580	53,475
Operating income (loss)	253,403	62,954	10,943
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	38,716	9,643	4,039
Interest on revenue bonds and other debt	(97,149)	(74,962)	(23,648)
Interest capitalized during construction	--	--	435
Passenger facility charges	--	--	8,359
Amortization of bond issue cost	(652)	(456)	(105)
Deferred costs recovered	(16,557)	(10,670)	--
Other nonoperating revenue (expense)	(5,921)	36	(207)
Total nonoperating revenues (expenses)	(81,563)	(76,409)	(11,127)
Income (loss) before contributions and transfers	171,840	(13,455)	(184)
Capital contributions	3,736	27,413	8,905
Transfers in	--	--	--
Transfers out	(70,123)	(22,044)	(50)
Change in net assets	105,453	(8,086)	8,671
Total net assets - beginning	1,054,609	430,751	312,433
Total net assets - ending	$ 1,160,062	422,665	321,104
Reconciliation to government-wide Statement of Activities			
Change in net assets	105,453	(8,086)	8,671
Adjustment to consolidate internal service activities	1,597	1,461	454
Change in net assets - Business-type activities	$ 107,050	(6,625)	9,125

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

	Nonmajor Enterprise Funds	2002 Total	Governmental Activities- Internal Service Funds
OPERATING REVENUES			
Utility services	--	974,629	--
User fees and rentals	124,189	188,607	--
Billings to departments	--	--	185,447
Employee contributions	--	--	20,804
Operating revenues from other governments	3,116	3,116	--
Other operating revenues	44	44	3,868
Total operating revenues	127,349	1,166,396	210,119
OPERATING EXPENSES			
Operating expenses before depreciation	124,649	675,693	205,781
Depreciation and amortization	14,860	175,563	2,949
Total operating expenses	139,509	851,256	208,730
Operating income (loss)	(12,160)	315,140	1,389
NONOPERATING REVENUES (EXPENSES)			
Interest and other revenues	5,782	58,180	983
Interest on revenue bonds and other debt	(16,332)	(212,091)	(477)
Interest capitalized during construction	3,523	3,958	--
Passenger facility charges	--	8,359	--
Amortization of bond issue cost	(173)	(1,386)	(4)
Deferred costs recovered	--	(27,227)	--
Other nonoperating revenue (expense)	(369)	(6,461)	(129)
Total nonoperating revenues (expenses)	(7,569)	(176,668)	373
Income (loss) before contributions and transfers	(19,729)	138,472	1,762
Capital contributions	3,483	43,537	140
Transfers in	37,319	37,319	393
Transfers out	(49,621)	(141,838)	(5,288)
Change in net assets	(28,548)	77,490	(2,993)
Total net assets - beginning	276,911	2,074,704	45,351
Total net assets - ending	248,363	2,152,194	42,358
Reconciliation to government-wide Statement of Activities			
Change in net assets	(28,548)	77,490	
Adjustment to consolidate internal service activities	998	4,510	
Change in net assets - Business-type activities	(27,550)	82,000	

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2002
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 826,463	228,862	67,857
Cash payments to suppliers for goods and services	(310,629)	(57,079)	(24,865)
Cash payments to employees for services	(92,651)	(53,780)	(17,098)
Cash payments to claimants/beneficiaries	--	--	--
Cash received from other governments	--	--	--
Taxes collected and remitted to other governments	(22,282)	--	--
Net cash provided (used) by operating activities	400,901	118,003	25,894
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	--
Transfers out	(70,123)	(22,044)	(50)
Interest paid on revenue notes and other debt	(418)	(11)	--
Increase in deferred assets	(780)	--	--
Contributions from municipality	--	--	--
Loans to other funds	--	--	--
Loans from other funds	--	1,733	589
Net cash provided (used) by noncapital financing activities	(71,321)	(20,322)	539
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	50,171	79,616	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	1,765	--
Principal paid on long-term debt	(82,223)	(30,540)	(3,387)
Proceeds from the sale of fixed assets	--	2,401	--
Purchased interest received	1,329	1,121	--
Interest paid on revenue bonds and other debt	(98,652)	(69,670)	(23,178)
Passenger facility charges	--	--	8,359
Acquisition and construction of capital assets	(187,370)	(101,594)	(16,970)
Contributions from municipality	--	--	--
Contributions from State and Federal governments	--	--	8,015
Contributions in aid of construction	3,269	7,731	83
Bond discounts and issuance costs	(2,951)	(2,832)	--
Bond premiums	22,132	17,125	--
Bonds issued for advanced refundings of debt	247,630	235,075	--
Cash paid for bond refunding escrow	(293,080)	(249,368)	--
Cash paid for nuclear fuel inventory	(7,818)	--	--
Net cash provided (used) by capital and related financing activities	$ (347,563)	(109,170)	(27,078)

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

	Nonmajor Enterprise Funds	2002 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	121,406	1,244,588	209,916
Cash payments to suppliers for goods and services	(55,001)	(447,574)	(65,682)
Cash payments to employees for services	(65,504)	(229,033)	(85,935)
Cash payments to claimants/beneficiaries	--	--	(44,103)
Cash received from other governments	4,314	4,314	--
Taxes collected and remitted to other governments	--	(22,282)	--
Net cash provided (used) by operating activities	5,215	550,013	14,196
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	35,210	35,210	393
Transfers out	(49,621)	(141,838)	(5,288)
Interest paid on revenue notes and other debt	(14)	(443)	--
Increase in deferred assets	--	(780)	--
Contributions from municipality	--	--	20
Loans to other funds	(1,713)	(1,713)	--
Loans from other funds	669	2,991	--
Net cash provided (used) by noncapital financing activities	(15,469)	(106,573)	(4,875)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of commercial paper notes	--	129,787	--
Proceeds from the sale of general obligation bonds and other tax supported debt	21,865	23,630	11,725
Principal paid on long-term debt	(6,271)	(122,421)	(1,152)
Proceeds from the sale of fixed assets	--	2,401	--
Purchased interest received	23	2,473	--
Interest paid on revenue bonds and other debt	(15,946)	(207,446)	(451)
Passenger facility charges	--	8,359	--
Acquisition and construction of capital assets	(80,884)	(386,818)	(9,386)
Contributions from municipality	--	--	6,452
Contributions from State and Federal governments	--	8,015	--
Contributions in aid of construction	2,110	13,193	--
Bond discounts and issuance costs	--	(5,783)	--
Bond premiums	81	39,338	--
Bonds issued for advanced refundings of debt	--	482,705	--
Cash paid for bond refunding escrow	--	(542,448)	--
Cash paid for nuclear fuel inventory	--	(7,818)	--
Net cash provided (used) by capital and related financing activities	(79,022)	(562,833)	7,188

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2002
(In thousands)

	Electric	Water and Wastewater	Airport
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	$ (313,658)	(136,800)	(39,361)
Proceeds from sale and maturities of investment securities	340,678	136,733	37,223
Interest on investments	27,536	9,104	3,121
Net cash provided by investing activities	54,556	9,037	983
Net increase (decrease) in cash and cash equivalents	36,573	(2,452)	338
Cash and cash equivalents, October 1	164,901	117,825	89,408
Cash and cash equivalents, September 30	201,474	115,373	89,746
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	253,403	62,954	10,943
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	90,253	51,740	16,210
Amortization	--	2,500	--
Change in assets and liabilities:			
(Increase) in working capital advances	(818)	--	--
(Increase) decrease in accounts receivable	15,311	(139)	3,325
(Decrease) in allowance for doubtful accounts	(1,093)	--	--
Decrease in receivable from other governments	--	--	--
(Increase) decrease in inventory	(1,163)	246	--
(Increase) decrease in prepaid expenses and other assets	44,743	(115)	--
Decrease in deferred costs and other expenses	10,800	--	--
Decrease in other long-term assets	9	--	--
Increase (decrease) in accounts payable	(20,061)	1,030	(2,337)
Increase in accrued payroll and compensated absences	1,083	406	149
Increase in claims payable	--	--	--
Increase in due to other governments	--	--	--
Decrease in advances from other funds	--	--	--
Increase (decrease) in deferred credits and other liabilities	7,046	(1,043)	(2,620)
Increase in customer deposits	1,388	424	224
Total adjustments	147,498	55,049	14,951
Net cash provided (used) by operating activities	$ 400,901	118,003	25,894

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

	Nonmajor Enterprise Funds	2002 Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	(26,569)	(516,388)	--
Proceeds from sale and maturities of investment securities	26,541	541,175	--
Interest on investments	5,496	45,257	983
Net cash provided by investing activities	5,468	70,044	983
Net increase (decrease) in cash and cash equivalents	(83,808)	(49,349)	17,492
Cash and cash equivalents, October 1	196,509	568,643	55,509
Cash and cash equivalents, September 30	112,701	519,294	73,001
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	(12,160)	315,140	1,389
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	14,860	173,063	2,949
Amortization	--	2,500	--
Change in assets and liabilities:			
(Increase) in working capital advances	--	(818)	--
(Increase) decrease in accounts receivable	(2,277)	16,220	(199)
(Decrease) in allowance for doubtful accounts	(60)	(1,153)	--
Decrease in receivable from other governments	(743)	(743)	--
(Increase) decrease in inventory	(23)	(940)	(433)
(Increase) decrease in prepaid expenses and other assets	(21)	44,607	58
Decrease in deferred costs and other expenses	--	10,800	--
Decrease in other long-term assets	--	9	--
Increase (decrease) in accounts payable	2,245	(19,123)	(21)
Increase in accrued payroll and compensated absences	1,260	2,898	498
Increase in claims payable	--	--	9,863
Increase in due to other governments	1,198	1,198	--
Decrease in advances from other funds	--	--	36
Increase (decrease) in deferred credits and other liabilities	615	3,998	56
Increase in customer deposits	321	2,357	--
Total adjustments	17,375	234,873	12,807
Net cash provided (used) by operating activities	5,215	550,013	14,196

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2002
(In thousands)

	Electric	Water and Wastewater	Airport
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Increase in advances from other funds	$ --	--	--
Increase (decrease) in deferred assets/expenses	(13,649)	13,836	--
Unamortized bond discounts, premiums, and issue costs on refunded bonds	20,729	(7,477)	--
Increase (decrease) in capital appreciation bond interest payable	10,625	(6,955)	--
Fixed assets contributed from (to) other funds	44	--	--
Increase in contributed facilities	--	9,698	--
Net increase (decrease) in the fair value of investments	6,860	(961)	--
Amortization of bond discounts, premiums and issue costs	(2,037)	(916)	(576)
Amortization of deferred loss on refundings	--	--	(74)
Gain (loss) on disposal of assets	(2,251)	35	(56)
Deferred costs recovered	(16,557)	(10,635)	--
Loss on extinguishment of debt	(8,207)	(8,036)	--
Contributions from other funds	--	--	--
Increase in deferred credits and other liabilities	213	27,413	--
Transfers from other funds	--	--	--

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

	Nonmajor Enterprise Funds	2002 Total	Governmental Activities- Internal Service Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Increase in advances from other funds	--	--	44
Increase (decrease) in deferred assets/expenses	--	187	(1)
Unamortized bond discounts, premiums, and issue costs on refunded bonds	--	13,252	--
Increase (decrease) in capital appreciation bond interest payable	--	3,670	--
Fixed assets contributed from (to) other funds	279	323	(6,434)
Increase in contributed facilities	--	9,698	--
Net increase (decrease) in the fair value of investments	223	6,122	--
Amortization of bond discounts, premiums and issue costs	(301)	(3,830)	(4)
Amortization of deferred loss on refundings	(559)	(633)	--
Gain (loss) on disposal of assets	(267)	(2,539)	(129)
Deferred costs recovered	--	(27,192)	--
Loss on extinguishment of debt	--	(16,243)	--
Contributions from other funds	--	--	192
Increase in deferred credits and other liabilities	--	27,626	--
Transfers from other funds	2,109	2,109	--

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

(In thousands)

	Private Purpose Trust	Agency
ASSETS		
Pooled investments and cash	$ 918	2,289
Due from other funds	150	--
Other assets	121	--
Total assets	1,189	2,289
LIABILITIES		
Accounts payable	151	160
Due to other governments	--	1,400
Due to other funds	150	--
Deposits and other liabilities	215	729
Total liabilities	516	2,289
NET ASSETS		
Held in trust	673	
Total net assets	$ 673	

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

	Private Purpose Trust
ADDITIONS	
Contributions	$ 215
Interest and other	33
Total additions	248
DEDUCTIONS	
Deductions	444
Total deductions	444
Change in net assets	(196)
Total net assets - beginning	869
Total net assets - ending	$ 673

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 voters waives the term limit for a councilmember.

The City's major activities or programs include public safety; transportation, planning and sustainability; public health; urban growth management; public recreation and culture; and general administrative services. In addition, the City owns and operates certain major enterprise activities, including an electric utility, water and wastewater utility, airport 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. 38 and GASB Interpretation No. 6. 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 so 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 entities are related organizations to which the City Council appoints board members, but for which 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. These entities are separate from the operating activities of the City, i.e., the Airport (ABIA operations) and Convention Center. 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.

b -- GASB Statement No. 34 and Related Statements

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement, known as the “New Reporting Model” or as GASB 34, affects the preparation and presentation of the City’s financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used in private-sector financial reports. In addition, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments – Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures* and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Financial Statements* were required to be adopted concurrent with GASB Statement No. 34. The City adopted each of these standards as of October 1, 2001.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

GASB 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make governmental annual reports easier to understand and more useful to the people who use governmental information to make decisions. The primary effects of adoption of GASB 34 on the City's financial statements included the addition of management's discussion and analysis, the presentation of net assets, the use of accrual basis accounting in the government-wide financial statements, inclusion of required supplementary information, the elimination of the effect of internal service activities, recording of infrastructure assets and reflecting depreciation of capital assets in the government-wide statements.

The new reporting model includes the following:

> **Management's Discussion and Analysis --** A narrative introduction and analytical overview of the City's financial activities, similar to the analyses provided in the annual reports of private sector organizations.
>
> **Government-wide Financial Statements --** New financial statements prepared using full accrual accounting for all of the City's activities. These statements include not only current assets and liabilities, but also governmental capital assets, other long-term assets and long-term liabilities. Full accrual accounting is used to report all revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.
>
> > **Statement of Net Assets --** This statement is designed to display the financial position of the primary government (governmental and business-type activities). The statement includes current and long-term assets and liabilities, including infrastructure assets. The net assets of the City are classified into three categories: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.
> >
> > **Statement of Activities --** This statement reports expenses and revenues on an accrual basis, and in a format that focuses on the cost of the City's functions.
>
> **Fund Financial Statements** -- Fund financial statements focus on funds. Governmental funds are reported using the current financial resources measurement focus and the modified basis of accounting. Proprietary funds are reported on the economic resources measurement focus and the accrual basis of accounting.
>
> **Notes to Basic 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.
>
> **Required Supplementary Information (RSI)** -- The City adopts an annual appropriated budget for the General Fund. The RSI provides a comparison to budget and is provided to demonstrate compliance with this budget.

Government-wide and Fund Financial Statements -- The basic financial statements include both government-wide and fund financial statements. The previous financial reporting model emphasized fund types, i.e., the total of all funds of a particular type, such as capital projects funds. The new reporting model focus is on either the City as a whole or on major individual funds, as defined by GASB 34.

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 for support.

The statement of net assets includes governmental assets and liabilities previously reported in the General Fixed Asset Account Group and the General Long-Term Debt Account Group, in addition to infrastructure assets.

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 meeting 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 individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The City's fiduciary funds, which have been redefined and narrowed in scope, 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 incurred. However, expenditures related to compensated absences and arbitrage are recorded when the liability is matured. 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, EMS charges, Municipal Court fines and interest associated with the current fiscal period are all considered to be susceptible to accrual and so 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.

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.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, 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, employee health benefits, fleet services, information services, liability reserve (city-wide self insurance) services, supportive services, wireless communication services and workers' compensation coverage.

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

Private-purpose trust funds account for all other 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 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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

During fiscal year 2002, the following nonmajor governmental funds exceeded their legally adopted expenditure or transfer budget (in thousands): EMS Travis County Reimbursed ($79) and Wildland Conservation ($4).

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, 2002. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

Accounts Receivables -- Balances of accounts receivables, 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 receivables balances as of September 30, 2002 (in thousands):

	Charges for Services	Fines	Taxes	Other Govern-ments	Total
Governmental activities					
General Fund	$ 46,035	54,500	25,428	434	126,397
Nonmajor governmental funds	929	45	6,872	8,415	16,261
Internal service funds	742	--	--	--	742
Allowance for doubtful accounts	(43,924)	(35,952)	--	--	(79,876)
Total	$ 3,782	18,593	32,300	8,849	63,524

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 $8.5 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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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."

Prepaid expenses and other assets -- The governmental activities statement of net assets includes prepaid expenses and other assets. Fund balance is reserved for prepaid expenses; fund balance is not reserved for other assets.

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):

	Business-type Activities				
	Electric	Water and Wastewater	Airport	Nonmajor	Total Restricted Assets
Debt service	$ 70,177	36,003	13,798	6,036	126,014
Bond reserve	64,394	45,531	--	6,864	116,789
Capital projects	23,286	59,285	67,813	63,993	214,377
Nuclear decommissioning	81,727	--	--	--	81,727
Nuclear fuel inventory replacement	33,234	--	--	--	33,234
Customer and escrow deposits	5,508	1,559	28,294	4,549	39,910
Federal grants	--	--	4,142	--	4,142
	$ 278,326	142,378	114,047	81,442	616,193

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital assets -- Capital assets, which include land, facilities and improvements, machinery and equipment 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.

Interest is not capitalized on governmental capital assets. For enterprise 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.

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	40	30	40-50	40	40
Equipment	12-15	12-40	12-40	10-12	7-40
Vehicles	3-15	3-15	3-15	3-15	3-15
Improvements to grounds	15	30	40-50	15	15
Communication equipment	7	7	7	7	7
Furniture and fixtures	12	12	12	12	12
Computers and EDP equipment	7	7	7	7	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 library collections, art treasures and land to be inexhaustible; and therefore, these assets are reported as nondepreciable. The true value of library collections and art treasures is expected to be maintained over time and, thus, not depreciated. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure assets ($34.1 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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Deferred Expenses or Credits -- The City's utility systems are reported in accordance with Financial Accounting Standards Board (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. The liabilities and expenses 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.

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 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' balance sheets. 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 allowances, as follows (in thousands):

Electric Fund	$ 10,125
Water and Wastewater Fund	1,112
Non-major Enterprise Funds	1,678

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.

Special Items -- These are significant transactions or events within the control of the City that are either unusual in nature or infrequent in occurrence. In 2002, the City purchased from Computer Sciences Corporation (CSC) for $4 million the right to develop a City-owned block. Under an earlier agreement, CSC had the right to develop the block by 2015.

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 -- It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see Note 8).

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts, 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 10, *Accounting and Reporting for Risk Financing and Related Insurance Issues* (see Note 16).

f -- Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). They may also present comparative data on the government-wide statement of activities. In this first year of GASB Statement No. 34 implementation, comparative data is not required and is not presented.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, $383 million, differ from the net assets of governmental activities, $1,247 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		$ 383,405
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	2,139,354	
Less: accumulated depreciation	(483,118)	
Total		1,656,236
Other-long term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	18,285	
Deferred revenue - Property taxes/interest	8,768	
Deferred costs and expenses	870	
Total		27,923
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	(778,480)	
Compensated absences	(56,711)	
Interest payable	(4,244)	
Deferred credits and other liabilities	(18,540)	
Total		(857,975)
Internal service funds		37,848
Total net assets - Governmental activities		$ 1,247,437

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, $151.6 million, differs from the change in net assets for governmental activities, $42.5 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		$ 151,609
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	164,523	
Depreciation expense	(58,101)	
Loss on disposal of capital assets	(7,891)	
Total		98,531
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	8,068	
Charges for services	8,116	
Interest and other	(675)	
Capital assets contribution	12,651	
Total		28,160
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	(14,011)	
Total		(14,011)
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	(254,505)	
Principal repayment on long-term debt	44,382	
Deferral of debt issue costs	(6,741)	
Total		(216,864)
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	4,944	
Interest and other	(2,321)	
Total		2,623
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		(7,503)
Change in net assets - Governmental activities		$ 42,545

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2002, the nonmajor funds below reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers or debt issues.

	Deficit (in thousands)
Special Revenue Funds:	
Austin Transportation Study	$ 152
One Texas Center	93
Capital Projects Funds:	
Energy improvements - city facilities	82
Parks/Old Bakery	145
Police facilities	14
Transportation mobility improvements	15,045
Parks - 1992	15
Build Austin	27
Public Works	50
Conservation land	2
Interest income	583

	Deficit (in thousands)
Enterprise Funds:	
Parks and Recreation	$ 36
Internal Service Funds:	
Liability Reserve	8,816
Fiduciary Funds:	
Voluntary Utility Assistance	64

The deficit in the Transportation Mobility Improvements Fund is covered by a City Council resolution to reimburse the fund through a future bond sale. The Liability Reserve deficit will be recovered through judgment bonds and future transfers.

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2002 (in thousands):

	Pooled Investments and Cash	
	Unrestricted	**Restricted**
General Fund	$ 88,956	--
Nonmajor governmental funds	302,240	--
Electric	134,587	59,147
Water and Wastewater	54,010	55,735
Airport	6,605	83,135
Nonmajor enterprise funds	44,435	68,251
Internal service funds	72,581	--
Fiduciary funds	3,207	--
Subtotal pooled investments and cash	706,621	266,268
Total pooled investments and cash	$ 972,889	

5 – INVESTMENTS AND DEPOSITS

a -- Investments

The City’s deposits and investments are invested pursuant to the City of Austin Investment Policy, which is approved annually by the City Council. The objective of the policy is, in order of priority, preservation of capital, liquidity and yield. The policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

5 – INVESTMENTS AND DEPOSITS, continued

Chapter 2256, Texas Government Code (The Public Funds Investment Act) and the City of Austin Investment Policy authorize the City to invest in the following:

(1) Obligations of the U.S. Treasury;
(2) Federal Agencies;
(3) Obligations of The State of Texas;
(4) Other States, Cities, Counties or Other Political Subdivisions;
(5) Local Government Investment Pools;
(6) Repurchase Agreements;
(7) Reverse Repurchase Agreements;
(8) Bankers' Acceptances;
(9) Commercial Paper; and
(10) Money Market Mutual Funds.

The City participates in two Texas local government investment pools: TexPool and TexasTERM/Daily. The State Comptroller of Public Accounts maintains oversight responsibility for TexPool. An advisory board, consisting of participants or their designees, maintains oversight responsibility for TexasTERM/Daily. The fair value of the City's position in these pools is equivalent to the carrying value.

The City did not participate in any reverse repurchase agreements during fiscal year 2002.

The City's investments (with exceptions noted below) are categorized below to give an indication of the level of custodial risk assumed by the City at year-end.

- Category 1 investments are insured or registered or the City's agent holds the securities in the City's name.
- Category 2 investments are uninsured and unregistered investments and the securities are held by the counterparty's trust department or agent in the City's name.
- Category 3 investments are uninsured and unregistered investments and the securities are held by the counterparty's trust department or agent, but not in the City's name.

	Category			Fair Value
	1	2	3	(in thousands)
Investments				
Obligations of the U.S. government and its agencies	$ 984,521	--	--	984,521
	984,521	--	--	984,521
Investments held by trustee				
Obligations of the U.S. government and its agencies	83,031	--	--	83,031
Investments not categorized				
Money market mutual funds				7,097
TexPool, Texas Local Government Investment Pool				293,789
TexasTERM/Daily, Local Government Investment Pool				186,331
				487,217
Total investments				$ 1,554,769

5 – INVESTMENTS AND DEPOSITS, continued

Investments and deposits at September 30, 2002 are as follows (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Non-pooled investments and deposits	$ 17,308	573,836	--	591,144
Pooled investments and deposits	468,324	510,864	3,207	982,395
Total investments and deposits	485,632	1,084,700	3,207	1,573,539
Unrestricted deposits	514	51	--	565
Restricted deposits	--	13,338	--	13,338
Pooled deposits	2,320	2,531	16	4,867
Investments	482,798	1,068,780	3,191	1,554,769
Total investments and deposits	$ 485,632	1,084,700	3,207	1,573,539

b -- Deposits

The September 30, 2002, carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash				
Unrestricted	$ 112	51	--	163
Cash held by trustee				
Unrestricted	402	--	--	402
Restricted	--	13,338	--	13,338
Pooled cash	2,320	2,531	16	4,867
Total deposits	$ 2,834	15,920	16	18,770

All bank balances were either insured or collateralized with securities held by the City or by its agent in the City's name at September 30, 2002.

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, 2001, upon which the 2002 levy was based, was $47,782,873,096.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2002, 98.81% of the current tax levy (October 1, 2001) 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. The appraisal district is 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 is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five 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. 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%, qualified voters of the City may petition for an election to determine whether to limit the tax rate increase to no more than 8%.

The City is permitted by Article II, 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, 2002, was $.3041 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.6959 per $100 assessed valuation, and could levy approximately $332,521,014 in additional taxes from the assessed valuation of $47,782,873,096 before the legislative limit is reached.

During 2002, businesses filed lawsuits against the appraisal district challenging assessed values. These lawsuits, if successful, could reduce the assessed value by almost 4%. The City has included the effect of this adjustment in these statements.

7 – CAPITAL ASSETS AND INFRASTRUCTURE

The City has capitalized governmental infrastructure assets in accordance with GASB Statement No. 34. Additions for the years 1980 through 2001 were valued at an estimated historical cost of $1.186 billion less accumulated depreciation of $318 million.

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 is accelerating the depreciation of two generating stations that will be retired before the end of their estimated useful lives. The increase to the Electric fund 2002 depreciation expense for this accelerated depreciation is $210,000.

The City has recorded capitalized interest for fiscal year 2002 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

Major fund:	
Airport	$ 435
Nonmajor enterprise funds:	
Convention Center	2,930
Drainage	111
Golf	91
Solid Waste Services	391

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Components of capital assets (in thousands):

	Governmental Activities	Business-type Activities	Total
Capital assets not being depreciated			
Land and improvements	$ 151,314	267,163	418,477
Arts and treasures	4,450	673	5,123
Library books	12,706	--	12,706
Total	168,470	267,836	436,306
Other capital assets			
Building & improvements	265,028	2,799,995	3,065,023
Equipment	46,331	2,696,969	2,743,300
Vehicles	69,496	81,516	151,012
Infrastructure	1,218,959	--	1,218,959
Completed assets not classified	202,908	564,978	767,886
Total	1,802,722	6,143,458	7,946,180
Less accumulated depreciation for			
Building & improvements	(75,765)	(816,461)	(892,226)
Equipment	(29,301)	(1,126,077)	(1,155,378)
Vehicles	(35,751)	(45,230)	(80,981)
Infrastructure	(352,467)	--	(352,467)
Completed assets not classified	(13,299)	(9,456)	(22,755)
Total	(506,583)	(1,997,224)	(2,503,807)
Total capital assets, net of depreciation	1,296,139	4,146,234	5,442,373
Construction work in progress	223,455	310,876	534,331
Nuclear fuel, net of amortization	--	18,102	18,102
Plant held for future use	--	31,379	31,379
Total capital assets, net of depreciation	$ 1,688,064	4,774,427	6,462,491

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2002 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 160,096	--	(8,782)	151,314
Arts and treasures	4,450	--	--	4,450
Library books	12,013	693	--	12,706
Total	176,559	693	(8,782)	168,470
Other capital assets				
Building and improvements	221,167	45,260	(1,399)	265,028
Equipment	39,900	15,150	(8,719)	46,331
Vehicles	40,643	40,226	(11,373)	69,496
Infrastructure	1,186,479	32,480	--	1,218,959
Completed assets not classified	210,026	27,392	(34,510)	202,908
Total	1,698,215	160,508	(56,001)	1,802,722
Less accumulated depreciation for				
Building and improvements	(69,102)	(7,563)	900	(75,765)
Equipment	(33,959)	(3,187)	7,845	(29,301)
Vehicles	(34,348)	(11,030)	9,627	(35,751)
Infrastructure	(318,393)	(34,074)	--	(352,467)
Completed assets not classified	(8,537)	(5,236)	474	(13,299)
Total	(464,339)	(61,090)(1)	18,846	(506,583)
Other capital assets, net	1,233,876	99,418	(37,155)	1,296,139
Construction work in progress	182,986	117,240	(76,771)	223,455
Governmental activites capital assets, net	$ 1,593,421	217,351	(122,708)	1,688,064

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

<u>Governmental activities:</u>	
General government	$ 866
Public safety	10,325
Transportation, planning and sustainability	2,597
Public health	1,041
Public recreation and culture	7,272
Urban growth management	1,926
Unallocated depreciation expense - infrastructure	34,074
Internal Service	2,949
Total governmental activities depreciation expense	$ 61,050

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 61,050
Transfer from Electric activities	30
Transfer from Airport activities	10
	$ 61,090

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Activities

Capital asset activity for the year ended September 30, 2002 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 32,731	146	--	32,877
Total	32,731	146	--	32,877
Other capital assets				
Building and improvements	561,747	5,082	(34)	566,795
Equipment	2,005,573	220,784	(18,035)	2,208,322
Vehicles	19,641	3,667	(3,941)	19,367
Completed assets not classified	203,389	3,268	(12,653)	194,004
Total	2,790,350	232,801	(34,663)	2,988,488
Less accumulated depreciation for				
Building and improvements	(218,000)	(15,771)	--	(233,771)
Equipment	(892,346)	(70,081)	10,887	(951,540)
Vehicles	(18,163)	(1,190)	3,910	(15,443)
Completed assets not classified	(3,352)	(3,232)	3,352	(3,232)
Total	(1,131,861)	(90,274)(1)	18,149	(1,203,986)
Other capital assets, net	1,658,489	142,527	(16,514)	1,784,502
Construction work in progress	193,753	189,953	(223,221)	160,485
Nuclear fuel, net of amortization	19,438	--	(1,336)	18,102
Plant held for future use	31,379	--	--	31,379
Business-type activities capital assets, net	$ 1,935,790	332,626	(241,071)	2,027,345

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 90,253
Transfer from Governmental activities	11
Transfer from Water and Wastewater activities	10
	$ 90,274

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Activities

Capital asset activity for the year ended September 30, 2002 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 135,154	171	--	135,325
Total	135,154	171	--	135,325
Other capital assets				
Building and improvements	1,323,646	45,303	(12,835)	1,356,114
Equipment	462,196	2,173	(12,357)	452,012
Vehicles	15,996	8,510	(3,303)	21,203
Completed assets not classified	158,323	140,574	(23,362)	275,535
Total	1,960,161	196,560	(51,857)	2,104,864
Less accumulated depreciation for				
Building and improvements	(426,500)	(30,510)	12,492	(444,518)
Equipment	(150,318)	(16,397)	12,292	(154,423)
Vehicles	(14,313)	(1,932)	3,274	(12,971)
Completed assets not classified	(1,861)	(3,095)	316	(4,640)
Total	(592,992)	(51,934) (1)	28,374	(616,552)
Other capital assets, net	1,367,169	144,626	(23,483)	1,488,312
Construction work in progress	155,018	106,409	(157,327)	104,100
Business-type activities capital assets, net	$ 1,657,341	251,206	(180,810)	1,727,737

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 51,740
Transfer from Governmental activities	47
Transfer from Electric activities	43
Transfer from nonmajor enterprise activities	104
	$ 51,934

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Activities

Capital asset activity for the year ended September 30, 2002 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 58,690	--	--	58,690
Arts and treasures	405	--	--	405
Total	59,095	--	--	59,095
Other capital assets				
Building and improvements	638,615	6,590	(68,946)	576,259
Equipment	15,045	685	(1,300)	14,430
Vehicles	1,616	1,436	(16)	3,036
Completed assets not classified	10,271	13,107	(1,526)	21,852
Total	665,547	21,818	(71,788)	615,577
Less accumulated depreciation for				
Building and improvements	(119,622)	(14,813)	68,777	(65,658)
Equipment	(5,154)	(792)	1,233	(4,713)
Vehicles	(1,418)	(282)	15	(1,685)
Completed assets not classified	(193)	(323)	193	(323)
Total	(126,387)	(16,210)(1)	70,218	(72,379)
Other capital assets, net	539,160	5,608	(1,570)	543,198
Construction work in progress	10,404	17,172	(19,774)	7,802
Business-type activities capital assets, net	$ 608,659	22,780	(21,344)	610,095

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 16,210
	$ 16,210

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Activities

Capital asset activity for the year ended September 30, 2002 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 40,071	200	--	40,271
Arts and treasures	268	--	--	268
Total	40,339	200	--	40,539
Other capital assets				
Building and improvements	183,910	116,918	(1)	300,827
Equipment	13,468	9,282	(545)	22,205
Vehicles	16,917	25,071	(4,078)	37,910
Completed assets not classified	39,994	54,148	(20,555)	73,587
Total	254,289	205,419	(25,179)	434,529
Less accumulated depreciation for				
Building and improvements	(63,495)	(9,027)	8	(72,514)
Equipment	(13,838)	(2,052)	489	(15,401)
Vehicles	(14,964)	(3,317)	3,150	(15,131)
Completed assets not classified	(1,141)	(1,047)	927	(1,261)
Total	(93,438)	(15,443)(1)	4,574	(104,307)
Other capital assets, net	160,851	189,976	(20,605)	330,222
Construction work in progress	146,981	72,980	(181,472)	38,489
Business-type activities capital assets, net	$ 348,171	263,156	(202,077)	409,250

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 14,860
Transfer from Governmental activities	583
	$ 15,443

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

Capital asset activity for the year ended September 30, 2002 was as follows (in thousands):

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated				
Land and improvements	$ 266,646	517	--	267,163
Arts and treasures	673	--	--	673
Total	267,319	517	--	267,836
Other capital assets				
Building and improvements	2,707,918	173,893	(81,816)	2,799,995
Equipment	2,496,282	221,394	(20,707)	2,696,969
Vehicles	54,170	38,531	(11,185)	81,516
Completed assets not classified	411,977	211,097	(58,096)	564,978
Total	5,670,347	644,915	(171,804)	6,143,458
Less accumulated depreciation for				
Building and improvements	(827,617)	(70,121)	81,277	(816,461)
Equipment	(1,061,656)	(89,312)	24,891	(1,126,077)
Vehicles	(48,858)	(6,574)	10,202	(45,230)
Completed assets not classified	(6,547)	(7,697)	4,788	(9,456)
Total	(1,944,678)	(173,704)(2)	121,158	(1,997,224)
Other capital assets, net	3,725,669	471,211	(50,646)	4,146,234
Construction work in progress	506,156	386,514	(581,794)	310,876
Nuclear fuel, net of amortization	19,438	--	(1,336)	18,102
Plant held for future use	31,379	--	--	31,379
Business-type activities capital assets, net	$ 4,549,961	858,242	(633,776)	4,774,427

(1) Increases and decreases do not include transfers within business-type activities.

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

<u>Business-type activities:</u>	
Electric	$ 90,253
Water and Wastewater	51,740
Airport	16,210
Nonmajor enterprise funds	14,860
Total business-type activities depreciation expense	173,063
Transfers	641
Total increases in accumulated depreciation	$ 173,704

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, 2001. Membership in the plans at December 31, 2001 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	3,204	289	363	3,856
Current employees	7,713	1,277	915	9,905
Total	10,917	1,566	1,278	13,761

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	(512)458-2551
Police Officers' Retirement and Pension Fund	P.O. Box 684808 Austin, Texas 78768-4808	(512)416-7672
Fire Fighters' Relief and Retirement Fund	3301 Northland Drive, Suite 215 Austin, Texas 78731	(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%	13.70%
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 of each 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, 2002, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City	$ 25,986	12,160	9,089	47,235
Employees	26,015	6,080	6,899	38,994
Total contributions	$ 52,001	18,240	15,988	86,229

c-- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of $47,235,000 for fiscal year ended September 30, 2002, was equal to the City's required and actual contributions. Three-year trend information is as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):				
2000	$ 20,458	9,834	7,984	38,276
2001	24,118	8,429	10,738	43,285
2002	25,986	12,160	9,089	47,235
Percentage of APC contributed:				
2000	100%	100%	100%	N/A
2001	100%	100%	100%	N/A
2002	100%	100%	100%	N/A
Net Pension Obligation:				
2000	$ --	--	--	--
2001	--	--	--	--
2002	--	--	--	--

8 – RETIREMENT PLANS, continued

Actuarial valuations of the plans are performed every two years. Actuarial updates are done in each year following the full valuation. The latest actuarial valuations were completed as of December 31, 2001. 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	4%	4%	5.0%
Projected Annual Salary Increases	4.5% to 14.5%	6.8% average	6.5%
Post retirement benefit increase	None	None	3.5% effective January 1, 2003 through January 1, 2004 and, 1% annually thereafter
Assumed Rate of Return on Investments	8%	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	17 years	18.8 years	26.5 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%
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%
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%

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

9 – SELECTED REVENUES

a -- 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 water and wastewater utility and electric 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 2002, the Airport Fund revenues included minimum concession guarantees of $8,768,614.

b – Nonmajor enterprise funds

Hospital

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. The lease term is 30 years. 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 2002, the Hospital Fund revenues included minimum lease payments of $1.85 million and additional rent of $8.1 million.

During fiscal year 2002, the City amended the lease agreement to accommodate certain reproductive services that Seton can no longer perform. The overall purpose of the amendment is to separate Seton from the management, governance and operation of a facility in which procedures may occur which are inconsistent with the *Ethical and Religious Directives for Catholic Health Care Services.*

The result of the lease amendment has resulted in a separately licensed hospital to be operated by the City. The hospital will occupy the 5th floor of the current Brackenridge building. The separately licensed hospital will help accommodate growing demand for obstetrical facilities at Brackenridge in addition to performing reproductive services. The total cost of the facility is estimated to be approximately $ 9.3 million. It is scheduled to open in July 2003.

Certain adjustments to the scheduled lease payments have resulted from the lease amendment. Seton reduced the annual lease payment by $ 58,740 in July 2002, when construction of the new facility began. The reduced lease payment represents the reduction in leased space that Seton is utilizing. Beginning in July 2003, the annual lease payment will be reduced for construction costs related to the expansion of obstetrical facilities, which is estimated to be approximately $ 6.8 million. The costs will be amortized over a period of 22.25 years, which is the remaining life of the lease agreement.

9 – SELECTED REVENUES, continued

The following is a schedule by year of minimum future rentals on noncancelable operating leases up to a term of twenty years for the Airport Fund and thirty years for the Hospital Fund as of September 30, 2002. Amounts for the Hospital Fund do not include supplemental rent payments as discussed above (in thousands):

Fiscal Year Ended September 30	Major Airport Fund	Nonmajor Hospital Fund
2003	$ 8,276	1,677
2004	7,724	1,290
2005	6,737	1,290
2006	6,734	1,290
2007	6,732	1,290
2008-2012	11,539	6,449
2013-2017	400	6,449
2018-2022	240	6,449
2023-2025	--	3,869
Totals	$ 48,382	30,053

10 – DEBT AND NON-DEBT LIABILITIES

a – Short-Term Debt

The following is a summary of changes in short-term debt. Short-term debt provides financing to governmental activities. This debt was issued for interim financing of General Fund operations. Balances at September 30, 2002 are (in thousands):

Description	September 30, 2001	Increases	Decreases	September 30, 2002	Amounts Due Within One Year
Governmental activities					
Tax anticipation notes	$ --	4,800	--	4,800	4,800

In May 2002, the City issued Tax Anticipation Notes, Series 2002, in the amount of $4,800,000. The principal and interest are due on April 1, 2003. Interest rates on the notes range from 1.60% to 5.50%, adjusted monthly, with a maximum due of $137,600.

10 – DEBT AND NON-DEBT LIABILITIES, continued

b – Long-Term Liabilities

The following is a summary of long-term liabilities. Balances at September 30, 2002 are (in thousands):

Description	Governmental Activities	Business-Type Activities	Total
Long-term obligations			
General obligation bonds	$ 666,993	24,281	691,274
Contractual obligations	24,418	11,137	35,555
Certificates of obligation	99,309	36,780	136,089
Other tax supported debt	--	12,756	12,756
Commercial paper notes	--	358,715	358,715
Revenue notes	--	28,000	28,000
Revenue bonds	--	3,157,900	3,157,900
Contract revenue bonds	--	22,755	22,755
Capital lease obligations	--	16,637	16,637
Less deferred amounts:			
Unamortized discounts	(370)	(38,736)	(39,106)
Unamortized gain(loss) on refundings	(499)	(8,248)	(8,747)
Unamortized premiums	5,176	62,096	67,272
	795,027	3,684,073	4,479,100
Other long-term obligations			
Accrued compensated absences	64,200	21,179	85,379
Claims payable	33,381	--	33,381
Decommissioning expense payable	--	81,727	81,727
Accrued landfill closure and postclosure costs	--	7,188	7,188
Deferred credits and other liabilities	70,548	488,739	559,287
	168,129	598,833	766,962
Total long-term obligations	$ 963,156	4,282,906	5,246,062

This schedule excludes short-term liabilities of $54,099 for governmental activities and $200,067 for business-type activities and long-term interest payable of $141,390 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.

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, 2002 are (in thousands):

Description	September 30, 2001	Increases	Decreases	September 30, 2002	Amounts Due Within One Year
Governmental activities (1)					
General obligation bonds	$ 508,975	193,950	(35,932)	666,993	35,268
Contractual obligations	20,344	8,965	(4,891)	24,418	5,568
Certificates of obligation	24,005	78,000	(2,696)	99,309	4,631
Tax notes	15,400	--	(15,400)	--	--
Less deferred amounts:					
Unamortized discounts	(460)	--	90	(370)	--
Unamortized gain(loss) on refundings	297	(800)	4	(499)	--
Unamortized premiums	5,446	(273)	3	5,176	--
Other long-term obligations					
Accrued compensated absences	58,902	8,091	(2,793)	64,200	4,762
Claims payable	23,517	19,297	(9,433)	33,381	23,529
Deferred credits and other liabilities	75,604	377	(5,433)	70,548	57,261
Governmental activities total	732,030	307,607	(76,481)	963,156	131,019
Business-type activities:					
Electric activities					
General obligation bonds	1,336	--	(5)	1,331	6
Contractual obligations	1,730	--	(331)	1,399	357
Commercial paper notes	150,703	50,170	--	200,873	--
Revenue bonds	1,503,330	247,630	(362,304)	1,388,656	67,081
Capital lease obligations	11,473	--	(1,436)	10,037	1,533
Less deferred amounts:					
Unamortized discounts	(22,745)	(1,221)	10,551	(13,415)	--
Unamortized premiums	25,322	22,132	(10,083)	37,371	--
Other long-term obligations					
Accrued compensated absences	9,250	2,183	(1,497)	9,936	5,447
Decommissioning expense payable	72,591	9,136	--	81,727	--
Deferred credits and other liabilities	71,838	117,181	(98,500)	90,519	22,534
Electric activities total	1,824,828	447,211	(463,605)	1,808,434	96,958
Water and Wastewater activities					
General obligation bonds	14,050	--	(2,395)	11,655	1,992
Contractual obligations	6,447	1,765	(1,311)	6,901	1,532
Other tax supported debt	13,825	--	(1,069)	12,756	1,091
Commercial paper notes	78,226	79,616	--	157,842	--
Revenue bonds	1,131,975	235,075	(213,646)	1,153,404	19,745
Contract revenue bonds	76,725	--	(53,970)	22,755	2,355
Capital lease obligations	7,450	--	(850)	6,600	900
Less deferred amounts:					
Unamortized discounts	(22,080)	(1,026)	7,521	(15,585)	--
Unamortized premiums	10,886	16,730	(3,758)	23,858	--
Other long-term obligations					
Accrued compensated absences	4,710	286	(31)	4,965	2,983
Deferred credits and other liabilities	376,075	68,201	(53,174)	391,102	1,906
Water and Wastewater activities total	$ 1,698,289	400,647	(322,683)	1,776,253	32,504

(continued)

(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

Description	September 30, 2001	Increases	Decreases	September 30, 2002	Amounts Due Within One Year
Business-type activities (continued):					
Airport activities					
General obligation bonds	$ 645	--	(74)	571	72
Contractual obligations	305	--	(58)	247	63
Revenue notes	28,000	--	--	28,000	--
Revenue bonds	374,245	--	(3,255)	370,990	5,630
Less deferred amounts:					
Unamortized discounts	(7,615)	--	476	(7,139)	--
Unamortized gain(loss) on refundings	(1,557)	--	73	(1,484)	--
Unamortized premiums	19	--	(4)	15	--
Other long-term obligations					
Accrued compensated absences	1,139	107	--	1,246	794
Deferred credits and other liabilities	8,341	--	(3,242)	5,099	288
Airport activities total	403,522	107	(6,084)	397,545	6,847
Nonmajor activities					
General obligation bonds	11,613	--	(889)	10,724	908
Contractual obligations	2,863	435	(708)	2,590	775
Certificates of obligation	16,934	21,430	(1,584)	36,780	1,694
Revenue bonds	247,940	--	(3,090)	244,850	3,255
Less deferred amounts:					
Unamortized discounts	(2,815)	--	218	(2,597)	--
Unamortized gain(loss) on refundings	(7,230)	--	466	(6,764)	--
Unamortized premiums	860	81	(89)	852	--
Other long-term obligations					
Accrued compensated absences	3,895	16,110	(14,973)	5,032	3,192
Accrued landfill closure and postclosure costs	6,904	284	--	7,188	--
Deferred credits and other liabilities	1,375	2,589	(1,945)	2,019	564
Nonmajor activities total	282,339	40,929	(22,594)	300,674	10,388
Total business-type activities					
General obligation bonds	27,644	--	(3,363)	24,281	2,978
Contractual obligations	11,345	2,200	(2,408)	11,137	2,727
Certificates of obligation	16,934	21,430	(1,584)	36,780	1,694
Other tax supported debt	13,825	--	(1,069)	12,756	1,091
Commercial paper notes	228,929	129,786	--	358,715	--
Revenue notes	28,000	--	--	28,000	--
Revenue bonds	3,257,490	482,705	(582,295)	3,157,900	95,711
Contract revenue bonds	76,725	--	(53,970)	22,755	2,355
Capital lease obligations	18,923	--	(2,286)	16,637	2,433
Less deferred amounts:					
Unamortized discounts	(55,255)	(2,247)	18,766	(38,736)	--
Unamortized gain(loss) on refundings	(8,787)	--	539	(8,248)	--
Unamortized premiums	37,087	38,943	(13,934)	62,096	--
Other long-term obligations					
Accrued compensated absences	18,994	18,686	(16,501)	21,179	12,416
Decommissioning expense payable	72,591	9,136	--	81,727	--
Accrued landfill closure and postclosure costs	6,904	284	--	7,188	--
Deferred credits and other liabilities	457,629	187,971	(156,861)	488,739	25,292
Business-type activities total	4,208,978	888,894	(814,966)	4,282,906	146,697
Total long-term liabilities	$ 4,941,008	1,196,501	(891,447)	5,246,062	277,716

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

c – 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.

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, 2002, including those reported in certain proprietary funds (in thousands):

Series	Date Issued	Original Issue	Amount Outstanding at September 30, 2002	Aggregate Interest Requirements at September 30, 2002		Interest Rates Of Debt Outstanding at September 30, 2002	Maturity Dates Of Serial Debt
Series 1993	February, 1993	$ 71,600	$ 62,280	$12,468	(1)	5.40 - 5.75%	9/1/2003-2009
Series 1993	October, 1993	25,000	17,770	5,418	(1)	4.25 - 4.75%	9/1/2003-2013
Series 1993	October, 1993	6,435	4,575	1,395	(1)	4.25 - 4.75%	9/1/2003-2013
Series 1993A	October, 1993	70,230	42,230	8,000	(1)	4.30 - 5.00%	9/1/2003-2010
Series 1994	October, 1994	33,260	4,000	396	(1)	5.20 - 5.40%	9/1/2003-2005
Series 1994	October, 1994	3,550	330	26	(1)	5.20 - 5.30%	9/1/2003-2004
Series 1995	October, 1995	30,250	2,085	436	(1)	7.30 - 7.75%	9/1/2003-2005
Series 1995	October, 1995	8,660	1,195	130	(1)	4.75 - 6.00%	9/1/2003-2005
Series 1996	October, 1996	30,550	13,525	5,122	(1)	4.80 - 6.00%	9/1/2003-2011
Series 1996	October, 1996	11,755	2,880	139	(2)	4.70 - 4.80%	11/1/2002-2003
Series 1997	October, 1997	29,295	28,415	15,734	(1)	5.00 - 5.75%	9/1/2003-2017
Series 1997	October, 1997	13,975	5,540	380	(2)	4.50%	11/1/2002-2004
Series 1997	October, 1997	2,120	1,775	812	(1)	4.50 - 6.70%	9/1/2003-2017
Series 1998	January, 1998	110,300	110,090	45,013	(1)	4.60 - 5.25%	9/1/2003-2016
Assumed MUD Debt	December, 1997	33,680	15,158	9,642	(3)	4.40 - 10.50%	11/15/2002-2021
Series 1998	October, 1998	13,430	13,230	7,170	(1)	4.40 - 7.13%	9/1/2003-2018
Series 1998	October, 1998	22,770	20,065	9,145	(1)	4.10 - 7.00%	9/1/2003-2018
Series 1998	October, 1998	14,975	9,030	763	(2)	3.90 - 4.25%	11/1/2002-2005
Series 1999	October, 1999	51,100	50,590	35,030	(1)	4.25 - 5.75%	9/1/2003-2019
Series 1999	October, 1999	10,335	7,080	863	(2)	4.50 - 4.75%	11/1/2002-2006
Series 1999	October, 1999	5,590	5,060	2,804	(1)	5.00 - 6.00%	9/1/2003-2019
Series 2000	October, 2000	52,930	51,245	37,717	(1)	4.35 - 6.00%	9/1/2003-2020
Series 2000	October, 2000	6,060	5,710	3,300	(1)	5.00 - 5.38%	9/1/2003-2020
Series 2001	June, 2001	123,445	99,335	25,377	(1)	4.75 - 5.50%	9/1/2003-2022
Series 2001	October, 2001	79,650	79,650	48,980	(1)	4.00 - 5.25%	9/1/2003-2021
Series 2001	October, 2001	65,335	63,285	28,078	(1)	4.00 - 5.25%	9/1/2003-2021
Series 2001	October, 2001	2,650	2,510	328	(2)	3.00 - 3.88%	11/1/2002-2008
Series 2002	July, 2002	12,190	12,190	5,650	(1)	3.00 - 5.00%	9/1/2003-2017
Series 2002	July, 2002	2,495	2,495	491	(1)	4.00 - 5.00%	9/1/2003-2009
Series 2002	September, 2002	99,615	99,615	56,488	(1)	2.00 - 5.00%	9/1/2003-2022
Series 2002	September, 2002	34,095	34,095	18,685	(1)	2.50 - 5.38%	9/1/2003-2022
Series 2002	September, 2002	8,690	8,690	1,108	(2)	2.50 - 4.00%	5/1/2003-2009
			$ 875,723				

(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 October 2001, the City issued Public Improvement Bonds, Series 2001, in the amount of $79,650,000. The proceeds from the issue will be used as follows: land acquisition and libraries ($6,310,000); asbestos abatement ($1,000,000); street improvements ($35,555,000); park and recreation facilities ($8,920,000); emergency centers ($4,565,000); Carver Museum expansion ($2,300,000); right of way acquisition and utility relocation ($15,000,000); and police forensics ($6,000,000). These bonds will be amortized serially on September 1 of each year from 2004 to 2021. Certain of these bonds are callable beginning September 1, 2012. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2002. Total interest requirements for these bonds, at rates ranging from 4% to 5.25%, are $53,100,504.

In October 2001, the City issued Public Property Finance Contractual Obligations, Series 2001, in the amount of $2,650,000. The proceeds from the issue will be used as follows: police helicopter ($1,385,000) and capital equipment ($1,265,000). These contractual obligations will be amortized serially on May 1 of each year from 2002 to 2008. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2002. The contractual obligations are not subject to optional redemption prior to maturity. Total interest requirements for these obligations, at rates ranging from 3% to 3.88%, are $391,720.

In October 2001, the City issued Certificates of Obligation, Series 2001, in the amount of $65,335,000. The proceeds from the issue will be used as follows: developer reimbursements ($500,000); right of way acquisition and utility relocation ($29,500,000); convention center ($10,000,000); golf course improvements ($620,000); north service center ($3,545,000); City Hall ($19,150,000); and landfill capital requirements ($2,020,000). These certificates of obligation will be amortized serially on September 1 of each year from 2002 to 2021. Certain of these obligations are callable beginning September 1, 2012. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2002. Total interest requirements for these obligations, at rates ranging from 4% to 5.25%, are $31,414,665.

In July 2002, the City issued Public Improvement Refunding Bonds, Series 2002, in the amount of $12,190,000 and Public Improvement Refunding Bonds, Taxable Series 2002, in the amount of $2,495,000. The net proceeds of $14,451,114 (after issue costs and premiums) from both refundings were used to refund $13,900,000 of Tax Notes, Series 1997. The refunding resulted in future interest requirements to service the debt of $6,141,295 with an average interest rate of 4.30%. There was no economic gain or loss as a result of the transaction. The change in net cash flows that resulted from the refunding was $5,127,295. An accounting gain of $551,114, which will be deferred and amortized, was recognized on this refunding. The refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the long-term liabilities.

In September 2002, the City issued Public Improvement Bonds, Series 2002, in the amount of $99,615,000. The proceeds from the issue will be used as follows: street improvements ($28,452,000); right of way acquisition and utility relocation ($15,000,000); asbestos abatement ($1,070,000); parks and recreation facilities ($12,685,000); police forensics ($5,415,000); emergency centers ($8,335,000); library and cultural center expansions ($20,725,000); land acquisition ($4,015,000); and creek improvements ($3,918,000). These bonds will be amortized serially on September 1 of each year from 2003 to 2022. Certain of these bonds are callable beginning September 1, 2017. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2003. The total interest requirements for these bonds, at rates ranging from 2% to 5%, are $56,487,511.

In September 2002, the City issued Public Property Finance Contractual Obligations, Series 2002, in the amount of $8,690,000. The proceeds from the issue will be used as follows: homeland security equipment ($175,000); upgrades to communication technology ($4,580,000); Solid Waste Services capital equipment additions ($3,000,000); capital equipment vehicles ($500,000); and equipment replacement ($435,000). These contractual obligations will be amortized serially on May 1 of each year from 2003 to November 1, 2009. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2003. The contractual obligations are not subject to optional redemption prior to maturity. The total interest requirement for these obligations, at rates ranging from 2.5% to 3.4%, are $1,108,404.

In September 2002, the City issued Certificates of Obligation, Series 2002, in the amount of $34,095,000. The proceeds from the issue will be used as follows: golf course improvements ($250,000); Fleet Service Center No. 6 ($600,000); School for the Deaf ($5,400,000); City Hall ($18,805,000); Walnut Creek reimbursables ($8,540,000); and developer reimbursements ($500,000). The certificates of obligation will be amortized serially on September 1 of each year from 2003 to 2022. Certain of these obligations are callable beginning September 1, 2018. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2003. Total interest requirement for these obligations, at rates ranging from 2.5% to 5.4%, are $18,685,110.

10 – DEBT AND NON-DEBT LIABILITIES, continued

General obligation bonds authorized and unissued amount to $255,890,000 at September 30, 2002. Bond ratings at September 30, 2002, were Aa2 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's) and AA+ (Fitch).

d – 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. 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, 2002, exclusive of discounts and premiums, consist of $1,350,330,069 prior lien bonds and $256,944,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $1,169,271,532 at September 30, 2002. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2002 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.

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.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2002 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2002
1987	May 1987	$ 65,000	$ 895
1989	July 1989	65,800	1,845
1990AB Refunding	February 1990	236,009	9,404
1992 Refunding	March 1992	265,806	34,636
1992A Refunding	May 1992	351,706	143,666
1993 Refunding	February 1993	203,166	165,506
1993A Refunding	June 1993	263,410	159,609
1994	May 1994	3,500	2,650
1994 Refunding	October 1994	142,559	107,159
1995 Refunding	June 1995	151,770	7,670
1996AB Refunding	September 1996	249,235	243,795
1997 Refunding	August 1997	227,215	218,210
1998 Refunding	August 1998	180,000	177,160
1998A Refunding	August 1998	123,020	80,775
1998 Refunding	November 1998	245,315	245,080
1998	November 1998	10,000	9,215
			$ 1,607,275

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, 2002 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, 2002, the Electric Fund had outstanding commercial paper notes of $113,584,000 and the Water and Wastewater Fund had $157,842,000, of commercial paper notes outstanding. Interest rates on the notes range from 1.20% to 2.05%, 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.

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 $160,000,000 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, 2002 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, 2002, the Electric Fund had outstanding taxable notes of $86,925,276 (net of discount of $363,724), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 1.76% to 1.81%, adjusted daily, and subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing long-term debt.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Electric Utility System Revenue Debt -- General - The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these obligations are used only to fund electric capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Electric Fund.

Electric Utility System Revenue Debt -- Revenue Bond Refunding Issues - In March 2002, the City issued Electric Utility System Revenue Refunding Bonds, Series 2002, in an aggregate principal amount of $74,750,000. Proceeds from the bond refunding were used to refund $78,000,000 of the City's outstanding Combined Utility System Revenue Bonds issued for the Electric Utility System. The debt service requirements on the refunding bonds were $112,031,709. An economic gain of $4,212,822 was a result of this transaction. The change in net cash flows that resulted from the refunding was $7,382,247. An accounting loss of $5,785,636, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on the refunding.

In August 2002, the City issued Electric Utility System Revenue Refunding Bonds, Series 2002A, in an aggregate principal amount of $172,880,000. Proceeds from the bond refunding were used to refund $203,855,000 of the City's outstanding Combined Utility System Revenue Bonds issued for the Electric Utility System. The debt service requirements on the refunding bonds were $247,970,204. An economic gain of $16,751,928 was a result of this transaction. The change in net cash flows that resulted from the refunding was $44,197,634. An accounting loss of $2,421,748, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on the refunding.

Bond ratings at September 30, 2002 were A2 (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 the electric system original and refunding revenue bonds outstanding at September 30, 2002 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2002
2001 Refunding	February 2001	$ 126,700	$ 126,700
2002 Refunding	March 2002	74,750	74,750
2002A Refunding	August 2002	172,880	172,880
			$ 374,330

Water and Wastewater System Revenue Debt -- General - The City is authorized by ordinance to issue water and wastewater system revenue obligations. Proceeds from these obligations are used only to fund water and wastewater capital projects or to refund debt issued to fund these capital projects. Principal and interest on these obligations are payable solely from the net revenues of the Water and Wastewater Fund.

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues - In November 2001, the City issued Water and Wastewater System Revenue Refunding Bonds, Series 2001C, in an aggregate principal amount of $95,380,000. Proceeds from the bond refunding were used to refund $49,295,000 of the City's outstanding Combined Utility System Revenue Bonds and $47,365,000 of the City's outstanding Separate Lien Obligations issued for the Water and Wastewater Utility System. The debt service requirements on the refunding bonds were $120,799,181. An economic gain of $7,971,757 was a result of this transaction. The change in net cash flows that resulted from the refunding was $8,066,956. An accounting loss of $3,196,257, which will be deferred and amortized in accordance with FASB Statement No. 71, was a result of this refunding.

In August 2002, the City issued Water and Wastewater System Revenue Refunding Bonds, Series 2002A, in an aggregate principal amount of $139,695,000. Proceeds from the bond refunding were used to refund $145,925,000 of the City's outstanding Combined Utility Systems Revenue Bonds issued for the Water and Wastewater System. The debt service requirements on the refunding bonds were $202,468,208. An economic gain of $13,532,379 was a result of this transaction. The change in net cash flows that resulted from the refunding was $13,962,491. An accounting loss of $4,839,716, which will be deferred and amortized in accordance with FASB Statement No. 71, was recognized on the refunding.

Bond ratings at September 30, 2002 were A2 (Moody's Investor Services, Inc.), A- (Standard & Poor's) and A+ (Fitch).

10 – DEBT AND NON-DEBT LIABILITIES, continued

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes the water and wastewater system original and refunding revenue bonds outstanding at September 30, 2002 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2002
2000 Refunding	June 2000	$ 100,000	$ 100,000
2001A Refunding	June 2001	152,180	152,180
2001B Refunding	June 2001	73,200	73,200
2001C Refunding	December 2001	95,380	95,380
2002A Refunding	August 2002	139,695	139,695
			$ 560,455

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. The total Airport System obligation for prior lien bonds is $370,990,000, exclusive of discount and loss on refunding, at September 30, 2002. Aggregate interest requirements for all prior lien bonds are $336,678,901 at September 30, 2002. Revenue bonds authorized and unissued amount to $735,795,000 at that date.

The following table summarizes the original and refunding revenue bonds outstanding at September 30, 2002 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2002
1989	September 1989	$ 30,000	$ 1,000
1995A	August 1995	362,205	339,860
1995B Refunding	August 1995	31,040	30,130
			$ 370,990

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, 2002, 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 $378,499, including accrued interest at September 30, 2002 and was restricted within the Airport System. During fiscal year 2002, interest rates on the notes ranged from 1.10% to 2.40%, adjusted weekly at market rates, and subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the Airport System.

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. The total Convention Center obligation for prior and subordinate lien bonds is $244,850,000, exclusive of discounts, premiums and loss on refunding, at September 30, 2002. Aggregate interest requirements for all prior and subordinate lien bonds are $216,225,017 at September 30, 2002. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2002.

The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2002 (in thousands):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2002
1993A	December 1993	$ 75,955	$ 65,720
1999 Refunding	June 1999	6,445	4,130
1999A	June 1999	25,000	25,000
1999	September 1999	110,000	110,000
1999	November 1999	40,000	40,000
			$ 244,850

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements (in thousands)

Governmental Activities

Fiscal Year Ending September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Certificates of Obligation Principal	Certificates of Obligation Interest
2003	$ 35,268	34,031	5,568	833	4,631	4,756
2004	38,515	31,945	5,802	645	4,886	4,484
2005	46,008	29,617	4,557	426	4,993	4,281
2006	46,545	27,360	3,183	257	5,133	4,056
2007	43,050	25,064	1,866	153	5,413	3,825
2008-2012	197,081	94,779	3,442	168	31,712	14,905
2013-2017	166,050	48,026	--	--	24,913	7,784
2018-2022	94,476	12,028	--	--	17,628	2,236
	666,993	302,850	24,418	2,482	99,309	46,327
Less: Unamortized bond discount	(370)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(499)	--	--	--	--	--
Add: Unamortized bond premium	5,176	--	--	--	--	--
Net debt service requirements	671,300	302,850	24,418	2,482	99,309	46,327

Fiscal Year Ending September 30	Total Governmental Debt Service Requirements Principal	Interest	Total
2003	45,467	39,620	85,087
2004	49,203	37,074	86,277
2005	55,558	34,324	89,882
2006	54,861	31,673	86,534
2007	50,329	29,042	79,371
2008-2012	232,235	109,852	342,087
2013-2017	190,963	55,810	246,773
2018-2022	112,104	14,264	126,368
	790,720	351,659	1,142,379
Less: Unamortized bond discount	(370)	--	(370)
Unamortized gain(loss) on bond refundings	(499)	--	(499)
Add: Unamortized bond premium	5,176	--	5,176
Net debt service requirements	$ 795,027	351,659	1,146,686

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Electric Business-Type Activities

Fiscal Year Ending September 30	General Obligation Bonds		Contractual Obligations		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 6	69	357	57	1,533	675
2004	4	69	386	42	1,639	567
2005	5	69	360	24	1,750	454
2006	5	68	228	10	1,871	332
2007	53	68	68	1	2,003	201
2008-2012	520	276	--	--	161	291
2013-2017	696	125	--	--	207	245
2018-2022	42	4	--	--	266	187
2023-2027	--	--	--	--	341	111
2028-2032	--	--	--	--	266	22
	1,331	748	1,399	134	10,037	3,085
Less: Unamortized bond discount	--	--	--	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	--	--	--	--	--	--
Net debt service requirements	1,331	748	1,399	134	10,037	3,085

Fiscal Year Ending September 30	Commercial Paper Notes (1)		Revenue Bonds		Total Electric Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2003	200,873	865	67,081	84,791	269,850	86,457	356,307
2004	--	--	89,430	73,580	91,459	74,258	165,717
2005	--	--	87,294	63,295	89,409	63,842	153,251
2006	--	--	79,899	58,603	82,003	59,013	141,016
2007	--	--	110,326	53,995	112,450	54,265	166,715
2008-2012	--	--	369,204	332,952	369,885	333,519	703,404
2013-2017	--	--	380,621	115,445	381,524	115,815	497,339
2018-2022	--	--	98,251	43,606	98,559	43,797	142,356
2023-2027	--	--	71,449	17,060	71,790	17,171	88,961
2028-2032	--	--	35,101	3,627	35,367	3,649	39,016
	200,873	865	1,388,656	846,954	1,602,296	851,786	2,454,082
Less: Unamortized bond discount	(364)	--	(13,051)	--	(13,415)	--	(13,415)
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--	--
Add: Unamortized bond premium	--	--	37,371	--	37,371	--	37,371
Net debt service requirements	$ 200,509	865	1,412,976	846,954	1,626,252	851,786	2,478,038

(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

e – Debt Service Requirements, continued (in thousands)

Water and Wastewater Business-Type Activities

Fiscal Year Ending September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Tax Supported Debt (1) Principal	Tax Supported Debt (1) Interest
2003	$ 1,992	598	1,532	261	1,091	1,457
2004	1,494	499	1,617	200	1,256	1,432
2005	1,770	421	1,569	134	1,095	1,223
2006	1,075	333	1,152	71	864	1,189
2007	1,095	280	516	31	642	430
2008-2012	2,871	777	515	23	2,913	1,730
2013-2017	1,177	190	--	--	4,274	846
2018-2022	181	24	--	--	621	31
2023-2027	--	--	--	--	--	--
2028-2032	--	--	--	--	--	--
	11,655	3,122	6,901	720	12,756	8,338
Less: Unamortized bond discount	(46)	--	--	--	(101)	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	398	--	--	--	107	--
Net debt service requirements	12,007	3,122	6,901	720	12,762	8,338

Fiscal Year Ending September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Commercial Paper Notes (2) Principal	Commercial Paper Notes (2) Interest	Revenue Bonds Principal	Revenue Bonds Interest
2003	900	488	157,842	675	19,745	55,640
2004	975	414	--	--	32,280	55,221
2005	1,050	334	--	--	47,430	54,077
2006	1,125	248	--	--	55,481	51,395
2007	1,225	155	--	--	59,896	48,743
2008-2012	1,325	54	--	--	225,745	278,808
2013-2017	--	--	--	--	297,722	208,407
2018-2022	--	--	--	--	166,660	171,585
2023-2027	--	--	--	--	163,520	44,983
2028-2032	--	--	--	--	84,925	10,241
	6,600	1,693	157,842	675	1,153,404	979,100
Less: Unamortized bond discount	--	--	--	--	(15,438)	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	--	--	--	--	23,353	--
Net debt service requirements	$ 6,600	1,693	157,842	675	1,161,319	979,100

(continued)

(1) Includes assumed tax and revenue bond principal of $12,636 and interest of $8,338 and $120 of Water and Wastewater notes payable.

(2) 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

e – Debt Service Requirements, continued (in thousands)

Water and Wastewater Business-Type Activities

Fiscal Year Ending September 30	Municipal Utility District Contract Revenue Bonds Principal	Interest	Total Water and Wastewater Debt Service Requirements Principal	Interest	Total
2003	$ 2,355	1,212	185,457	60,331	245,788
2004	2,455	1,086	40,077	58,852	98,929
2005	2,605	950	55,519	57,139	112,658
2006	2,645	805	62,342	54,041	116,383
2007	2,835	651	66,209	50,290	116,499
2008-2012	9,860	885	243,229	282,277	525,506
2013-2017	--	--	303,173	209,443	512,616
2018-2022	--	--	167,462	171,640	339,102
2023-2027	--	--	163,520	44,983	208,503
2028-2032	--	--	84,925	10,241	95,166
	22,755	5,589	1,371,913	999,237	2,371,150
Less: Unamortized bond discount	--	--	(15,585)	--	(15,585)
Unamortized gain(loss) on bond refundings	--	--	--	--	--
Add: Unamortized bond premium	--	--	23,858	--	23,858
Net debt service requirements	$ 22,755	5,589	1,380,186	999,237	2,379,423

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Airport Business-Type Activities

Fiscal Year Ending September 30	General Obligation Bonds		Contractual Obligations		Revenue Notes (1)	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 72	30	63	10	--	1,680
2004	53	26	68	7	--	1,680
2005	45	23	63	4	--	1,680
2006	18	21	40	2	--	1,680
2007	49	20	13	1	--	1,680
2008-2012	171	70	--	--	--	8,400
2013-2017	150	26	--	--	--	8,400
2018-2022	13	2	--	--	28,000	840
	571	218	247	24	28,000	26,040
Less: Unamortized bond discount	(1)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	28	--	--	--	--	--
Add: Unamortized bond premium	15	--	--	--	--	--
Net debt service requirements	613	218	247	24	28,000	26,040

Fiscal Year Ending September 30	Revenue Bonds		Total Airport Debt Service Requirements		
	Principal	Interest	Principal	Interest	Total
2003	5,630	22,454	5,765	24,174	29,939
2004	7,195	22,092	7,316	23,805	31,121
2005	7,650	21,653	7,758	23,360	31,118
2006	8,415	21,143	8,473	22,846	31,319
2007	9,015	20,628	9,077	22,329	31,406
2008-2012	54,255	94,439	54,426	102,909	157,335
2013-2017	75,510	74,901	75,660	83,327	158,987
2018-2022	104,440	46,808	132,453	47,650	180,103
2023-2027	98,880	12,561	98,880	12,561	111,441
	370,990	336,679	399,808	362,961	762,769
Less: Unamortized bond discount	(7,138)	--	(7,139)	--	(7,139)
Unamortized gain(loss) on bond refundings	(1,512)	--	(1,484)	--	(1,484)
Add: Unamortized bond premium	--	--	15	--	15
Net debt service requirements	$ 362,340	336,679	391,200	362,961	754,161

(1) These are variable rate notes with 6% interest.

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Nonmajor Business-Type Activities

Fiscal Year Ending September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Certificates of Obligation Principal	Certificates of Obligation Interest
2003	$ 908	548	775	96	1,694	1,745
2004	897	503	806	65	1,784	1,644
2005	859	456	530	31	1,847	1,559
2006	578	411	207	14	1,597	1,479
2007	865	381	99	8	1,682	1,410
2008-2012	4,257	1,257	173	9	9,863	5,795
2013-2017	2,267	294	--	--	10,422	3,424
2018-2022	93	12	--	--	7,891	994
2023-2027	--	--	--	--	--	--
2028-2032	--	--	--	--	--	--
	10,724	3,862	2,590	223	36,780	18,050
Less: Unamortized bond discount	(28)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(674)	--	--	--	--	--
Add: Unamortized bond premium	271	--	--	--	74	--
Net debt service requirements	10,293	3,862	2,590	223	36,854	18,050

Fiscal Year Ending September 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Nonmajor Debt Service Requirements Principal	Total Nonmajor Debt Service Requirements Interest	Total Nonmajor Debt Service Requirements Total
2003	3,255	13,466	6,632	15,855	22,487
2004	5,210	13,251	8,697	15,463	24,160
2005	6,070	12,961	9,306	15,007	24,313
2006	6,505	12,631	8,887	14,535	23,422
2007	6,330	12,300	8,976	14,099	23,075
2008-2012	36,930	56,099	51,223	63,160	114,383
2013-2017	47,990	44,728	60,679	48,446	109,125
2018-2022	50,900	30,277	58,884	31,283	90,167
2023-2027	46,585	17,356	46,585	17,356	63,941
2028-2032	35,075	3,156	35,075	3,156	38,231
	244,850	216,225	294,944	238,360	533,304
Less: Unamortized bond discount	(2,569)	--	(2,597)	--	(2,597)
Unamortized gain(loss) on bond refundings	(6,090)	--	(6,764)	--	(6,764)
Add: Unamortized bond premium	507	--	852	--	852
Net debt service requirements	$ 236,698	216,225	286,435	238,360	524,795

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Business-Type Activities

Fiscal Year Ending September 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Certificates of Obligation Principal	Certificates of Obligation Interest
2003	$ 2,978	1,245	2,727	424	1,694	1,745
2004	2,448	1,097	2,877	314	1,784	1,644
2005	2,679	969	2,522	193	1,847	1,559
2006	1,676	833	1,627	97	1,597	1,479
2007	2,062	749	696	41	1,682	1,410
2008-2012	7,819	2,380	688	32	9,863	5,795
2013-2017	4,290	635	--	--	10,422	3,424
2018-2022	329	42	--	--	7,891	994
2023-2027	--	--	--	--	--	--
2028-2032	--	--	--	--	--	--
	24,281	7,950	11,137	1,101	36,780	18,050
Less: Unamortized bond discount	(75)	--	--	--	--	--
Unamortized gain(loss) on bond refundings	(646)	--	--	--	--	--
Add: Unamortized bond premium	684	--	--	--	74	--
Net debt service requirements	24,244	7,950	11,137	1,101	36,854	18,050

Fiscal Year Ending September 30	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Revenue Notes (2) Principal	Revenue Notes (2) Interest
2003	2,433	1,163	358,715	1,540	--	1,680
2004	2,614	981	--	--	--	1,680
2005	2,800	788	--	--	--	1,680
2006	2,996	580	--	--	--	1,680
2007	3,228	356	--	--	--	1,680
2008-2012	1,486	345	--	--	--	8,400
2013-2017	207	245	--	--	--	8,400
2018-2022	266	187	--	--	28,000	840
2023-2027	341	111	--	--	--	--
2028-2032	266	22	--	--	--	--
	16,637	4,778	358,715	1,540	28,000	26,040
Less: Unamortized bond discount	--	--	(364)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	--	--	--	--	--	--
Net debt service requirements	$ 16,637	4,778	358,351	1,540	28,000	26,040

(continued)

(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 6% interest.

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

	Business-Type Activities					
Fiscal Year Ending September 30	Tax Supported Debt (3) Principal	Tax Supported Debt (3) Interest	Revenue Bonds Principal	Revenue Bonds Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest
2003	$ 1,091	1,457	95,711	176,351	2,355	1,212
2004	1,256	1,432	134,115	164,144	2,455	1,086
2005	1,095	1,223	148,444	151,986	2,605	950
2006	864	1,189	150,300	143,772	2,645	805
2007	642	430	185,567	135,666	2,835	651
2008-2012	2,913	1,730	686,134	762,298	9,860	885
2013-2017	4,274	846	801,843	443,481	--	--
2018-2022	621	31	420,251	292,276	--	--
2023-2027	--	--	380,434	91,960	--	--
2028-2032	--	--	155,101	17,024	--	--
	12,756	8,338	3,157,900	2,378,958	22,755	5,589
Less: Unamortized bond discount	(101)	--	(38,196)	--	--	--
Unamortized gain(loss) on bond refundings	--	--	(7,602)	--	--	--
Add: Unamortized bond premium	107	--	61,231	--	--	--
Net debt service requirements	12,762	8,338	3,173,333	2,378,958	22,755	5,589

Year Ending September 30	Total Business-Type Activities Debt Service Requirements Principal	Interest	Total
2003	467,704	186,817	654,521
2004	147,549	172,378	319,927
2005	161,992	159,348	321,340
2006	161,705	150,435	312,140
2007	196,712	140,983	337,695
2008-2012	718,763	781,865	1,500,628
2013-2017	821,036	457,031	1,278,067
2018-2022	457,358	294,370	751,728
2023-2027	380,775	92,071	472,846
2028-2032	155,367	17,046	172,413
	3,668,961	2,452,344	6,121,305
Less: Unamortized bond discount	(38,736)	--	(38,736)
Unamortized gain(loss) on bond refundings	(8,248)	--	(8,248)
Add: Unamortized bond premium	62,096	--	62,096
Net debt service requirements	$ 3,684,073	2,452,344	6,136,417

(3) Includes assumed tax and revenue bond principal of $12,636 and interest of $8,338 and $120 of Water and Wastewater notes payable.

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 $84.2 million is outstanding at September 30, 2002.

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 $364.4 million outstanding at September 30, 2002.

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, 2002, are as follows (in thousands):

Receivable Fund	Payable Fund	Amount Current	Amount Long-Term
Governmental funds:			
Nonmajor governmental funds	General Fund	$ 24	--
	Nonmajor governmental funds	12,875	--
	Water and Wastewater	--	1,733
	Nonmajor enterprise funds	45	639
	Internal service funds	--	107
Business-type funds:			
Water and Wastewater (restricted)	Internal service funds	27	215
Airport (restricted)	General Fund	700	2,918
	Nonmajor governmental funds	--	111
Nonmajor enterprise funds	Nonmajor governmental funds	491	24
	Nonmajor enterprise funds	1,198	--
		$ 15,360	5,747

Interfund receivables and payables reflect temporary loans between funds. Of the above current amount, $12.3 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds to cover deficit pooled investments and cash. Long-term loans are authorized by City Council action, and include a payment plan. The General Fund is repaying a loan from the Aviation fund over the next 4-6 years. The loan is repayment for Aviation and Federal Aviation Administration (FAA) funded costs at ABIA and the former Mueller Airport.

Interfund transfers during fiscal year 2002 were as follows (in thousands):

	Transfers In				
Transfers Out	General Fund	Nonmajor Governmental	Nonmajor Enterprise	Internal Service Funds	Total
General Fund	$ --	8,647	777	--	9,424
Nonmajor governmental funds	6,196	23,853	27,912	79	58,040
Electric	69,584	539	--	--	70,123
Water and Wastewater	19,340	2,704	--	--	22,044
Airport	--	50	--	--	50
Nonmajor enterprise funds	39,302	1,555	8,630	134	49,621
Internal service funds	2,662	2,446	--	180	5,288
Total transfers out	$ 137,084	39,794	37,319	393	214,590

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. The transfers above include a nonroutine transfer from the Hospital Fund of $33 million to establish a public health reserve in the General Fund.

13 – SEGMENT INFORMATION

The City has one nonmajor enterprise fund that meets the criteria established for segment information. This fund provides convention facilities and services. All other funds meeting this criteria are reported as major funds. Segment information for the year ended September 30, 2002, is as follows (in thousands):

Convention Center Fund	
Current assets	$ 15,466
Capital assets	252,068
Other assets	76,528
Total assets	344,062
Current liabilities	1,059
Bonds, restricted, and other long-term liabilities	256,910
Total liabilities	257,969
Invested in capital assets net of related debt	29,132
Restricted	28,430
Unrestricted	28,531
Total net assets	86,093
Operating revenues:	
User fees and rentals	10,376
Operating expenses	18,927
Depreciation and amortization expense	5,643
Operating loss	(14,194)
Nonoperating revenues	3,277
Nonoperating expenses	(12,005)
Transfers in	23,833
Transfers out	(75)
Change in net assets	836
Beginning net assets	85,257
Ending net assets	86,093
Net cash provided by:	
Operating activities	(8,111)
Noncapital financing activities	23,758
Capital and related financing activities	(73,225)
Investing activities	2,973
Beginning cash and cash equivalent balances	114,464
Ending cash and cash equivalent balances	$ 59,859

14 – PARTICIPATION AGREEMENTS

The City has entered into several participation agreements on joint projects. As required by generally accepted accounting principles, such agreements have been evaluated to determine if they fall within the definition of the reporting entity.

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 $23.7 and $19.3 million as of September 30, 2002 and 2001, respectively. The increase in equity indicates that the FPP is accumulating additional financial resources. 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 share 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 the Project; 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 Reliant Energy, formerly known as Houston Lighting and Power Company, 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, 2002 Austin Energy's investment in the STP was approximately $637 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 owner's committee. A member of the owner's 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 – PARTICIPATION AGREEMENTS, 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, 2002 and 2001, the City had funded its share of the estimated decommissioning liability as follows:

	2002	2001
Estimated cost to decommission STP	$221,680,682	$210,784,554
Restricted decommissioning fund assets	81,726,716	72,591,362

The City of Austin and other STP participants have provided the required information to the NRC and have been collecting decommissioning funds through rates since 1989. The City of Austin has established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal years 2002 and 2001, the City collected $4,958,221 in each year for decommissioning expenses.

d -- Sandhill Power Project

The City entered into a Participation Agreement with Enron Sandhill Limited Partnership ("Enron Sandhill") for the construction and operation of the Sandhill Energy Center in Travis County. Operational since June 2001, the plant contains four gas-turbine units and has a total output capacity of 180 megawatts. Enron Sandhill was responsible for constructing the plant, while Austin Energy is responsible for the vast majority of the construction costs and for occupying and running the plant. Enron Sandhill's interest is limited to an 8.6% ownership interest in the plant (though Austin Energy owns 100% of the land on which the plant is sited) and a right to the first 100 megawatts of output until November 3, 2003. At that time Enron's interest in the plant will terminate and Austin Energy shall acquire full ownership and control.

e -- Municipal Utility Districts

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 the Water and Wastewater Fund.

The City reports the bond proceeds as "investment in municipal utility districts" on the balance sheet of the Water and Wastewater Fund. As facilities funded by the contract revenue bonds are completed, the City's investment in municipal utility districts is reduced and plant in service is increased.

Upon annexation in December 1997 of Davenport Ranch Municipal Utility District, the City assumed a cost sharing agreement with Davenport MUD, Davenport Limited, Rivercrest Water Supply Corporation and Loop 360 Water Supply Corporation. In 2002, the City sold the water treatment plant to Loop 360 Water Supply Corporation and is no longer the owner of the water treatment plant. The City is the sole owner of water distribution facilities and storage tanks serving the former Davenport Ranch Municipal Utility District and provides direct retail utility water service to the customers residing in the former Davenport Ranch Municipal Utility District.

15 – LITIGATION

a -- Water and Wastewater Litigation

The City is involved in a number of lawsuits involving the operation of its water and wastewater system and some small lawsuits involve various property claims. The City believes these suits will not have a material effect on these financial statements.

15 – LITIGATION, continued

b -- Other 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, 2002. These liabilities include amounts for lawsuits settled subsequent to year-end, which is reported in the government-wide statement of net assets.

16 – COMMITMENTS AND CONTINGENCIES

a -- 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 September 15	May 15 and November 15
Maturity dates	September 15 1988 - 2007	November 15 1989 - 2007
Present value of lease payments	$8,670,000	$6,600,000
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.

b -- 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. In 2002, the City was required to repay HUD $1.25 million, with payments due in 2002 and 2003. At September 30, 2002, the City owed HUD $500,000, as reported in the statement of net assets.

16 – COMMITMENTS AND CONTINGENCIES, continued

c -- 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, 2002 are as follows (in thousands):

	Business-type Activities				
Governmental Activities	Electric	Water and Wastewater	Airport	Nonmajor	Total
$ 1,694	560	608	3	166	$ 1,337

d -- 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 2003 Capital Budget includes new appropriations of $369.1 million for the City's enterprise funds and $105.9 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, street and bridge reconstructions, 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	$ 116,219	59,448
Street and bridge reconstructions	85,829	37,471
Transportation improvements	282,689	152,885
Other governmental	143,290	45,601
Business-type activities:		
Electric system improvements	1,005,644	233,694
Water and wastewater system improvements and annexations	1,087,085	547,478
Airport improvements	73,723	152,287
Nonmajor enterprise	234,477	86,921
Total	$ 3,028,956	1,315,785

e -- 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 $8.6 million in fiscal year 2002 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately $5.5 million during fiscal year 2002 for providing physician services to patients in the first two programs. The amounts for MAP and Physician Services Programs will be adjusted annually for the next three years.

16 – COMMITMENTS AND CONTINGENCIES, continued

In February 2002, the City and Seton amended the lease agreement in order to increase space for obstetrical facilities at the Brackenridge campus. In addition, the lease amendment accommodates revised interpretations of certain reproductive services that are inconsistent with *the Ethical and Religious Directives for Catholic Health Care Services.* See Footnote 9 regarding the details of this amendment. The cost of the leased assets as of September 30, 2002 is as follows (in thousands):

	Cost	Accumulated Depreciation
Land and other nondepreciable assets	$ 803	--
Property, plant and equipment in service	73,990	(36,195)

f -- 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 $7.2 million reported as accrued landfill closure and postclosure costs at September 30, 2002, represents the cumulative amount reported to date based on the use of 79.2% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.9 million as the remaining estimated capacity is filled over the next ten years. The total estimated costs of $9.1 million include costs of closure in 2012 of $2.4 million and postclosure costs over the subsequent thirty years of $6.7 million. These amounts are based on what it would cost to perform all closure and postclosure care in 2002. 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.

g -- 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 18% of City employees and 37% of retirees use the HMO option; approximately 82% of City employees and 63% of retirees use the PPO, which is self-insured. Costs are charged to City funds through a charge per employee per pay period.
Liability Reserve	Self-insured. 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	Self-insured. Premiums are charged to other City funds each year based on historical costs.

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 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 2002, no claims exceeded the increased stop loss limit of $500,000. During fiscal year 2001, two claims exceeded the stop loss limit of $150,000; and four claims exceeded the stop loss limit in fiscal year 2000. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

16 – COMMITMENTS AND CONTINGENCIES, continued

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. Due to the tragic event of September 11th, significant reductions in insurance coverage have occurred. Deductibles and self-insured retention amounts have increased and terrorism and flood coverage provisions have been reduced or eliminated. 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; liabilities for the Liability Reserve Fund and Workers' Compensation 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, 2002. The possible range of loss is $33.3 to $52.6 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

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

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2002	2001	2002	2001	2002	2001
Liability balances, beginning of year	$ 4,470	3,737	12,700	12,042	6,347	6,347
Claims and changes in estimates	3,569	4,015	11,065	3,897	4,663	3,472
Claim payments	(3,421)	(3,282)	(1,866)	(3,239)	(4,146)	(3,472)
Liability balances, end of year	$ 4,618	4,470	21,899	12,700	6,864	6,347

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $5.3 million discounted at 4.87% in 2002 and $5.8 million discounted at 5.28% in 2001.

h -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Seaholm Power Plant. The financial statements include a current liability of $3.4 million at September 30, 2002. 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 2003.

The EPA previously issued an Administrative Order to the Water and Wastewater Utility. The Utility must conduct studies of its wastewater collection system, eliminate overflows by December 2007, and make necessary capital improvements to repair and/or rehabilitate collection system infrastructure. When the studies are complete, the Utility will be able to estimate the cost of the improvements. The Utility currently is complying with all requirements of the Administrative Order.

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $360 thousand in the financial statements.

i -- Downtown Development Projects

Construction of the City's new city hall has continued. The underground parking garage was completed in August 2002. Construction of the entire project is scheduled to be completed in late 2004. The estimated total cost of the project is approximately $48 million.

16 – COMMITMENTS AND CONTINGENCIES, continued

j -- Enron Bankruptcy

In 2000, the Electric Utility (Austin Energy) and an Enron affiliate, Enron Sandhill Limited Partnership, entered into a Participation Agreement for the construction and operation of a 180 megawatt (MW) power plant (the Sandhill Energy Center). Although Enron Sandhill is not in bankruptcy, its guarantor, Enron North America Corporation, is currently under Chapter 11 protection. Austin Energy suspended all transactions with Enron in early November 2001. Austin Energy believes that the Enron bankruptcy proceedings, in which Austin Energy is listed as an unsecured creditor, will not have a material adverse effect on the operation of the Sandhill Energy Center.

Austin Energy has withheld payment of funds for outstanding construction costs of the Sandhill Energy Center, which are estimated at approximately $2.2 million. Austin Energy considers these costs probable and, in accordance with generally accepted accounting principles, has accrued this amount. In addition, Austin Energy has an outstanding receivable from Enron and is currently negotiating the net amounts owed.

k -- 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, 2002 was $19.8 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements, including the certificates of participation, as lessee for financing equipment purchases for Electric and Water and Wastewater Utilities. 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 utility assets recorded at September 30, 2002, under capital lease obligations (in thousands):

		Electric	Water and Wastewater	Total
Assets				
Building	$	21,604	12,750	34,354
Accumulated depreciation		(8,029)	(3,687)	(11,716)
Net assets	$	13,575	9,063	22,638

17 – 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 two-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 two-percent administrative fee.

17 – OTHER POST-EMPLOYMENT BENEFITS, continued

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	5% - 20%	1% - 18%
5 to 9 years	14% - 28%	4% - 24%
10 to 14 years	32% - 43%	15% - 38%
15 to 20 years	50% - 58%	26% - 54%
Greater than 20 years	77% - 81%	43% - 77%

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 cost of providing these benefits for 2,135 retirees and 9,928 active employees in 2002 and 2,090 retirees and 9,713 active employees in 2001 is not separable and cannot be reasonably estimated. Total payments to the Employee Benefits Fund for retirees and active employees were $50 million in 2002 and $39 million in 2001.

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, 2001, the City's portion of this obligation, $3,151,826, is not reflected in the financial statements of the Electric Fund.

18 – SUBSEQUENT EVENTS

In January 2003, newspaper articles reported significant levels of toxic chemicals in Barton Springs pool, a local landmark, and in upstream areas. The City closed the pool for ninety days, pending further test results. Follow-up testing by the Texas Department of Health, the Texas Commission on Environmental Quality, the U.S. Environmental Protection Agency and the U.S. Agency for Toxic Substance and Disease Registry, have concluded that the health risks from these chemicals to swimmers in the pool, and to those who swim and wade in Barton Creek upstream from the swimming pool, are inconsequential. Based on extensive surface and subsurface sampling results, the City believes the source of the contamination upstream is due to material carried by runoff from an adjacent apartment parking lot. The City will continue to evaluate the issue and determine future actions to be taken.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

The following constitutes a summary of certain portions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

Selected Definitions

"Additional Prior Lien Bonds" shall mean the additional parity revenue bonds permitted to be issued by the City pursuant to the Ordinance.

"Airport" shall mean the air carrier airport developed, constructed and operated by the City pursuant to the city-wide election held within the City on May 1, 1993, and designated as the Austin-Bergstrom International Airport (ABIA).

"Airport Consultant" shall mean a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation and financing of airports of approximately the same size as the properties constituting the Airport System.

"Airport Obligations" shall mean the Prior Lien Bonds, the Revenue Bonds and the Subordinate Obligations.

"Airport System" shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, including the Airport, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding (i) any heliport or heliports operated by City Departments other than the Aviation Department and (ii) the Mueller Airport Property.

"Aviation Director" shall mean the Executive Director of the City's Department of Aviation, or any successor or person acting in such capacity.

"Bond Insurance Policy" shall mean the municipal bond insurance policy issued by the Bond Insurer insuring the payment, when due, of the principal of and interest on the Bonds.

"Bond Insurer" shall mean MBIA Insurance Corporation.

"Bonds" shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Refunding Bonds authorized by the Ordinance.

"Capital Fund" shall mean the fund so designated in the Ordinance.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Completion Bonds" shall mean each series of Prior Lien Bonds permitted to be issued as completion bonds by the City pursuant to Section 6.02 of the Ordinance.

"Construction Fund" shall mean the fund so designated in the Ordinance.

"Debt Service Fund" shall mean the fund so designated in the Ordinance.

"Debt Service Requirements" shall mean, for any particular period of time, an amount equal to the sum of the following for such period with respect to all or any portion of Prior Lien Bonds then Outstanding:

A. That portion of interest which would accrue during such period if interest were deemed to accrue only during the 6 month period prior to its payment (12 month period in the case of capital appreciation or compound interest bonds), plus

B. That portion of the principal amount of such Prior Lien Bonds which would accrue during such period if principal was deemed to accrue only during the 12 month period prior to its scheduled payment date (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Prior Lien Bond redemptions);

less and except any such interest or principal for the payment of which provision has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, from interest earned or to be earned thereon, from Airport System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated fund or account, the proceeds of which are required to be transferred as needed into the Debt Service Fund or directly to the paying agent for such Prior Lien Bonds.

"Debt Service Reserve Fund" shall mean the fund so designated in the Ordinance.

"Debt Service Reserve Fund Requirement" shall mean the amount required to be maintained in the Debt Service Reserve Fund. Such amount shall be computed and recomputed annually as a part of the City's budget process and upon the issuance of each series of Prior Lien Bonds to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Prior Lien Bonds then Outstanding including the series of Prior Lien Bonds then being issued. In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Prior Lien Bonds or Additional Prior Lien Bonds, in accordance with section 1.148-6 of the regulations promulgated under the Code, exceed the least of (a) 10% of the stated principal amount of each issue of which such Prior Lien Bonds or Additional Prior Lien Bonds are a part, (b) the maximum annual principal and interest requirements of such issue or (c) 125% of the average annual principal and interest requirements of such issue, unless there is received an opinion of nationally recognized bond counsel to the effect that such additional amount will not cause the Prior Lien Bonds and any Additional Prior Lien Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code and the regulations promulgated from time to time thereunder.

"Debt Service Reserve Fund Surety Bond" shall mean any surety bond or insurance policy having a rating in the highest respective rating categories by Moody's and Standard & Poor's issued to the City for the benefit of the Owners of the Prior Lien Bonds to satisfy any part of the Debt Service Reserve Fund Requirement as provided in the Ordinance.

"Federal Payments" shall mean those funds received by the Airport System from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport System.

"Fiscal Year" shall mean the City's fiscal year as from time to time designated by the City, which is currently October 1 to September 30.

"General Obligation Airport Bonds" shall mean those bonds or other obligations of the City secured by a levy of ad valorem taxes from time to time issued or to be issued by the City for Airport System purposes.

"Gross Revenues" shall mean all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts required to be transferred or credited to the Revenue Fund. Gross Revenues expressly exclude:

(a) proceeds of any Airport Obligations;

(b) <u>interest or other investment income derived from Airport Obligation proceeds deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund;</u>

(c) <u>any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;</u>

(d) <u>any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;</u>

(e) <u>insurance proceeds other than loss of use or business interruption insurance proceeds;</u>

(f) <u>the proceeds of the passenger facility charge currently imposed by the City and any other per-passenger charge as may be hereafter lawfully authorized;</u>

(g) <u>sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;</u>

(h) <u>Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;</u>

(i) <u>the proceeds received by the City from the sale or other disposition of</u> Airport System property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges shall be considered Gross Revenues; and

(j) Other Available Funds transferred to the Revenue Fund as provided in the <u>Ordinance</u>.

"Minimum Capital Reserve" shall mean an amount, designated by the Aviation Director not less frequently than annually at the end of each Fiscal Year, but in any event not more than $100,000 each Fiscal Year, necessary to accumulate or to reaccumulate in the Capital Fund a reserve in an amount not less than $1,000,000.

“Moody’s” shall mean Moody’s Investors Service, Inc., its successors and assigns, and if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

"Mueller Airport Property" shall mean the property and facilities that comprised the former Robert Mueller Municipal Airport, located within the City. The Mueller Airport Property is not part of the Airport System.

"Net Revenues" shall mean that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Airport System.

"Operation and Maintenance Expenses" shall mean all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund; any general and excise taxes or other governmental charges imposed by entities other than the City; any required rebate of any portion of interest income to the federal government which is payable from Gross Revenues or the Revenue Fund; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Airport Obligations for the Airport System (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but excluding:

(a) any allowance for depreciation;

(b) costs of capital improvements;

(c) reserves for major capital improvements, Airport System operations, maintenance or repair;

(d) any allowance for redemption of, or payment of interest or premium on, Airport Obligations;

(e) any liabilities incurred in acquiring or improving properties of the Airport System;

(f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;

(g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Capital Fund;

(h) liabilities based upon the City's negligence or other ground not based on contract; and

(i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

"Operation and Maintenance Reserve Fund" shall mean the fund so designated and created within the Revenue Fund in the Ordinance.

"Other Available Funds" shall mean any amount of unencumbered funds accumulated in the Capital Fund in excess of the Minimum Capital Reserve which, prior to the beginning of any Fiscal Year, are designated by the City as Other Available Funds and transferred at the beginning of such Fiscal Year to the Revenue Fund, but in no event may such amount exceed twenty-five percent (25%) of the Debt Service Requirements for the Prior Lien Bonds for such Fiscal Year for purposes of Sections 5.03 (Rate Covenant) and 6.01 (Additional Prior Lien Bonds) of the Ordinance.

"Outstanding" when used with reference to any Airport Obligations shall mean, as of a particular date, all those obligations theretofore and thereupon delivered except: (a) any such obligation paid, discharged or cancelled by or on behalf of the City at or before said date; (b) any such obligation defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such obligation in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinance authorizing the issuance of such obligation.

"Owner" or "Registered Owner"," when used with respect to any Prior Lien Bond shall mean the person or entity in whose name such Prior Lien Bond is registered in the registration books kept by the Paying Agent/Registrar. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Prior Lien Bonds then Outstanding under the Ordinance.

"Paying Agent/Registrar" shall mean, for the Bonds, Deutsche Bank Trust Company Americas, New York, New York, and its successors in that capacity.

"Prior Lien Bonds" shall mean the Series 1989 Bonds, the Series 1995A Bonds, the Series 1995B Bonds, the Bonds and each series of Additional Prior Lien Bonds and Completion Bonds from time to time hereafter issued.

"Qualified Put" shall mean any agreement, however denominated, provided by a qualifying financial institution (as described in the following sentence) which contractually commits to purchase, upon no more than seven days' notice, for not less than a stated price any class or amount of investment securities or other authorized investments of the City at any time that such investment securities or investments must be liquidated in order to make cash transfers from the fund or account that holds such investments. A Qualified Put may be entered into only with a financial institution which (a) is a domestic bank the long-term debt of which is rated at least "AA" by Standard & Poor's and "Aa" by Moody's , or (b) a foreign bank the long-term debt of which is rated "AAA" by Standard & Poor's and at least "Aa" by Moody's , or at least "AA" by Standard & Poor's and "Aaa" by Moody's , or (c) a financial institution the long-term debt of which is rated at least "A" by both Standard & Poor's and Moody's and agrees to collateralize its obligations under such agreement by lodging with a third party trustee, escrow agent, custodian or other financial third party direct obligations of the United States of America or its agencies with a market value equal to 102% of the difference between the face amount of its purchase obligation under the agreement and the market value of the investment securities to which the agreement relates (based upon periodic market valuations at least monthly), or (d) a financial institution approved by any bond insurer then insuring a series of Prior Lien Bonds. A Qualified Put may be integrated into any investment authorized under Texas law, such as a repurchase agreement.

"Renewal and Replacement Fund" shall mean the fund so designated in the Ordinance.

"Renewal and Replacement Fund Requirement" shall mean the amount required to be maintained in the Renewal and Replacement Fund pursuant to the Ordinance, or any greater amount required by any ordinance authorizing any series of Additional Prior Lien Bonds.

"Revenue Bonds" shall mean each series of bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance, payable from and secured by a lien on and pledge of Net Revenues junior and subordinate to the lien and pledge securing the Prior Lien Bonds.

"Revenue Fund" shall mean the fund so designated in the Ordinance.

"Series 1989 Bonds" shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Bonds, Series 1989.

"Series 1995A Bonds" shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Bonds, Series 1995A.

"Series 1995B Bonds" shall mean the City of Austin, Texas, Airport System Prior Lien Revenue Refunding Bonds, Series 1995B, authorized by the City pursuant to an ordinance, for the purpose of refunding a portion of the Series 1989 Bonds.

"Special Facilities" shall mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, inflight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

"Special Facilities Bonds" shall mean those bonds from time to time hereafter issued by the City pursuant to the appropriate provisions of the Ordinance.

"Special Facilities Lease" shall mean any lease or agreement, howsoever denominated, pursuant to which a Special Facility is leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facility.

“Standard & Poor’s” shall mean Standard & Poor Ratings Services, A Division of The McGraw-Hill Companies, Inc., its successors and assigns, and if such entity shall for any reason no longer perform the functions of a securities rating agency, “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

"Subordinate Obligations" shall mean each series of bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, which the City has reserved the right to issue or incur from time to time pursuant to the Ordinance as Subordinate Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Prior Lien Bonds and the Revenue Bonds.

Funds and Flow of Funds

Funds. The Ordinance creates the Revenue Fund, including the Operation and Maintenance Reserve Fund therein, the Debt Service Fund, the Debt Service Reserve Fund, the Renewal and Replacement Fund, the Capital Fund including the Capital Improvement Account therein, and the Construction Fund. The City may create additional accounts and subaccounts in any of the funds, including accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, so long as they are not inconsistent with the Ordinance.

The Revenue Fund, including the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund, the Capital Fund and the Construction Fund (other than any Capitalized Interest Accounts therein) shall be maintained as separate funds or accounts on the books of the City and all amounts credited to such Funds and Accounts shall be maintained in an official depository bank of the City. The Debt Service Fund, the Debt Service Reserve Fund and all Capitalized Interest Accounts established in the Construction Fund for Prior Lien Bonds shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City. The Debt Service Fund and the Debt Service Reserve Fund shall constitute trust funds which shall be held in trust for the owners of the Prior Lien Bonds and the proceeds of which shall be pledged, as provided in the Ordinance, to the payment of the Prior Lien Bonds.

Flow of Funds. Gross Revenues shall be deposited as received into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments not restricted for capital purposes, provided that, so long as such Federal Payments are excluded from the definition of Gross Revenues, such Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses or capital expenditures and never constitute Net Revenues. Other Available Funds may also be deposited into the Revenue Fund. Moneys from time to time credited to the Revenue Fund shall be applied as follows in the following order of priority:

(a) First, to provide for all payments of Operation and Maintenance Expenses required by the Ordinance and by any ordinance authorizing the issuance of Additional Prior Lien Bonds.

(b) Second, to transfer all amounts to the Debt Service Fund required by the Ordinance and any ordinance authorizing the issuance of Additional Prior Lien Bonds.

(c) Third, to transfer all amounts to the Debt Service Reserve Fund required by the Ordinance and any ordinance authorizing the issuance of Additional Prior Lien Bonds.

(d) Fourth, to transfer all amounts necessary to provide for the payment of Revenue Bonds, or to provide reserves for such payment, as may be required by any ordinance authorizing such Revenue Bonds.

(e) Fifth, to transfer all amounts necessary to provide for the payment of Subordinate Obligations, or to provide reserves for such payment, as may be required by any ordinance authorizing such Subordinate Obligations.

(f) Sixth, to transfer all amounts necessary to provide for the payment of principal of and interest on General Obligation Airport Bonds.

(g) Seventh, to transfer all amounts to the Operation and Maintenance Reserve Fund required by the Ordinance and any other ordinance authorizing Additional Prior Lien Bonds.

(h) Eighth, to transfer all amounts to the Renewal and Replacement Fund required by the Ordinance and any other ordinance authorizing Additional Prior Lien Bonds or other Airport Obligations.

(i) Ninth, the balance shall be transferred to the Capital Fund.

Debt Service Fund. On or before the last business day of each month so long as any Prior Lien Bonds remain Outstanding, after making all required payments of Operation and Maintenance Expenses, there shall be transferred into the Debt Service Fund from the Revenue Fund such amounts as shall be necessary so that the balance in the Debt Service Fund equals the Debt Service Requirements on all Prior Lien Bonds accrued to the end of the current month plus such amounts as shall be necessary to enable the City to pay or cause to be paid when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Prior Lien Bonds in accordance with their terms, including without limitation, all fees charged or incurred in connection with paying agent, registrar or trustee services incurred in connection with Prior Lien Bonds.

Moneys credited to the Debt Service Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Prior Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Prior Lien Bonds, plus all bank charges and other costs and expenses relating to such payment, including those described above. On or before each principal and/or interest payment date on the Prior Lien Bonds, the City shall transfer from the Debt Service Fund to the appropriate paying agent/registrar or other obligee amounts equal to the principal, interest and redemption premiums payable on the Prior Lien Bonds on such date.

Debt Service Reserve Fund. The City shall establish and maintain a balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement for the Prior Lien Bonds. Each increase in the Debt Service Reserve Fund Requirement resulting from the issuance of Additional Prior Lien Bonds shall be funded at the time of issuance and delivery of such series of Additional Prior Lien Bonds by depositing to the credit of the Debt Service Reserve Fund either (A) proceeds of such Additional Prior Lien Bonds and/or other lawfully appropriated funds in not less than the amount which will be sufficient to fund fully the Debt Service Reserve Fund Requirement or (B) a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Debt Service Reserve Fund Requirement. The City further expressly reserves the right to substitute at any time a Debt Service Reserve Fund Surety Bond for any funded amounts in the Debt Service Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related Prior Lien Bonds were issued or to pay debt service on the related Airport Obligations. The City shall not employ any Debt Service Reserve Fund Surety Bond unless (i) the City officially finds that the purchase of such Debt Service Reserve Fund Surety Bond is cost effective, (ii) the Debt Service Reserve Fund Surety Bond does not impose upon the City a repayment obligation (in the event the Debt Service Reserve Fund Surety Bond is drawn upon) greater than can be funded in eighteen (18) monthly installments as provided below, payable out of Net Revenues on a parity with the monthly deposits that are otherwise required to be made to the Debt Service Reserve Fund, and (iii) that any interest due in connection with such repayment obligations does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Debt Service Reserve Fund Surety Bond.

In any month in which the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement for the Prior Lien Bonds or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the last business day of such month, after making all required transfers to the Debt Service Fund, there shall be transferred into the Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to enable the City within an eighteen (18) month period to reestablish in the Debt Service Reserve Fund the Debt Service Reserve Fund Requirement for the Prior Lien Bonds and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond. After such amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond issuer and so long thereafter as such Fund contains such amount and all such repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such Fund shall be transferred to the Revenue Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below such amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, monthly transfers to the Debt Service Reserve Fund shall be resumed and continued in such amounts as shall be required to restore the Debt Service Reserve Fund to such amount and to pay such reimbursement obligations within an eighteen (18) month period.

The Debt Service Reserve Fund shall be used to pay the principal of and interest on the Prior Lien Bonds at any time when there is not sufficient money available in the Debt Service Fund for such purpose, and to make any payments required to satisfy repayment obligations to issuers of Debt Service Reserve Fund Surety Bonds, and may be used to make the final payments for the retirement or defeasance of Prior Lien Bonds.

Funds and Accounts for Revenue Bonds. On or before the last business day of each month, after making all required transfers to the Debt Service Fund and the Debt Service Reserve Fund, there shall be transferred into such funds and accounts as shall be established for such purpose pursuant to the ordinances authorizing the issuance or incurrence of Revenue Bonds, such amounts as shall be required pursuant to such ordinances to provide for the payment, or to provide reserves for the payment, of the Revenue Bonds, including all principal and interest and costs of paying same.

Funds and Accounts for Subordinate Obligations. On or before the last business day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and all of the foregoing transfers required in connection with Revenue Bonds, there shall be transferred into such funds and accounts as shall be established for such purpose pursuant to the ordinances authorizing the issuance or incurrence of any Subordinate Obligations, such amounts as shall be required pursuant to such ordinances to provide for the payment, or to provide reserves for the payment, of the Subordinate Obligations, including all principal and interest and costs of paying same.

General Obligation Airport Bonds. On or before the last business day of each month, so long as any General Obligation Airport Bonds remain outstanding, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and any of the aforesaid funds and accounts established by ordinances authorizing the issuance of Revenue Bonds and Subordinate Obligations, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, such amounts as shall be necessary to provide for the payment, when due, of principal of and interest on General Obligation Airport Bonds.

Operation and Maintenance Reserve Fund. The City shall fund and maintain a balance of money and investments in the Operation and Maintenance Reserve Fund at least equal to two (2) months current Operation and Maintenance Expenses, which amount shall annually be redetermined by the Aviation Director at the time he submits his recommended budget for the Airport System based upon either his recommended budget for Operation and Maintenance Expenses or his estimate of actual Operation and Maintenance Expenses for the then current Fiscal Year. On or before the last business day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, and any required transfers for Revenue Bonds, Subordinate Obligations or General Obligation Airport Bonds as hereinabove provided, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, to the Operation and Maintenance Reserve Fund an amount equal to one-twelfth (1/12th) of the deficiency, if any, therein as of the last day of the previous Fiscal Year until the required balance therein is established or reestablished. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Operation and Maintenance Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund, the Debt Service Reserve Fund or any similar fund created to provide for the payment, and reserves for the payment, of Revenue Bonds, Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency therein.

Renewal and Replacement Fund. The City has established the Renewal and Replacement Fund Requirement to be $5,000,000. On or before the last business day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, and any required transfers for Revenue Bonds, Subordinate Obligations or General Obligation Airport Bonds as hereinabove provided, and to the Operation and Maintenance Reserve Fund, there shall be transferred from the Revenue Fund, to the extent funds are available therein, to the Renewal and Replacement Fund an amount equal to one-twelfth (1/12th) of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. Such transfers shall be required to be made into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time first, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Operation and Maintenance Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund, the Debt Service Reserve Fund or any similar fund created to provide for the payment, and reserves for the payment, of Revenue Bonds, Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency therein.

Capital Fund. After making all payments and transfers hereinabove required, not less frequently than annually all amounts remaining in the Revenue Fund shall be transferred to the Capital Fund; provided, however, that no transfers shall be made to the Capital Fund unless the Debt Service Reserve Fund contains the Debt Service Reserve Fund Requirement. Unless otherwise provided by subsequent ordinance, all such amounts shall be credited to the Capital Improvement Account. Amounts credited to the Capital Improvement Account may be used only for lawful purposes relating to the Airport System, including without limitation, to pay for any capital expenditures or to pay costs of replacing any depreciable property or equipment of the Airport System, to make any major or extraordinary repairs, replacements or renewals of the Airport System, to acquire land or any interest therein, to pay costs necessary or incident to the closing or disposition of any facility of the Airport System and, at the City's discretion, to be designated as Other Available Funds to be transferred to the Revenue Fund.

Construction Fund. From the proceeds of each series of Prior Lien Bonds (other than the Bonds or any other refunding bonds) there shall be deposited into the Capitalized Interest Account established in the Construction Fund for such series the amount of capitalized interest required by the ordinance authorizing issuance of such series of Prior Lien Bonds. Such amounts may be applied to pay interest on such series of Prior Lien Bonds as provided in such ordinance.

From the proceeds of each series of Prior Lien Bonds (other than the Bonds or any other refunding bonds) there shall be deposited into the applicable Project Account established in the Construction Fund such amounts as shall be provided in the ordinance authorizing such series of Prior Lien Bonds. Such amounts may be applied to pay costs of establishing, improving, enlarging, extending and repairing the Airport System or any project to become part of the Airport System, to reimburse advances made by the City for such costs, to pay costs of issuance of Prior Lien Bonds and to pay any other capital costs of the Airport System as provided in the ordinance authorizing such series of Prior Lien Bonds.

Mueller Airport Disposition Fund. In connection with the issuance of the Series 1995A Bonds and the Series 1995B Bonds the City established the Mueller Disposition Fund for the purpose of paying or reimbursing costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport for aviation purposes and the disposition of the Mueller Airport Property. Subsequent to the issuance of the Series 1995A Bonds and the Series 1995B Bonds and the opening of the Airport, the Robert Mueller Municipal Airport was closed for aviation purposes and the Mueller Airport Property was transferred out of the Airport System and is no longer part of the Airport System. In connection with the transfer of the Mueller Airport Property, the City deposited certain funds into the Mueller Disposition Fund. Such funds, together with any other amounts deposited into the Mueller Disposition Fund, may be used for the payment or reimbursement of all costs and expenses incurred by the City necessary or incident to the closing of Robert Mueller Municipal Airport to aviation purposes and the disposition of the Mueller Airport Property. Any amounts thereafter remaining, if any, will be transferred to the City’s aviation department. .

Investment of Funds; Transfer of Investment Income. Money in all Funds and Accounts shall, at the option of the City, be invested in the manner provided by Texas law; provided, that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. Moneys in such Funds and Accounts may be subjected to further investment restrictions imposed from time to time by ordinances authorizing the issuance of Additional Prior Lien Bonds, Revenue Bonds and Subordinate Obligations. All such investments shall be valued no less frequently than once per Fiscal Year at market value, except that (i) any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount, and (ii) any investments which are subject to a Qualified Put may continuously be valued at the amount at which they can be put or sold under the terms of such Qualified Put. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law, which shall not be deemed to be a loss of the segregation of such money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to any of the following funds and accounts shall be applied as follows, except as provided in the following paragraph.

Source of Interest or Income	Fund or Account to which such Interest or Income should be Credited
Revenue Fund	Remains in Revenue Fund
Debt Service Fund	Revenue Fund
Debt Service Reserve Fund	Remains in fund until the Debt Service Reserve Fund Requirement is satisfied; thereafter to the Revenue Fund
Operation and Maintenance Reserve Fund	Remains in fund until fully funded; thereafter, to the Revenue Fund
Renewal and Replacement Fund	Remains in fund until Renewal and Replacement Fund Requirement is met; thereafter, to the Revenue Fund
Capital Fund - Capital Improvement Account	Remains in the fund or in the appropriate fund or account therein

Any interest and income derived from deposits and investments of any amounts credited to any fund or account may be (i) transferred into any rebate account or subaccount and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in the Ordinance or required in order to prevent interest on any bonds payable from Net Revenues from being includable within the gross income of the Owners thereof for federal income tax purposes.

So long as any Prior Lien Bonds remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the Debt Service Fund and the Debt Service Reserve Fund shall be secured by the pledge of security, as provided by Texas law.

Additional Bonds

Additional Prior Lien Bonds. The City reserves the right to issue, for any lawful Airport System purpose, one or more installments of Additional Prior Lien Bonds payable from and secured on a parity with the Outstanding Prior Lien Bonds; provided, however, that no such Additional Prior Lien Bonds shall be issued unless:

(a) No Default. The City Manager and the Aviation Director certify that, upon the issuance of such Additional Prior Lien Bonds, the City will not be in default under any term or provision of any Prior Lien Bonds then Outstanding or any ordinance pursuant to which any of such Prior Lien Bonds were issued.

(b) Proper Fund Balances. The City's Director of Financial Services or trustee, if one has been appointed, shall certify that, upon the issuance of such Additional Prior Lien Bonds, the Debt Service Fund will have the required amounts on deposit therein and that the Debt Service Reserve Fund will contain the applicable Debt Service Reserve Fund Requirement or so much thereof as is required to be funded at such time.

(c) Projected Coverage for Additional Prior Lien Bonds. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport System for each of three (3) consecutive Fiscal Years beginning in the earlier of

(i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Prior Lien Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Prior Lien Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Prior Lien Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least 125% of the Debt Service Requirements on all Prior Lien Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Prior Lien Bonds to be issued.

(d) Alternate Coverage for Additional Prior Lien Bonds. In lieu of the certification described in (c) above, the City's Director of Financial Services may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport System were equal to at least 125% of the maximum Debt Service Requirements on all Prior Lien Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Prior Lien Bonds proposed to be issued.

(e) Refunding Bonds. If Additional Prior Lien Bonds are being issued for the purpose of refunding less than all previously issued Prior Lien Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the maximum annual Debt Service Requirements in any Fiscal Year after the issuance of such Additional Prior Lien Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of Additional Prior Lien Bonds.

(f) Bond Ordinance Requirements. Provision is made in the bond ordinance authorizing the Additional Prior Lien Bonds proposed to be issued for (1) additional payments into the Debt Service Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the Additional Prior Lien Bonds including, in the event that interest on the additional series of Prior Lien Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Prior Lien Bonds during the period specified in the ordinance, and (2) satisfaction of the Debt Service Reserve Fund Requirement by not later than the date required by the Ordinance or any other ordinance authorizing Additional Prior Lien Bonds.

(g) Special Provisions for Completion Bonds. The provisions of paragraphs (c) and (d) above shall not apply to the issuance of Completion Bonds in accordance with the provisions of the Ordinance.

Completion Bonds. The City reserves the right to issue one or more series of Prior Lien Bonds to pay the cost of completing any Project for which Prior Lien Bonds have previously been issued.

Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required above for the issuance of Additional Prior Lien Bonds, the following documents:

(a) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that such Project has not materially changed in scope since the issuance of the most recent series of Prior Lien Bonds for such purpose (except as permitted in the applicable ordinance authorizing such Prior Lien Bonds) and setting forth the aggregate cost of the Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(b) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Project from the proceeds of the most recent series of Prior Lien Bonds issued in connection with the Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Project; (ii) containing a calculation of the amount by which the aggregate cost of that Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Project paid to such date plus the moneys available at such date within any construction fund or other like account applicable to the Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and (iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Project.

For purposes of this Section, the term "Project" shall mean the Airport or any other Airport System facility or project which shall be defined as a Project in any ordinance authorizing the issuance of Additional Prior Lien Bonds for the purpose of financing such Project. Any such ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Project.

Revenue Bonds. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Prior Lien Bonds.

Subordinate Obligations. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the Prior Lien Bonds and Revenue Bonds.

Special Facilities Bonds. The City reserves the right in the Ordinance to issue from time to time, in one or more series, Special Facilities Bonds to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by lessees under Special Facilities Leases and/or other security not provided by the City. In no event shall Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Prior Lien Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds.

Credit Agreements. To the fullest extent permitted by applicable law, the City expressly reserves the right to purchase and/or enter into, in connection with any Prior Lien Bonds (and particularly in connection with the Bonds), Revenue Bonds and Subordinate Obligations, credit agreements, insurance contracts, letters of credit, lines of credit, standby bond purchase agreements, loan agreements, purchase or sale agreements, interest rate swap agreements, interest rate caps, collars or other hedging agreements, provided that any reimbursement, repayment or payment obligation incurred by the City in connection therewith can only be secured by and payable from Net Revenues and the various funds and accounts established or referred to in the Ordinance to the extent permitted by the Ordinance and any of the City's other ordinances authorizing Prior Lien Bonds, Revenue Bonds and Subordinate Obligations.

Particular Covenants

Annual Budget. So long as any Prior Lien Bonds remain Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and delivery to the chief budget officer of the City, for submission to the City Council, a recommended annual budget for the Airport System for such Fiscal Year. The City shall adopt annual budgets for the Airport System for each Fiscal Year, each of which shall contain an estimate of Gross Revenues and only such budgeted expenditures as will produce Net Revenues in an amount not less than the Net Revenues necessary to comply with the rate covenant set forth in the Ordinance. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for such purposes by such budget, as it may from time to time be amended.

Rate Covenant. The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will be at least sufficient to equal the larger of either:

(i) all amounts required to be deposited in such Fiscal Year to the credit of the Debt Service Fund and the Debt Service Reserve Fund, and to pay any Debt Service Requirements in such Fiscal Year on Revenue Bonds and Subordinate Obligations, or

(ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for the Prior Lien Bonds for such Fiscal Year.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Consultant shall be filed with the City Clerk. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long as principal of and interest on Prior Lien Bonds are paid when due.

Sale or Encumbrance of Airport System. Except for the use of the Airport System or services pertaining thereto in the normal course of business, the City covenants that neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Prior Lien Bonds have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities thereat, except for any pledges of and liens on revenues derived from the operation and use of the Airport System, or any part thereof, or any Special Facilities pertaining thereto, for the payment of Prior Lien Bonds, Special Facilities Bonds and any other obligations pertaining to the Airport System, and except as otherwise provided in the next two paragraphs.

The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, shall be paid into the Capital Fund - Capital Improvement Account or shall be applied to retire or pay principal of or interest on Airport Obligations.

Nothing herein prevents any transfer of all or a substantial part of the Airport System to another body corporate and politic (including, but not necessarily limited to a joint action agency or an airport authority) which assumes the City's obligations under the Ordinance and in any ordinance authorizing the issuance of Prior Lien Bonds, wholly or in part, if, (i) in the written opinion of the Airport Consultant, the ability to meet the rate covenant and other covenants under the Ordinance and in any ordinance authorizing the issuance of Prior Lien Bonds, are not materially and adversely affected and (ii) in the written opinion of nationally recognized bond counsel, such transfer and assumption will not cause the interest on any Outstanding Prior Lien Bonds that were issued as "tax-exempt bonds" within the meaning of the regulations promulgated under the Code to be includable in gross income of the Owners thereof for federal income tax purposes. In such event, following such transfer and assumption, all references to the City, any City officials, City ordinances, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of such entity. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Consultant, such retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the rate covenant and the other covenants of the Ordinance and in any ordinance authorizing the issuance of Prior Lien Bonds.

Insurance. The City covenants and agrees that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available; provided, however, that if any such insurance is not commercially available or not available on more favorable economic terms, the City may elect to be self insured in whole or in part against the risk or loss that would otherwise be covered by such insurance, in which case the City will establish reserves for such risk or loss in amounts the City determines to be appropriate. All net proceeds of property or casualty insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Airport Obligations. Proceeds of business interruption insurance may be credited to the Revenue Fund.

Accounts, Records, and Audits. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport System. The City shall, after the close of each of its Fiscal Years, cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants, which may be part of an overall audit report of the City and/or other of its enterprise funds. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

Bondholders' Remedies. The Ordinance shall constitute a contract between the City and the Owners of the Prior Lien Bonds from time to time outstanding and the Ordinance shall be and remain irrepealable until the Prior Lien Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided in the Ordinance. In the event of a default in the payment of the principal of or interest on any of the Prior Lien Bonds or a default in the performance of any duty or covenant provided by law or in the Ordinance, the Owner or Owners of any of the Prior Lien Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Prior Lien Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Ordinance, including the making of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues into the special funds herein provided, and the application of such Gross Revenues in the manner required in the Ordinance.

Legal Holidays. In any case where the date of maturity of interest on or principal of the Prior Lien Bonds or the date fixed for redemption of any Prior Lien Bonds shall be a day on which a paying agent for the Prior Lien Bonds is authorized by law to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding day on which such paying agent is not authorized by law to close with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

Discharge By Deposit

The City may discharge its obligation to the Owners of any or all of the Prior Lien Bonds to pay principal, interest and redemption premium (if any) thereon, or any portion thereof, by depositing with the Paying Agent/Registrar cash in an amount equal to the principal, redemption premium, if any, of such Prior Lien Bonds plus interest thereon to the date of maturity or redemption, or any portion thereof to be discharged, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of $100,000,000, pursuant to an escrow or trust agreement, cash and/or direct obligations of, or obligations the principal and interest of which are guaranteed by the United States of America in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Prior Lien Bonds plus interest thereon to the date of maturity or redemption or any portion thereof to be discharged. Upon such deposit, such Prior Lien Bonds, or any portion of principal of or interest thereon, shall no longer be regarded to be Outstanding or unpaid. In case any Prior Lien Bonds are to be redeemed on any date prior to their maturity, the City shall give to the Paying Agent/Registrar irrevocable instructions to give notice of redemption of Prior Lien Bonds to be so redeemed in the manner required in the ordinance or ordinances authorizing such Prior Lien Bonds. For any Prior Lien Bonds not to be redeemed or paid in full within the next succeeding year from the date of deposit provided for in the Ordinance, the City shall give the Paying Agent/Registrar in form satisfactory to it irrevocable instructions to mail, by certified mail, a notice to the Registered Owner of each such Prior Lien Bond that the deposit required by the Ordinance has been made and that said Prior Lien Bonds are deemed paid in accordance with the Ordinance and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount and redemption premium if any on such Prior Lien Bonds plus interest thereon to the date of maturity or redemption. Any failure, error or delay in giving such notices shall not affect the defeasance of such Prior Lien Bonds.

Amendments

Alteration of Rights and Duties. The rights, duties, and obligations of the City and the Owners of the Prior Lien Bonds are subject in all respects to all applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended.

Amendment of Ordinance Without Consent. The City may, without the consent of or notice to any of the Owners of the Prior Lien Bonds, amend the Ordinance for any one or more of the following purposes:

(a) to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the Prior Lien Bonds; or to comply with any applicable provision of law or regulation of Federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Prior Lien Bonds;

(b) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Prior Lien Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes;

(c) to grant to or confer upon the Owners of the Prior Lien Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Prior Lien Bonds;

(d) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance;

(e) to amend any provisions of the Ordinance relating to the issuance of Revenue Bonds and Subordinate Obligations or the incurrence of and security for reimbursement obligations in connection therewith so long as to do so does not cause any reduction in any rating assigned to the Prior Lien Bonds by any major municipal securities evaluation service then rating the Prior Lien Bonds;

(f) to subject to the lien and pledge of the Ordinance additional Net Revenues which may include revenues, properties or other collateral;

(g) to amend the undertaking relating to continuing disclosure of information in Article Thirteen of the Ordinance to the extent permitted in such Article; and

(h) to amend the provisions relating to bond insurance in Article Twelve of the Ordinance to the extent permitted in such Article.

Amendments of Ordinance Requiring Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of the Ordinance but, if such amendment is not of the character described above, only with the consent of the Owner or Owners given in accordance with the Ordinance of not less than 66-2/3% of the aggregate unpaid principal amount of the Prior Lien Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this paragraph shall permit (a) an extension of the maturity of the principal of or interest on any Prior Lien Bond issued hereunder, or (b) a reduction in the principal amount of any Prior Lien Bond or the rate of interest on any Prior Lien Bond, or (c) a privilege or priority of any Prior Lien Bond or Prior Lien Bonds over any other Prior Lien Bond or Prior Lien Bonds, or (d) a reduction in the percentage of aggregate principal amount of the Prior Lien Bonds required for consent to such amendment.

Consent of Owners. Any consent required by the preceding paragraph hereof by any Owner shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by such Owner or his duly authorized attorney. Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership of Prior Lien Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Ordinance, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution.

(b) The fact of the ownership by any person of any Prior Lien Bond and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that at the date thereof such Prior Lien Bond was registered in the name of such party in the Register.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

Consents required pursuant to the subsection titled "Amendments of Ordinance Requiring Consent" shall be valid only if given following the giving of notice by or on behalf of the City requesting such consent and setting forth the substance of the amendment of the Ordinance in respect of which such consent is sought and stating that copies thereof are available at the office of the City Clerk for inspection. Such notice shall be given by certified mail to each Registered Owner of the Prior Lien Bonds affected at the address shown on the Register.

Revocation of Consent. Any consent by any Owner of a Prior Lien Bond shall be irrevocable for a period of eighteen (18) months from the date of mailing of the notice provided for in the Ordinance, and shall be conclusive and binding upon all future Owners of the same Prior Lien Bond and any Prior Lien Bond delivered on transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after eighteen (18) months from the date of the first mailing of such notice by the Owner who gave such consent or by a successor in title, by filing notice thereof with the Paying Agent/Registrar, but such revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Prior Lien Bonds Outstanding as in the Ordinance defined have, prior to the attempted revocation, consented to and approved the amendment.

Use of Passenger Facility Charges

The City covenants and agrees, for the benefit of the Owners of the Prior Lien Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) $3.00 derived from each passenger facility charge so imposed and collected by the City for the payment of debt service on the Prior Lien Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of such passenger facility charges will not reduce the forecast coverage of Debt Service Requirements by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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___________, 2003

$54,250,000
CITY OF AUSTIN, TEXAS
AIRPORT SYSTEM PRIOR LIEN REVENUE
REFUNDING BONDS
SERIES 2003

WE HAVE represented the City of Austin, Texas (the "Issuer"), as its bond counsel in connection with an issue of bonds (the "Bonds") described as follows:

> CITY OF AUSTIN, TEXAS, AIRPORT SYSTEM PRIOR LIEN REVENUE REFUNDING BONDS, SERIES 2003, dated December 1, 2003, issued in the principal amount of $54,250,000.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds, in the Ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance") and in the Pricing Certificate executed by the City Manager of the City of Austin, Texas.

WE HAVE represented the Issuer as its bond counsel for the 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 of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds on which we have relied in giving our opinion. The transcript contains an escrow agreement (the "Escrow Agreement") between the Issuer and JPMorgan Chase Bank, as escrow agent (the "Escrow Agent"), the report of The Arbitrage Group, Inc., Certified Public Accountants, verifying the sufficiency of the deposits made with the Escrow Agent for the defeasance and redemption of the bonds being refunded (the "Refunded Bonds"), certified copies of certain proceedings of the Issuer, customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the

Bonds and the defeasance and redemption of the Refunded Bonds. We have also examined a specimen Bond of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Bonds constitute valid and legally binding special obligations of the Issuer.

(B) The Bonds and any bonds heretofore or hereafter issued on a parity with the Bonds are payable from and secured by a first lien on the "Net Revenues" of the "Airport System" and the "Debt Service Fund" and the "Debt Service Reserve Fund," as defined in and provided for in the Ordinance.

(C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion. The Bonds are secured solely by a lien on and pledge of Net Revenues and certain funds as provided in the Ordinance and do not constitute a general obligation indebtedness of the Issuer. Owners of the Bonds shall never have the right to demand payment of the principal of or interest on the Bonds out of any funds raised or to be raised by taxation.

IT IS OUR FURTHER OPINION that:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.

(2) The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the Issuer, the Issuer's Financial Advisor, the paying agent for the Refunded Bonds and the Underwriters with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor, the paying agent for the Refunded Bonds and the Underwriters, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the U.S. may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above 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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter 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 Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance 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.

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APPENDIX E

FORM OF 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 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 National Association, U.S. Bank 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

President

SPECIMEN

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.

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APPENDIX F

SCHEDULE OF REFUNDED BONDS

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APPENDIX F

SCHEDULE OF REFUNDED BONDS

Bond Series	Maturity Date	Coupon	Par Amount	Call Date	Call Price
Airport System Prior Lien Rev Bonds, Series 1995A	11/15/2006	5.500%	$ 1,300,000	11/15/2005	102
	11/15/2007	5.625%	1,380,000	11/15/2005	102
	11/15/2008	5.750%	1,470,000	11/15/2005	102
	11/15/2009	5.875%	1,565,000	11/15/2005	102
	11/15/2010	6.000%	1,665,000	11/15/2005	102
	11/15/2011	6.100%	1,775,000	11/15/2005	102
	11/15/2015	6.200%	8,375,000	11/15/2005	102
	11/15/2025	6.125%	34,760,000	11/15/2005	102
Total Refunded Bonds			$ 52,290,000		

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