OFFICIAL STATEMENT DATED MARCH 7, 2002

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

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "Tax Exemption" herein, including the alternative minimum tax on corporations.

$74,750,000
City of Austin, Texas
(Travis and Williamson Counties)
Electric Utility System Revenue Refunding Bonds, Series 2002

Dated: February 15, 2002 **Due: November 15, as shown below**

The bonds offered hereby are the $74,750,000 City of Austin, Texas (the "City") Electric Utility System Revenue Refunding Bonds, Series 2002 (the "Bonds"). The Bonds are the second series of "Parity Electric Utility Obligations" issued pursuant to the master ordinance governing the issuance of electric utility system indebtedness (the "Master Ordinance") and are authorized and being issued in accordance with a Supplemental Ordinance (the "Second Supplement"). The Master Ordinance provides the terms for the issuance of Parity Electric Utility Obligations and the covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations (as hereinafter defined) and Prior Subordinate Lien Obligations (as hereinafter defined) while they remain outstanding. The Master Ordinance provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations (as hereinafter defined) currently authorized having a combined pledge of Electric Light and Power System and Water and Wastewater System revenues may continue to be issued on a subordinate lien basis to the Parity Electric Utility Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from, and together with the outstanding Parity Electric Utility Obligations and Prior Subordinate Lien Bonds, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Electric Utility System as provided in the Master Ordinance and the Second Supplement. **Neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.** See "Security for the Bonds" herein.

The definitive Bonds will be issued in fully registered form in denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds shall commence to accrue on February 15, 2002 and shall be payable on May 15, 2002 and each November 15 and May 15 thereafter until maturity. The Bonds will be registered initially in the name Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The City reserves the right to discontinue such book-entry system. See "Description of the Bonds" herein.

FSA®

Payment of the principal of and interest on the Bonds when due will be guaranteed by a municipal bond insurance policy to be issued by Financial Security Assurance Inc. simultaneously with the delivery of the Bonds. (See "BOND INSURANCE" herein.)

MATURITY SCHEDULE

Maturity (November 15)	Amount	Interest Rate	Price or Yield	Maturity (November 15)	Amount	Interest Rate	Price or Yield
2005	$3,680,000	5.00%	2.91%	2010	$ 4,700,000	5.25%	4.09%
2006	4,500,000	5.00%	3.21%	2011	5,240,000	4.00%	4.19%
2007	5,035,000	5.00%	3.52%	2012	18,495,000	5.50%	4.29%
2008	4,630,000	3.75%	3.72%	2013	17,850,000	5.50%	4.40%
2009	4,135,000	5.25%	3.94%	2014	6,485,000	5.50%	4.48%

(Plus Accrued Interest from February 15, 2002)

Salomon Smith Barney

Apex Pryor Securities
Lehman Brothers

Jackson Securities Inc.
RBC Dain Rauscher Inc.
UBS PaineWebber Inc.

JPMorgan
SWS Securities, Inc.

The Bonds are not subject to optional redemption.The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. The opinion of Bond Counsel will be printed or attached to the Bonds. (See APPENDIX E "Form of Bond Counsel's Opinion".) Certain legal matters will be passed on for the Underwriters by Winstead Sechrest & Minick P.C., Counsel to the Underwriters.

It is expected that the Bonds will be delivered through the facilities of DTC on or about March 28, 2002.

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CITY OF AUSTIN

Elected Officials

		Term Expires June 15
Gustavo L. Garcia	Mayor	2003
Daryl Slusher	Councilmember Place 1	2002
Raul Alvarez	Councilmember Place 2	2003
Jackie Goodman, Mayor Pro Tem	Councilmember Place 3	2002
Beverly Griffith	Councilmember Place 4	2002
William Wynn	Councilmember Place 5	2003
Danny Thomas	Councilmember Place 6	2003

Appointed Officials

Jesus Garza	City Manager*
Toby Futrell	Deputy City Manager*
Lisa Gordon	Assistant City Manager
Betty Dunkerley, CPA	Assistant City Manager
Roger M. H. Chan	Assistant City Manager
John Stephens, CPA	Director of Financial Services
Sedora Jefferson	City Attorney
Shirley A. Brown	City Clerk

*Jesus Garza will be retiring on April 30, 2002 and effective May 1, 2002 Toby Futrell will become Acting City Manager.

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

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

FINANCIAL ADVISOR
Public Financial Management
Austin, Texas

AUDITORS
KPMG LLP and Richard Mendoza, CPA
Austin, Texas

For additional information regarding the City, please contact:

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(512) 974-3344

Bill Newman
Public Financial Management
700 Lavaca
Suite 1500
Austin, Texas 78701
(512) 472-7194

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission, this document constitutes an Official Statement of the City with respect to the Bonds that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

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OFFICIAL STATEMENT
$74,750,000
City of Austin, Texas
Electric Utility System Revenue Refunding Bonds, Series 2002

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City") of its $74,750,000 Electric Utility System Revenue Refunding Bonds, Series 2002 (the "Bonds"). The Bonds are to be issued pursuant to authority conferred by the laws of the State of Texas, a master ordinance of the City Council (the "Master Ordinance") providing the terms for the issuance of Parity Electric Utility Obligations and the covenant and security provisions related thereto, and a supplemental ordinance of the City Council (the "Second Supplement") providing for the specific terms relating to the issuance of the Bonds in accordance with the Master Ordinance. A summary of certain provisions of the Master Ordinance is attached hereto as APPENDIX C. As noted under "Plan of Financing" below, the City will not issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations but must comply with the covenants contained in the ordinances (collectively, the "Bond Ordinance"), authorizing their issuance while such obligations are outstanding. A summary of certain provisions of the Bond Ordinance is attached hereto as APPENDIX D. **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance as modified by the Second Supplement, or the Bond Ordinance, as applicable (see APPENDICES C and D)**. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

PLAN OF FINANCING

The Bonds are being issued to refund $78,000,000 of the City's outstanding Combined Utility Systems Revenue Bonds issued for the Electric Utility System (the "Refunded Bonds"). The refunding will result in debt service savings to the City. (See APPENDIX F for a listing of the Refunded Bonds) Proceeds of the Bonds will also be used to pay costs of issuance. The Bonds are the second series of Parity Electric Utility Obligations to be issued under the Master Ordinance. The City has determined to discontinue financing for the Electric Light and Power System and the Water and Wastewater System on a combined basis. The Bonds are the second series of Parity Electric Utility Obligations to be issued under the Master Ordinance. Pursuant to the Master Ordinance no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations. At such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations then Outstanding shall be Parity Electric Utility Obligations or obligations subordinate to the Parity Electric Utility Obligations then Outstanding, and shall be payable only from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance. The Master Ordinance has revised the terms for the issuance of Parity Electric Utility Obligations and the covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while any such obligations remain outstanding.

As noted under "Debt Payable from Systems Revenues" herein approximately $1.9 billion (excluding Refunded Bonds) of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of December 31, 2001 and no assurances can be given as to when or if such obligations will be defeased or paid so as to allow the Parity Electric Utility Obligations (including the Bonds) to be first lien obligations of the Net Revenues of the Electric Utility System.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled payment dates or redemption dates from funds to be deposited with JPMorgan Chase Bank (the "Escrow Agent") pursuant to an Escrow Agreement dated as of the date hereof (the "Escrow Agreement") between the City and the Escrow Agent.

The Supplement provides that the City will deposit certain proceeds of the sale of the Bonds along with other lawfully available funds of the City, if any, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Bonds (see "Verification of Mathematical Calculations"). Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will be used to purchase direct obligations of the United States of America (the "Federal Securities").

Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to provide notice, if any, to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on the first optional redemption date, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement. The Arbitrage Group, L.L.C., certified public accountants, will verify at the time of delivery of the Bonds that the Federal Securities will mature and pay interest, without reinvestment, at such times and in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of an interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service requirements on the Bonds.

By deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Bonds pursuant to the terms of the ordinances authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will no longer be payable from revenues pledged to their payment, but will be payable solely from the principal of and interest on the Federal Securities and cash on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and are not to be included in or considered to be obligations payable from the City's Water and Wastewater System or Electric Light & Power System or taken into account for any other purpose.

SOURCES AND USES OF FUNDS

The sources and uses of funds are as follows.

Sources:		
	Par Amount of Bonds	$74,750,000
	Premium	5,957,469
	Cash Contribution from the City	2,049,793
	Accrued Interest	461,470
		$83,218,732
Uses:		
	Deposit to Escrow Fund	$81,743,883
	Underwriter's Discount	410,578
	Cost of Issuance, including Insurance Premium	602,485
	Deposit to Interest & Sinking Fund	461,786
		$83,218,732

DEBT PAYABLE FROM SYSTEMS REVENUES
(As of December 31, 2001)

Combined Utility Systems Obligations	
Prior Lien Bonds (a)	$1,723,003,749
Subordinate Lien Bonds	256,944,512
Sub-Total	$1,979,948,261
Parity Electric Utility Obligations (b)	$ 201,450,000
Water & Wastewater System Separate Lien Obligations (c)	
Parity Water & Wastewater Obligations	$ 420,760,000
Maple Run MUD	11,335,000
North Austin MUD No. 1	10,970,000
Sub-Total	$ 443,065,000
Commercial Paper (d)	$ 267,775,000
General Obligation Bonds (e)	$ 24,057,850
Assumed Bonds and Obligations	
Assumed District Bonds (f)	$ 13,572,753
Contract Tax Obligations (f)	450,000
Sub-Total	$ 14,022,753
TOTAL (g)	$2,930,318,864

(a) Excludes the Refunded Bonds.
(b) Includes the Bonds.
(c) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only.
(d) The City has a Tax-Exempt Commercial Paper Program in place for the Combined Utility Systems in an amount not to exceed $350,000,000 and a Taxable Commercial Paper Program for the Combined Utility Systems for $160,000,000. The Commercial Paper Notes and the reimbursement obligation to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Notes are payable from the Net Revenues of both the Electric Light and Power System and the Water and Wastewater System after providing for the payment of the Prior Lien Bonds, the Subordinate Lien Bonds, the Parity Electric Utility Obligations and the Water/Wastewater Separate Lien Obligations. Pursuant to the City's Financial Policy, Commercial Paper Note proceeds can only be utilized for voter authorized projects although such voter authorization was not required by State law. The City's Financial Policy was amended by the City Council on February 16, 1995, to provide for the issuance of commercial paper to finance routine capital improvements required for normal business operation or improvements to comply with local, state and federal mandates without prior voter authorization. The Electric Light and Power Utility may therefore utilize commercial paper for all improvements, excluding major generation needs.
(e) Contractual Obligations and Public Improvement Refunding Bonds payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System.
(f) Such bonds are payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.
(g) Does not include Certificates of Participation outstanding of $11,410,000 and $7,450,000 issued for subleases for space to house the administrative offices of the Electric Utility and the Water and Wastewater Utility, respectively. The City anticipates funding the required lease payments from the revenues of the respective utility system, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenues of the Electric Light and Power System and the Water and Wastewater System are not specifically pledged in such subleases.

SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

Operating Summary

	(000's) Fiscal Year Ended September 30				
	(Unaudited) 12 Months Ended 12-31-01	2001	2000	1999	1998
Combined Gross Revenues	$1,071,966	$1,087,541	$1,070,558	$926,692	$918,508
Combined Maintenance and Operating Expenses	555,211	561,097	516,441	429,926	413,939
Combined Net Revenues	$ 516,755	$ 526,444	$ 554,117	$496,766	$504,569
Principal and Interest on Revenue Bonds (1)(2)	$ 235,445	$ 235,341	$ 236,916	$231,711	$234,464
Debt Service Coverage on Revenue Bonds (1)(2)	2.19x	2.24x	2.34x	2.14x	2.15x

(1) Prior First Lien and Prior Subordinate Lien Bonds only.
(2) Does not include Refunded Bonds.

Electric Utility System Only (1)

Operating Summary (1)

	(000's) Fiscal Year Ended September 30				
	(Unaudited) 12 Months Ended 12-31-01	2001	2000	1999	1998
Gross Revenues	$837,172	$854,090	$782,729	$703,929	$705,198
Maintenance and Operating Expenditures	451,478	458,685	420,075	342,914	332,986
Net Revenues	$385,694	$395,405	$362,654	$361,015	$372,212
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Bonds (2)	$176,094	$170,844	$175,053	$174,131	$175,645
Net Revenues available for Separate Lien Obligations	$209,600	$224,561	$187,601	$186,884	$196,567
Principal and Interest on Separate Lien Obligations	$ 5,717(3)	$ 2,440	N/A	N/A	N/A
Debt Service Coverage (Separate Lien Obligations)	36.66x	92.03x	N/A	N/A	N/A

(1) Electric Utility portion only.
(2) Does not include Refunded Bonds.
(3) Represents interest only for the first issuance of Electric Utility System Obligations issued in January 2001.

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DEBT SERVICE REQUIREMENTS (a)

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds (b)	Outstanding Subordinate Lien Bonds	Total Prior & Subordinate Lien Bond Requirements	The Bonds Principal	The Bonds Interest	Electric Utility System Obligations	Water and Wastewater Separate Lien Obligation Bonds	Assumed Bonds and Obligations	Total Separate Lien and Combined Utility Systems Requirements
2002	$ 80,563,094	$ 5,652,750	$ 86,215,844	$ -	$ 965,866	$ 3,277,375	$ 11,852,485	$ 2,311,605	$ 104,623,175
2003	181,955,095	11,861,719	193,816,814	-	3,863,463	6,554,750	33,747,445	2,720,262	240,702,733
2004	202,633,634	11,868,593	214,502,226	-	3,863,463	7,042,250	37,105,393	2,728,868	265,242,199
2005	207,099,189	11,909,216	219,008,405	-	3,863,463	7,017,250	42,947,623	2,466,480	275,303,220
2006	202,416,936	12,187,373	214,604,308	3,680,000	3,771,463	6,992,250	43,022,990	2,053,841	274,124,852
2007	205,074,309	14,598,243	219,672,551	4,500,000	3,566,963	6,967,250	43,304,653	1,071,855	279,083,271
2008	179,393,149	14,586,715	193,979,864	5,035,000	3,328,588	6,942,250	41,762,898	994,987	252,043,586
2009	182,167,724	15,722,664	197,890,388	4,630,000	3,115,900	6,917,250	34,435,319	906,295	247,895,152
2010	180,197,861	15,393,729	195,591,590	4,135,000	2,920,544	9,199,625	34,630,446	911,470	247,388,675
2011	180,934,931	16,188,233	197,123,164	4,700,000	2,688,625	9,182,125	25,164,326	914,612	239,772,852
2012	175,485,903	17,141,238	192,627,140	5,240,000	2,460,450	9,183,125	24,602,594	915,777	235,029,086
2013	153,195,296	17,406,641	170,601,938	18,495,000	1,847,038	9,204,625	29,845,789	930,072	230,924,461
2014	168,730,781	18,859,978	187,590,758	17,850,000	847,550	9,215,625	29,178,828	1,077,183	245,759,944
2015	122,494,875	30,755,713	153,250,588	6,485,000	178,338	9,216,125	23,713,975	1,078,343	193,922,368
2016	111,916,528	31,239,715	143,156,243	-	-	9,203,563	22,866,175	1,088,425	176,314,406
2017	105,928,738	21,563,885	127,492,623	-	-	9,177,813	22,804,675	947,019	160,422,130
2018	83,923,688	21,805,425	105,729,113	-	-	9,238,625	22,910,800	650,355	138,528,893
2019	51,639,217	21,129,813	72,769,030	-	-	9,292,500	22,874,300	-	104,935,830
2020	26,826,434	23,728,400	50,554,834	-	-	9,242,500	22,801,550	-	82,598,884
2021	23,174,159	23,806,325	46,980,484	-	-	9,280,000	22,833,800	-	79,094,284
2022	13,622,644	29,843,513	43,466,156	-	-	9,302,500	22,828,200	-	75,596,856
2023	14,166,181	28,853,025	43,019,206	-	-	9,407,500	22,975,200	-	75,401,906
2024	14,818,419	28,640,038	43,458,456	-	-	9,395,000	23,008,950	-	75,862,406
2025	1,571,703	25,298,938	26,870,641	-	-	9,465,000	23,000,575	-	59,336,216
2026	1,573,031	9,630,775	11,203,806	-	-	9,515,000	23,050,075	-	43,768,881
2027	-	10,046,013	10,046,013	-	-	9,545,000	23,052,325	-	42,643,338
2028	-	10,138,313	10,138,313	-	-	9,652,500	23,182,550	-	42,973,363
2029	-	-	-	-	-	9,637,500	23,137,550	-	32,775,050
2030	-	-	-	-	-	9,700,000	23,237,450	-	32,937,450
2031	-	-	-	-	-	9,737,500	15,471,750	-	25,209,250

(a) Includes Assumed MUD's, Water District Bonds and Contract Tax Obligations, each payable from City ad valorem taxes and additionally payable from surplus Net Revenues of the Waterworks and Sewer System.
(b) Excludes the Refunded Bonds.

* As of December 31, 2001.

SECURITY FOR THE BONDS

Pledges of Net Revenues

Prior First Lien Obligations/Prior Subordinate Lien Obligations. . . . The Net Revenues of both the City's Electric Utility System and Water and Wastewater System have been pledged, jointly and severally, (i) on a first lien basis to the payment and security of the Prior First Lien Obligations and (ii) on a second lien basis to the payment and security of the Prior Subordinate Lien Obligations. In the Bond Ordinance authorizing the issuance of the Prior First Lien Obligations and the Prior Subordinate Lien Obligations, the City retained the right to issue "Separate Lien Obligations", which are defined as obligations payable solely from the Net Revenues of either the Electric Utility System or the Water and Wastewater System, but not both, and such payments for their retirement by the terms of the ordinance authorizing their issuance are secured solely by a lien on and pledge of the Net Revenues of the Electric Utility System or the Net Revenues of the Water and Wastewater System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Prior Subordinate Lien Obligations.

Parity Electric Utility Obligations . . . The Bonds are "Separate Lien Obligations" under the terms of the Bond Ordinance, and represent the second issue or series of Separate Lien Obligations of the City's Electric Utility System. The Master Ordinance and the Second Supplement pledge the Net Revenues of the Electric Utility System to the payment of the "Parity Electric Utility Obligations" (the Outstanding Parity Electric Utility Obligations, the Bonds and additional parity obligations hereafter issued or incurred), and the Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System, subject to the prior claim on and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

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

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

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

Rate Covenant Required by Master Ordinance

The City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient: (i) to pay all current Operating Expenses; (ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the

System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above, the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates, charges and fees to be revised and adjusted to comply with such rate covenant or obtain a written report from a Utility System Consultant, after a review and study of the operations of the Electric Utility System has been made, concluding that, in their opinion, the rates, charges and fees then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates, charges and fees to comply with the rate covenant described in the immediately preceding paragraph and such adjustments and revisions to electric rates, charges and fees are promptly implemented and enacted in accordance with such Utility System Consultant's report. The City shall be deemed to be in compliance with the rate covenant described in the immediately preceding paragraph if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Reserve Fund for Prior First Lien Obligations and Prior Subordinate Lien Obligations

In accordance with the Bond Ordinance, a reserve fund has been established for the benefit of the Prior First Lien Obligations and Prior Subordinate Lien Obligations (but not the Bonds, or any additional Parity Electric Utility Obligations) and the amount required to be accumulated and maintained in such Reserve Fund shall be equal to the greater of (i) $85,000,000 or (ii) the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest on (or other similar payments) all Prior First Lien Obligations, and all Prior Subordinate Lien Obligations then outstanding.

If the reserve fund at any time contains less than the Required Reserve, the City is to cure the deficiency within twelve (12) months from the date the deficiency in funds occurred with available Net Revenues of the Electric Light and Power System or the Water and Wastewater System or both, subject to payments required for the payment of principal of and interest on the Prior First Lien Obligations and the establishment and maintenance of any special funds created for the payment and security thereof. The Bond Ordinance provides for the investment of funds and requires valuation of such investments within 45 days of the end of the City's Fiscal Year on a current market value basis, except for State and Local Government Series investments held in book-entry form, which will be valued at cost. Valued in this manner, as of December 31, 2001, the Reserve Fund contained approximately $168,492,437. If the Required Reserve is on deposit in the Reserve Fund, investment earnings on funds in the Reserve Fund may be transferred to the "Interest and Redemption Fund" created and established for the payment of the Prior Subordinate Lien Obligations.

The City is considering an undertaking to amend the Reserve Fund provisions of the Bond Ordinance to change the amount required to be maintained as the reserve amount and allow such reserve amounts to be funded with a surety bond or insurance policy.

No Reserve Fund for Parity Electric Utility Obligations

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

(i) ten per cent (10%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year;

(i) twenty per cent (20%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 140% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 130% of the annual Debt Service

Requirement for such Fiscal Year;
(i) thirty per cent (30%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 130% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 120% of the annual Debt Service Requirement for such Fiscal Year;

(i) forty per cent (40%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 120% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 110% of the annual Debt Service Requirement for such Fiscal Year;

(i) fifty per cent (50%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 110% of the annual Debt Service Requirement for such Fiscal Year.

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

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

The Master Ordinance provides that no additional revenue obligations will be issued on parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations.

Issuance of Parity Electric Utility Obligations

Under the Master Ordinance the City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of the Master Ordinance and any Supplement. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing: (i) the City is in compliance with all covenants contained in the Master Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions in the Master Ordinance and Supplement thereof, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility Operations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any, and (ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, exceed one hundred ten percent (110%) of the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the Parity Electric Utility Obligations then being issued.

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

In making a determination of Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Electric Utility System for the period of time covered by such certification based on such change in rates, charges and fees being in effect for the entire period covered.

Short-Term Parity Electric Utility Obligations

The City may issue or incur Parity Electric Utility Obligations issued in the form of commercial paper that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Electric Utility Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

Special Facilities Debt and Subordinated Debt

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

Credit Agreements

Payments to be made under a Credit Agreement may be treated as Parity Electric Utility Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

System Fund

The Master Ordinance recites that in accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Electric Utility Obligations are Outstanding a separate fund or account known and designated as the “Electric Light and Power System Fund” (the “Electric Fund” or “System Fund”). All funds deposited to the credit of the System Fund and disbursements from such Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of the Electric Utility System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

> FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues.
>
> SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.
>
> THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, and (ii) the special Funds and Accounts for the payment of the Parity Electric Utility Obligations.
>
> FOURTH: To pay Subordinated Debt, including amounts for the payment of the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

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

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2001, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,593,569,000 and its total unearned premium reserve was approximately $810,898,000 in accordance with statutory accounting principles. At December 31, 2001, Financial Security's total shareholders' equity was approximately $1,698,672,000 and its total net unearned premium reserve was approximately $669,534,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

DESCRIPTION OF THE BONDS

The Bonds will be dated February 15, 2002, and interest will accrue from their dated date and will be payable on each May 15 and November 15, commencing May 15, 2002, until maturity. The Bonds will mature on November 15 in the years and in the principal amounts set forth on the cover page hereof. Principal of the Bonds is payable only at maturity.

BOOK-ENTRY-ONLY SYSTEM

The City has elected to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC") as described under this heading. The obligation of the City is to timely pay the Paying Agent the amount due under the Supplemental Ordinance. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owners of the Bonds are as described herein.

The DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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, but Beneficial Owners are 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 interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. 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, 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 principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds 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, Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the City or the Underwriters.

Redemption

The Bonds are not subject to optional redemption.

Paying Agent/Registrar

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

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying

Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity upon their presentation to designated payment/transfer office of the Paying Agent/Registrar. If a date for making a payment on the Bonds, the taking any action or the mailing of any notice by the Paying Agent Registrar shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the City where the designated corporate office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment, taking action or mailing of a notice shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and a payment, action or mailing on such date shall have the same force and effect as if made on the original date the payment was due or the action was required to be taken or the mailing was required to be made.

Record Date for Interest Payment

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

Registration

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

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

THE SYSTEMS

The City owns and operates an Electric Light and Power System and a Water and Wastewater System (also referred to herein as the Water and Wastewater Utility) which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The City constructed a new gas fired peaking facility in partnership with Enron which became commercial in June 2001. The Electric Light and Power System had approximately 1,199 full-time regular employees as of September 30, 2001. The Water and Wastewater System had approximately 881 full-time regular employees as of the same date.

THE ELECTRIC UTILITY
"AUSTIN ENERGY"

Management

Name	Title	Length of Service with City
Juan Garza	General Manager	1 Year 4 Months
Al Lujan	Senior Vice President Regulated Operations	2 Years
Andy Ramirez, P.E.	Senior Vice President Power Production	5 Years 6 Months
Bob Kahn	Vice President Legal Services	10 Years*
Elaine Hart Kuhlman, CPA	Senior Vice President Finance and Corporate Services	13 Years 8 Months *
Roger Duncan	Vice President Governmental Relations, Energy and Environmental Policy	12 Years 3 Months
Michael McCluskey	Senior Vice President Wholesale and Retail Markets	16 Years
Harvey Winkelmann, CPA	Vice President Finance	17 Years 10 Months

* Length of service not continuous.

Competitive Positioning

With increasing competition in the electric utility industry due to regulatory and market changes, the City continues its initiatives at both the policy level and departmental level to strengthen its electric utility's competitive position. In December 1996, the City Council approved financial targets for the Electric Utility Department to achieve over the next six years. In September 1999, these targets were updated and extended through 2003 and are outlined below.

- Complete an annual competitive pricing rate analysis to evaluate its rate structure for all customer classes, using the Electric Reliability Council of Texas ("ERCOT") average retail price as a standard.
- Complete an annual review of operations and competitive position.
- Direct all excess electric utility cash to a debt management fund to achieve a debt-to-capital ratio of 62% by the year 2003 and allow use of the fund to improve the competitive position of the electric utility.
- Continue to reduce operating expenses per kWh.
- Decrease the transfer to the General Fund as necessary to achieve competitive pricing establishing a range between 6.6% and 9.1% of total revenue.
- Adjust conservation spending for the electric utility as necessary to achieve competitive pricing using the ERCOT average retail price as a standard and cost effective conservation programs are targeted as the first priority in meeting new load growth requirements.
- Establish a renewable energy goal of five percent of the energy mix coming from renewable sources by December 31, 2004.

The utility's competitive position has been improved through reduced costs and improved customer service through the initial joint work of a management consulting firm and electric utility management, which was completed in 1998, as well as the ongoing efforts of electric utility management. The electric utility is meeting these long-range financial targets. The electric utility adopted a "Doing Business As" (DBA) during 1998 in order to establish a positive, consumer-focused brand and name recognition before competition occurs. Its new trademark name is "Austin Energy ®".

Generation – TABLE ONE

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

Unit	Year Installed	Turbine Generator Nameplate Rating (MVA)	Net Capacity (MW)	Fuel
Fayette Power Project				
Unit No. 1	1979	341.8	300.00	Coal
Unit No. 2	1980	341.8	300.00	Coal
Holly Street Power Plant				
Unit No. 1	1960	133.70	97.00	Gas/No. 2 oil backup
Unit No. 2	1964	133.70	97.00	Gas/No. 2 oil backup
Unit No. 3	1966	224.00	185.00	Gas/No. 2 oil backup
Unit No. 4	1974	234.00	191.00	Gas/No. 2 oil backup
Photovoltaic Plant (PV300)	1986	0.30	0.05	Solar
Decker Power Station				
Unit No. 1	1970	414.98	335.00	Gas/No. 2 oil backup
Unit No. 2	1977	486.00	435.00	Gas or Nos. 1 through 5 oil
Gas Turbines	1988	229.00	200.00	Gas/No. 1 oil backup
Sand Hill Energy Center	2001	90.00	90.00	Gas
South Texas Project Electric Generating Station				
Unit No. 1	1988	216.69	200.00	Nuclear
Unit No. 2	1989	216.69	200.00	Nuclear
Total Capacity			2,630.05	

Generation

The City either owns or has an ownership interest in a diverse mix of generation sources, including coal, nuclear and gas facilities. In addition, Austin Energy has renewable energy sources from solar photovoltaic systems and has contracted to purchase power from wind and landfill methane projects. Generation capacity is adequate to meet native load.

Conventional System Improvements

In September 2001, the 2002-2006 Capital Improvements Spending Plan was approved by the City Council in the amount of $842,117,000.

Austin Energy's five-year spending plan provides continued funding for distribution and streetlighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for generation additions and other general additions.

Funding for the total Capital Plan is provided from current revenues and commercial paper. Pursuant to a revised City policy, Austin Energy only seeks voter approval of Parity Electric Utility Obligations for major generation improvements..

In 2001 Austin Energy rebuilt the existing Austrop to Fayette 345 kV single circuit line to add a second 345 kV circuit. This rebuild along with the addition of the new Lost Pines 345 kV Switchyard (located near Bastrop, Texas) was undertaken to accommodate the new Lost Pines Power Park I Generation Plant and to relieve existing transmission congestion between the Fayette Power Plant and Austin. Lost Pines Power Park is jointly owned by LCRA and Calpine Corporation, an independent power producer. ERCOT requires that the transmission provider in that service area to provide the necessary interconnection. Austin Energy was designated by ERCOT as the transmission provider since they already own the existing 345 kV transmission line in the area. The Lost Pines 345 kV switchyard and all the 345 kV transmission lines were completed between January 2001 and July 2001. Austin Energy is also continuing a vigorous construction program of non-345 kV related transmission and substation projects to accommodate Austin's growth. The capital budget for 2002 is $18.2 million for transmission and substations that are recoverable through TCOS.

In 1995, the Public Utility Commission of Texas ("PUCT") adopted new rules governing the transmission system in the ERCOT, an organization made up of major investor-owned and municipal systems, a state river authority, a municipal joint agency, energy marketers, independent power producers and a number of cooperatives. As part of these new rules, the PUCT established a means for the transmission owners in ERCOT to recover Transmission Cost of Service ("TCOS"). TCOS is based on the principle of equal transmission access for all loads and generation in ERCOT. Each load serving entity in ERCOT has been assigned a share of the total cost of transmission in ERCOT based upon the ratio of that load serving entity's load to the entire load in ERCOT. The funds recovered through this mechanism are distributed to transmission owners in ERCOT based upon a ratio of the transmission owner's investment in transmission facilities to the entire transmission investment in ERCOT. Austin Energy's load represents approximately 3.9% of ERCOT and Austin Energy's transmission cost of service is approximately 4.5% of ERCOT's total transmission cost of service. This will result in a positive net gain of approximately $4.9 million dollars for 2001 from TCOS. A continuing investment in Austin Energy's Transmission System will result in a continuing positive cash flow from TCOS.

Transmission and Distribution System

The transmission and distribution lines of the Austin Energy System as of September 30, 2001, are as follows:

Miles	Description
114	345 kV transmission line (Fayette Power Project)
94	345 kV transmission line (South Texas Project)
61	345 kV transmission line (Fayette Power Project) (50% ownership with LCRA)
333	69 kV and 138 kV transmission lines
9,301	Overhead, underground and downtown network distribution lines

Austin Energy owns the following transmission substations.

Austrop	Holman	Lytton Springs
Decker Plant	Holly Plant	Pilot Knob
Garfield	Sand Hill	Lost Pines

Austin Energy owns the following distribution substations.

Name	Capacity (MVA)	Name	Capacity (MVA)
Angus Valley	60	Lakeshore	60
Austin Dam	60	Lakeway	60
Barton	90	McNeil	120
Bee Creek	60	Magnesium	90
Bergstrom	60	North	60
Brackenridge	210	Northland	100
Brodie	60	Oak Hill	90
Burleson	90	Onion Creek	30
Cameron	90	Patton Lane	130
Cardinal Lane	80	Pedernales	60
Carson Creek	60	River Place	40
Commons Ford	60	Salem Walk	90
Daffin Gin	30	Seaholm	320
Dessau	130	Slaughter Lane	60
Ed Bluestein	200	Sprinkle	30
Fiskville	60	Steck	90
Grove	90	Summit	180
Hamilton	120	Techridge	60
HiCross	90	Trading Post	30
Howard Lane	60	Walnut Creek	60
Jett	60	Warren	60
Jollyville	90	Wheless Lane	90
Kingsbery	60	Williamson	120
Koenig Lane	110	Zilker	20

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

Austin Energy is interconnected with LCRA, with whom Austin Energy has a power interchange agreement. Austin Energy is also interconnected with Reliant Energy, Inc., City Public Service of San Antonio and American Electric Power. Austin Energy is a member of ERCOT. As a participant in ERCOT, Austin Energy is able to provide and be provided with a reliable backup supply of generation under emergency conditions. The diversification of fuel sources of the member systems increases the potential for economic interchanges among the respective systems. Sale and purchase transactions generally maximize the use of the less expensive fuel sources by all members of the interconnected system.

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

Power and Energy Sales Contracts

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

Power and Energy Purchase Contracts

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

Wind Power Purchase – In March 1995, the City signed a 25-year contract with LCRA to purchase up to 39,000 MWh of electric energy per year from the Texas Wind Power Project located in the Delaware Mountains east of El Paso. The project went into commercial operation in September 1995. In December 1999, Austin Energy signed a 10 year contract to purchase the output of a 20 MW wind energy project to be built by Texas Wind Power Corporation in Upton County. The original contract provided Austin Energy an option to increase the project capacity by an additional 78.4 MW. On October 26, 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and increasing the project capacity by an additional 56.7 MW. On December 19, 2000 the contract was assigned by King Wind L.P. to FPL Energy, Inc.

Landfill Gas (Methane) Power Purchase – In December 1994, the City signed a contract with Alternative Power Limited Partnership (APLP), an affiliate of Browning-Ferris Industries (BFI), to purchase energy from a 3 megawatt landfill gas plant in Austin.

In December 1999, Austin Energy signed two contracts for purchase of energy from landfill methane-recovery projects to be developed by EcoGas Inc. and Energy Developments, Inc. (EDI). Eco Gas Inc. assigned its rights to EDI in October 2000. The EDI facilities are expected to be sited at landfills in San Antonio, Houston and Hutchins, Texas. The combined output of these three EDI facilities is expected to be 10.5 MW.

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Annual Summary of Customer Consumption and Average Price – TABLE FOUR

Austin Energy delivers electricity to an average of approximately 347,000 customers within its service area. The kilowatt-hour sales distributed by customer classification served by Austin Energy are shown in the following table.

	Fiscal Year Ended September 30				
	2001	2000	1999	1998	1997
All Customers*					
Average Monthly kWh Per Customer	2,507	2,588	2,377	2,289	2,193
Average Monthly Bill Per Customer	$181.29	$179.91	$153.37	$152.87	$144.62
Average Monthly Revenues Per kWh	$0.07232	$0.06950	$0.06452	$0.06678	$0.06594
Residential Customers					
Average Monthly kWh Per Customer	1,008	1,032	945	941	883
Average Monthly Bill Per Customer	$81.74	$83.17	$71.03	$72.06	$65.99
Average Monthly Revenues Per kWh	$0.08108	$0.08062	$0.07514	$0.07656	$0.07471
General Customers**					
Average Monthly kWh Per Customer	14,264	14,480	13,716	12,941	12,659
Average Monthly Bill Per Customer	$953.56	$909.80	$798.62	$784.47	$765.73
Average Monthly Revenues Per kWh	$0.06685	$0.06283	$0.05823	$0.06062	$0.06049

* Excludes UT and Nightwatchman.

** Excludes UT, Nightwatchman and the City.

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Generation and Use Data – TABLE SIX

	Fiscal Year Ended September 30									
	2001		2000		1999		1998		1997	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		10,671,549,000		10,627,483,000		10,054,296,000		9,770,302,000		8,907,873,000
kWh Received from ERCOT(1)		499,596,000		263,551,000		236,149,000		518,184,000		436,967,000
Less: kWh Delivered to ERCOT		(53,171,000)		(31,160,000)		(36,200,000)		(43,721,000)		(26,415,000)
Less: kWh Delivered to Other Utilities		(46,778)		(355,454,000)		(354,082,000)		(532,916,000)		(427,189,000)
Total kWh Delivered to Service Area		11,117,927,222		10,504,420,000		9,900,163,000		9,711,849,000		8,891,236,000
Service Area Energy Use:										
Residential	308,841	3,736,146,850	296,481	3,670,131,218	301,057	3,415,342,333	292,269	3,301,122,584	284,007	3,010,608,117
General Service (Less UT & ENW)	37,078	6,346,850,753	36,553	6,351,518,316	35,790	5,890,650,390	34,665	5,383,228,534	33,349	5,065,826,982
	345,919	10,082,997,603	333,034	10,021,649,534	336,847	9,305,992,723	326,934	8,684,351,118	317,356	8,076,435,099
Public Street Lighting	4	33,737,705	3	33,530,825	3	33,226,385	3	28,174,152	4	28,446,894
City Utility Departments	185	200,713,675	186	201,953,134	214	195,756,743	220	204,290,381	220	189,256,272
Other City Departments	628	111,991,407	630	112,965,298	536	95,255,030	498	84,043,151	494	77,608,259
	817	346,442,787	819	348,449,257	753	324,238,158	721	316,507,684	718	295,311,425
Total Service Area Sales	346,736	10,429,440,390	333,853	10,370,098,791	337,600	9,630,230,881	327,655	9,000,858,802	318,074	8,371,746,524
Sales to UT & ENW (Nightwatchman)		11,911,011		14,609,114		11,074,895		10,196,845		9,498,245
Loss and Unaccounted For		676,575,821		119,712,095		258,857,224		700,793,353		509,991,231
Total kWh Delivered to Service Area	346,736	11,117,927,222	333,853(6)	10,504,420,000	337,600	9,900,163,000	327,655	9,711,849,000	318,074	8,891,236,000
System Peak Demand (kWh)		2,211,000 (7)		2,383,000(5)		2,239,000(4)		2,389,000(3)		2,167,000(2)

(1) Electric Reliability Council of Texas (formerly Texas Interconnected System).
(2) Includes 1,870,000 kW Peak Demand delivered to service area plus net coincidental demand of 297,000 kW delivered to other utilities
(3) Includes 2,070,000 kW Peak Demand delivered to service area plus net coincidental demand of 319,000 kW delivered to other utilities.
(4) Includes 2,132,000 kW Peak Demand delivered to service area plus net coincidental demand of 107,000 kW delivered to other utilities.
(5) Includes 2,284,000 kW Peak Demand delivered to service area.
(6) Reduction in number of customers is due to the installation of a new billing system in 2000 that changed the way customers are counted rather than customer loss.
(7) Includes 2,171,000 kW Peak Demand delivered to service area.

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Electric Rates – TABLE SEVEN

The following electric rates are effective March 17, 1997 by Ordinance 970306-P. See "Rate Regulation" below.

				Energy Charge	
				Winter	Summer
Customer Class	Fuel Adjustment Clause (1)	Customer Charge	1st 500 kWh	November – April	May - October
Residential Service (E01)	All kWh	$6.00	$.0355 Per kWh	$.0602 All kWh	$.0782 All kWh
				Above 500 kWh	Above 500 kWh
General Service Non-Demand (E02)	All kWh	6.00		.0464 All kWh	.0644 All kWh
State Accounts Non-Demand (E13)	All kWh	6.00		.0319 All kWh	.0499 All kWh
		Minimum Bill			
Water and Wastewater (E03)	All kWh	$12.00 (2)		.0277 All kWh	.0648 All kWh
Other City (Including Electric) (E04)	All kWh	12.00 (2)		.0354 All kWh	.0521 All kWh
Streetlight/Traffic (E05)	All kWh	12.00 (2)		.1498 All kWh	.1498 All kWh
			Energy Charge	Demand Charge	
General Service Demand (E06)	All kWh	12.00 (2)	$.0180 All kWh	$12.65 All kW	$14.03 All kW
General Service Demand - Public Schools (E10) (3)	All kWh	12.00 (2)	.0228 All kWh	5.68 All kW	7.95 All kW
Primary Service (E07)	All kWh	12.00 (2)	.0151 All kWh	11.11 All kW	12.10 All kW
Large Primary Service (E08) (3)	All kWh	12.00 (2)	.0150 All kWh	11.81 All kW	12.60 All kW
State Accounts – Demand Secondary Service (E14)	All kWh	12.00 (2)	.0107 All kWh	10.94 All kW	11.64 All kW
State Accounts – Primary Service (E17)	All kWh	12.00 (2)	.0107 All kWh	10.94 All kW	11.64 All kW
State/Large Primary Service (E15) (3)	All kWh	12.00 (2)	.0107 All kWh	10.94 All kW	11.64 All kW
Transmission Service (E11)	All kWh	12.00 (2)	.0140 All kWh	10.98 All kW	11.72 All kW
Nightwatchman	Fuel Charge		Pole Rental		Customer Charge
175 Watt Mercury Vapor	60 kWh Per Light		$1.74 Per Pole		$ 7.34 Per Light
100 Watt High Pressure Sodium	35 kWh Per Light		1.74 Per Pole		4.28 Per Light
400 Watt Mercury Vapor	140 kWh Per Light		1.74 Per Pole		17.11 Per Light
250 Watt High Pressure Sodium	90 kWh Per Light		1.74 Per Pole		11.00 Per Light

(1) The Fuel Adjustment Clause recovers fuel costs. The calculation of the Fuel Adjustment Clause is described in the Rate Ordinance.
(2) Minimum Bill is applied when the sum of energy, demand and fuel charges is less than $12.00.
(3) Does not include special contracts, time-of-use and economic development rates.

Annual Adjustment Clause

The City assesses an Annual Adjustment Clause charge based on a formula designed to recover the actual cost of fuel per kWh. The intent of the fuel formula is to avoid any over or under recovery of costs associated with fuel.

Due to escalating prices for natural gas supplies, during Fiscal Year 2000, Austin Energy under recovered its fuel costs. Austin Energy increased its fuel factor effective November 2000 and February 2001 to recover these costs. A substantial amount of the under recovered fuel costs were recovered during Fiscal Year 2001. The remainder of the under recovered fuel costs were fully recovered by the end of Calendar Year 2002.

Green Choice Energy Rider

In March 2001, Austin Energy adopted a Green Choice Energy charge for renewable energy. Customers who subscribe to the wind and methane gas energy will pay a renewable energy charge in lieu of the fuel adjustment factor as determined by Austin Energy.

Fuel

Coal. Coal supplies are procured through a portfolio of contracts with transportation specifically managed to minimize cost. Typically several weeks of coal inventory are maintained to protect against disruptions.

Natural Gas and Oil. Austin Energy manages its gas contracts in an effort to diversify risk and minimize cost.
In case of a curtailment in natural gas supplies, fuel oil is used to replace the natural gas shortfall. Austin Energy maintains an oil reserve equivalent to several days of operation

Nuclear. Nuclear fuel is procured through a jointly owned operating company.

Wholesale Power and Energy Sales Contracts

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

Rate Regulation

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

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

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

In 1995, PURA was amended as it pertains to the PUCT's original jurisdiction over the City's provision of wholesale transmission service. The PUCT now has exclusive jurisdiction over rates and terms and conditions for the provision of transmission and ancillary services by the City. Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, discriminatory, predatory, or anti-competitive. The PUCT adopted rules relating to wholesale transmission service and related ancillary service. The City participated in the rulemaking. The current rules have been challenged in two original petitions filed by Reliant Energy Inc. (formerly Houston Lighting & Power Co.) and City Public Service Board of San Antonio seeking a declaratory judgment holding the transmission pricing methodology in the PUCT's new transmission rules invalid and seeking a remand of the rulemaking. The City intervened in the proceedings in defense of the rulemaking. The two proceedings were consolidated and on April 20, 1998, the 98th District Court of Travis County entered final judgment against the plaintiffs, declaring the PUCT rules to be "valid, constitutional, and fully effective". The plaintiffs then appealed to the Third Court of Appeals in Austin. On January 6, 2000, the Third Court of Appeals invalidated those parts of the PUCT rules dealing with transmission rates, reversing the trial court and rendered judgment for the appellants. The City and others petitioned the Supreme Court of Texas for a review of the Third Court of Appeals opinion and the Supreme Court issued a ruling on June 28, 2001 affirming the ruling of the Third Court of Appeals. The PUCT has not taken any action based on the Supreme Court's ruling. However, Reliant Energy, Inc. and City Public Service Board of San Antonio filed two separate actions in Travis County District Court in January 2002 seeking a declaration by the court as to the amount of refunds due to them as a result of the ruling by the Supreme Court. Austin Energy intends to vigorously defend in this matter.

The City filed with the PUCT a filing package delineating transmission cost of service and costs for ancillary services related to transmission service. The PUCT entered a Final Order on the filing by the City effective January 1, 1997. The Final Order increased net income to the system by approximately $6.0 million on an annual basis.

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

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

During the 1999 Legislative Session PURA was amended by SB 7 providing for deregulation of the electric utility industry in Texas. SB 7 opened retail competition for investor owned utilities beginning January 1, 2002. However, the date can be delayed if certain conditions are not met. SB 7 allows local authorities to choose when to bring retail competition to their municipal utilities (MOU), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to "opt in" for retail competition is adopted by the municipal utility's governing body, the decision is irrevocable.

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

MOUs Which *Do Not* Choose Retail Competition

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

MOUs Choosing Retail Competition On or After January 1, 2002
(City councils or governing boards make an affirmative choice to bring retail competition to their MOU.)

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

MOU Local Control Preserved

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

Participation By MOU In Markets Outside Its Area

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

Metering And Billing

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

Other Key MOU Provisions: Existing contracts are preserved. Tax-exempt status is preserved. MOU "competitiveness provisions" were included in SB 7 to "level" the field for MOUs when preparing for competition including relaxation of open meetings/records and purchasing provisions. No mandated MOU rate reductions.

The City has not yet made a decision whether to "opt in" for retail competition or not, and the City cannot predict the short term or long term impact on the Electric Utility System or its revenues resulting from a decision to "opt in" or not, or resulting from the deregulation process in general.

Real Estate Taxes

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

Service Area

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

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

Federal Regulation

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

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

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

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

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

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

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

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

<u>Environmental and Other Regulation</u>. Austin Energy's generating units are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. Austin Energy believes that its operating generating units are presently in compliance with all such regulations now in effect. Federal and State standards and procedures governing protection of the environment are subject to change. These changes arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures.

In 1999, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 TAC 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). Austin Energy's units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. This new law also allowed units that would not normally be participants to opt-in to the program. This provision has allowed Austin Energy the opportunity to opt-in into this program, which has significantly lowered Austin Energy's projected compliance costs. Under the new law, Austin Energy's units must meet the provisions of the permits that will be forthcoming from the SB 7 program. In order to do so, Austin Energy's units must have enough SB 7 emission credits (or allowances) available to cover the actual emissions from these units on a yearly basis. The allocation of these SB 7 emission credits was based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit in question. The new law also provides for a regional emission-trading program among all grandfathered utility plants within their region. The state has been divided into two trading regions, East and West. Cross-regional trading of allowances is not allowed. Under the trading program, an individual power plant may exceed its allocation of NOx allowances only if an offsetting quantity of allowances is acquired from a generating unit which has excess allowances remaining at the end of the compliance year (May-April). The emission-trading program will also allow Austin Energy to sell in the open market emission allowances derived from excess NOx reductions.

As part of the development of various State Implementation Plans to comply with ambient air quality standards in the Clean Air Act Amendments of 1990, the TNRCC issued in May 2000 revised rules calling for power plant emission reductions in Central and East Texas (30 TAC 117, Control of Air Pollution from Nitrogen Compounds). Austin Energy is allowed to average the emissions of the generation units subject to the section 117 requirements across the utility system. Thus, Austin Energy could emit greater than the emission rate limitation at a section 117 unit if another of Austin Energy's section 117 units over complies by an equal amount.

Austin Energy will continue to make the necessary changes to assure future compliance with the evolving regulatory requirements. An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual generating units not in compliance. Further compliance with environmental standards or deadlines may substantially increase capital and operating costs.

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

Price-Anderson coverage for nuclear construction and operation activities has been extended. Public Law 100-408, signed by the President on August 22, 1988, contains a 15-year extension of the Price-Anderson Act and raises the amount of insurance available for a nuclear accident from $700 million to approximately $9.1 billion. The $9.1 billion would come from nuclear liability insurance available from private sources of approximately $200 million per reactor (the maximum amount currently attainable) with retrospective assessments of up to $83 million on each operating reactor (payable at a rate not to exceed $10 million per year) in the event of an accident. Such limit and retrospective assessments are subject to adjustment for inflation.

In addition, the participants are required to maintain on-site property damage insurance to cover the costs of cleanup of the facility in the event of an accident. The property insurance obtained is composed of both a primary layer of insurance in the amount of $500 million and a layer of excess insurance that would contribute $2.25 billion of additional coverage through a retrospective assessment from each electric utility licensee of an NRC licensed power reactor.

Finally, the NRC has amended its regulations effective July 27, 1988 setting forth minimum amounts required to demonstrate reasonable assurance of funds for decommissioning by reactor type. On or before July 26, 1990, each holder of an operating license for a production of utilization facility in effect on July 27, 1990, was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the required report to the NRCand the minimum amount is $105 million (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with Bank One, NA. The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at December 31, 2001 was $74,946,217 (unaudited). For Fiscal Year 2002, Austin Energy is collecting $4,958,221 for decommissioning expense.

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COMPARATIVE ANALYSIS OF ELECTRIC LIGHT AND POWER SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 1998 TO DECEMBER 31, 2001
(Thousands Rounded)

	12 Months Ended 12-31-01 (Unaudited)	Fiscal Year Ended September 30			
INCOME		2001	2000	1999	1998
Revenue	$1,071,966	$1,087,541	$1,070,558	$926,692	$918,508
Operating Expense	555,211	561,097	516,441	429,926	413,939
Balance Available for Debt Service	516,755	526,444	554,117	496,766	504,569
Depreciation and Amortization Expense	146,643	138,068	133,393	125,279	122,008
Earnings Before Interest Expense	370,112	388,376	420,724	371,487	382,561
Interest Incurred on Debt	(185,266)	(187,296)	(183,653)	(177,327)	(193,081)
Other	(2,750)	(1,059)	(2,174)	(9,661)	(6,570)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	$ 182,096	$200,021	$ 234,897(b)	$184,499	$182,910
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	51.79%	51.59%	48.24%	46.39%	45.07%
Balance Available for Debt Service	48.21%	48.41%	51.76%	53.61%	54.93%
Depreciation and Amortization Expense	13.68%	12.70%	12.46%	13.52%	13.28%
Earnings Before Interest Expense	34.53%	35.71%	39.30%	40.09%	41.65%
Interest Incurred on Debt	-17.28%	-17.22%	-17.15%	-19.14%	-21.02%
Other	-0.26%	0.00%	-0.20%	-1.04%	-0.72%
INCOME BEFORE EXTRAORDINARY GAIN (LOSS) (a) (c) (d)	16.99%	18.39%	21.95%	19.91%	19.91%

(a) Income before transfers to the General Fund and Other Funds, for 12 months ended September 30, 2001, which are as follows:
Transfer to General Fund $85,824,446
Transfers to Other Funds $ 2,718,692
(b) Excludes Combined Utility Funds' costs to be recovered in future years of ($40,719,456) for twelve months ended September 30, 2001.
(c) There was no extraordinary gain or loss during this twelve-month period.
(d) Excludes capital contributions of $34,362,666 for twelve months ended September 30, 2001.

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OPERATING STATEMENT
ELECTRIC LIGHT AND POWER SYSTEM AND WATER AND WASTEWATER SYSTEM

	12 Months Ended 12-31-01	2001	2000	1999	1998
REVENUE					
ELECTRIC UTILITY					
Service Area Sales	$737,345,755	$756,246,287	$723,260,135	$622,488,907	$603,337,666
Sales to Other Utilities (Including Capacity Contract)	33,816,390	33,134,735	50,780,027	51,565,929	56,566,516
Rent from Electric Property	1,842,717	995,375	851,352	878,071	870,118
Customers' Forfeited Discounts and Penalties	1,584,455	(36,129)	1,557,559	3,964,346	3,982,395
Miscellaneous	14,708,823	15,970,414	6,280,055	3,190,335	3,614,356
Total Electric Utility	$789,298,140	$806,310,682	$782,729,128	$682,087,588	$668,371,006
WATER UTILITY					
Urban	$100,362,092	$ 98,746,345	$ 109,962,989	$ 91,861,270	$ 88,970,989
Rural	6,379,681	6,438,710	7,413,123	5,581,758	5,860,807
City Utility Departments	0	0	0	309,925	369,646
City General Government Departments	0	0	(42,206)	1,086,946	1,206,260
Sales to Other Water Utilities	7,260,348	7,238,838	7,940,351	6,386,790	7,452,052
Water Connections	193,761	237,280	207,742	232,980	249,250
Customers' Forfeited Discounts and Penalties	256,383	(5,253)	263,506	605,178	630,236
Miscellaneous	2,461,822	2,016,478	4,443,174	3,556,202	1,157,918
Total Water Utility	$ 116,914,087	$ 114,672,398	$ 130,188,679	$109,621,049	$105,897,158
WASTEWATER UTILITY					
Urban	91,464,414	$ 92,293,455	$ 97,895,552	$ 91,671,869	$ 83,179,862
Rural	2,805,188	2,810,219	2,630,647	2,228,573	1,862,117
City Utility Departments	0	1,166	6,670	546,246	501,761
City General Government Departments	0	0	0	41,788	258,645
Service to Other Utilities	3,275,112	3,337,932	3,252,372	3,030,741	3,102,116
Wastewater Connections	177,615	217,507	190,430	216,338	231,447
Customers' Forfeited Discounts and Penalties	218,873	(3,312)	260,173	573,446	539,652
Miscellaneous	6,522,172	6,585,139	6,054,111	6,112,737	6,219,036
Total Wastewater Utility	$ 104,463,374	$ 105,242,106	$ 110,289,955	$104,421,738	$ 95,894,636
Interest	$ 61,291,073	$ 61,315,883	$ 47,350,612	$ 30,561,222	$ 48,345,300
TOTAL REVENUE	$1,071,966,674	$1,087,541,069	$1,070,558,374	$926,691,597	$918,508,100

OPERATING STATEMENT
ELECTRIC LIGHT AND POWER SYSTEM AND WATER AND WASTEWATER SYSTEM – (Continued)

	(Unaudited) 12 Months Ended 12-31-01	As of September 30 2001	2000	1999	1998
EXPENSE					
ELECTRIC					
Total Electric Utility	$451,478,082	$458,685,525	$420,074,862	$342,914,020	$332,985,598
WATER					
Purification	$ 15,493,671	$ 15,302,623	$ 14,225,476	$ 12,649,706	$ 14,457,475
Distribution	20,172,025	20,196,995	18,246,648	15,575,024	13,601,407
Customers' Accounting and Collection	5,644,167	5,202,484	5,456,698	3,908,047	3,194,097
Jobbing and Contract Work	(14,657)	51,692	14,214	(27,468)	16,855
Design Engineering	285,468	425,250	1,921,976	1,251,519	1,203,702
Administrative and General	12,967,290	12,405,831	12,938,784	10,764,449	10,866,801
Total Water Utility	$ 54,547,964	$ 53,584,875	$ 52,803,796	$ 44,121,277	$ 43,340,337
WASTEWATER					
Wastewater Lines	$ 6,396,307	$ 6,175,380	$ 7,591,689	$ 8,562,780	$ 8,588,828
Sewage Treatment Plant	19,585,109	19,171,921	17,115,187	17,633,822	16,041,275
Customers' Accounting and Collection	4,256,143	4,374,495	4,406,215	2,482,971	2,235,435
Jobbing and Contract Work	44,693,	86,683	68,505	55,906	43,233
Design Engineering	7,206,838	6,846,189	1,998,054	2,312,461	1,991,976
Administrative and General	11,696,039	12,172,179	12,382,295	11,842,412	8,711,831
Total Wastewater Utility	$ 49,185,129	$ 48,826,847	$ 43,561,945	$ 42,890,352	$ 37,612,578
TOTAL EXPENSE (1)	$555,211,175	$561,097,247	$516,440,603	$429,925,649	$413,938,513
NET REVENUE AVAILABLE FOR DEBT SERVICE	$516,755,499	$526,443,822	$554,117,771	$496,765,948	$504,569,587
Electric Customers	353,550	354,302	350,382	363,178	356,282
Water Customers	179,112	178,608	176,096	173,038	163,263
Wastewater Customers	164,068	163,610	151,744	159,157	149,663

(1) Interest expense, depreciation, amortization and other non-operating items are not included in total expense.

THE WATER AND WASTEWATER SYSTEM

Management

Name	Title	Length of Service with City
Chris Lippe, P.E.	Director, Water and Wastewater Utility	17 Years
Perwez Moheet, CPA	Assistant Director, Business Support Services	22 Years
Jane Burazer	Assistant Director, Water and Wastewater Treatment	8 Years
Reynaldo Cantu, P.E.	Assistant Director, Engineering	11 Years
Andrew Covar	Assistant Director, Water Resource Planning and Analysis	6 Years
David Juarez, P.E.	Assistant Director, Operations Maintenance	12 Years

WATER SYSTEM

Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 450 square miles. The City also has contracted to supply treated water on a wholesale basis to seven municipal utility districts (MUDs), one water control and improvement district, seven water supply corporations, one private utility, and the Cities of Rollingwood, Pflugerville and Sunset Valley.

The City has previously acquired the systems and assets of eleven water control and improvement districts. The City has paid off and canceled the bonded indebtedness of eight of these districts and is presently paying, from surplus revenues of the Water and Wastewater Utility, the unpaid bonded indebtedness of the other three districts. The Texas Natural Resource Conservation Commission (TNRCC), formerly the Texas Water Commission (TWC), is empowered to grant the City a certificate of convenience and necessity to provide water and wastewater service to retail customers outside the City's boundaries. The City is not required to obtain such a certificate.

Facilities

In 1888, City leaders campaigned successfully for the first Austin Dam across the Colorado River, which was completed early in 1893. In 1934, a $4,500,000 loan and grant was obtained from the Public Works Administration to complete the Buchanan Dam. LCRA finished the dam (which is 150 feet high, 11,200 feet long), and the lake it forms is thirty-two miles long and two miles wide, covering 23,000 surface acres.

Since that time, a stairway of lakes was created by building five additional dams, giving the area 150 miles of lakes. The Tom Miller Dam is within the City limits, and forms Lake Austin, which covers 3,000 surface acres; Mansfield Dam, the fifth largest masonry dam in the world, impounds Lake Travis, which covers 42,000 acres; Marble Falls Dam creates Lake Marble Falls, which spreads over 900 acres; Lake Lyndon B. Johnson, held by Alvin Wirtz Dam, has an area of 6,300 acres; and Roy Inks Dam forms Lake Inks, with a surface of 900 acres. The City owns Tom Miller Dam and has leased it to LCRA through December 31, 2020. The other dams are owned by LCRA.

The combined storage capacity of the six lakes is around 3,300,000 acre-feet of water, or more than a trillion gallons. Approximately 800,000 acre feet of this is reserved for flood control. Of the six dams on the Colorado River, two form major impounding reservoirs for the control of flood water; however, Mansfield Dam is the only designated flood control structure.

The City has also constructed Longhorn Dam on the Colorado River just downstream of Lake Austin, and Decker Dam on Decker Creek, a tributary of the Colorado River that joins the river downstream of Longhorn Dam. Town Lake, which has a capacity of approximately 3,500 acre-feet, is created by Longhorn Dam. Decker Dam creates Lake Walter E. Long, which has a capacity of approximately 34,000 acre-feet.

United States Geological Survey records at Austin gauging station No. 08158000 show the following flows for the water year (October 1 through September 30).

1973 – 896,400 Acre Feet	1982 – 1,356,000 Acre Feet	1992 – 5,419,000 Acre Feet
1974 – 1,463,000 Acre Feet	1983 – 587,000 Acre Feet	1993 – 978,000 Acre Feet
1975 – 3,039,000 Acre Feet	1984 – 764,000 Acre Feet	1994 – 708,200 Acre Feet
1976 – 992,600 Acre Feet	1985 – 751,000 Acre Feet	1995 – 896,700 Acre Feet
1977 – 1,956,000 Acre Feet	1986 – 886,500 Acre Feet	1996 – 758,300 Acre Feet
1978 – 885,100 Acre Feet	1987 – 3,399,000 Acre Feet	1997 – 3,013,512 Acre Feet
1979 – 867,200 Acre Feet	1988 – 834,000 Acre Feet	1998 – 1,313,831 Acre Feet
1980 – 803,500 Acre Feet	1989 – 667,900 Acre Feet	1999 – 803,240 Acre Feet
1981 – 1,626,000 Acre Feet	1990 – 692,300 Acre Feet	2000 – 627,370 Acre Feet
	1991 – 829,700 Acre Feet	

Using the twenty-five years from 1976-2000, the average flow was 1,296,638 acre feet per year. Using the lowest year, 1983, the flow for the Colorado River at Austin was 587,000 acre feet, or 192 billion gallons, which is over 4 times the amount of water treated for distribution (52.2 billion gallons) by the City for the fiscal year ended September 30, 2000.

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

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

The City and LCRA entered into a Comprehensive Water Settlement Agreement (the "Settlement Agreement") in Settlement of Cause No. 115 414-A-1 on December 10, 1987. The settlement generally improves the independent water rights of both the City and LCRA. Such rights for the City include: the rights to maintain Tom Miller Dam and Lake Austin, Longhorn Dam and Town Lake, and Decker Dam and Lake Walter E. Long; the right to divert and use 271,403 run of the river acre-feet of water per year from Lake Austin and Town Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Town Lake for industrial purposes, so, as to consumptively use not to exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial purposes, so as to consumptively use not to exceed 16,156 acre-feet per year; and the right to divert and use water through Tom Miller Dam for the generation of hydroelectric power. LCRA's independent water rights, as determined by the TNRCC, include the rights to maintain Lakes Travis and Buchanan and to divert and use water therefrom. Pursuant to the Settlement Agreement and the final judgment in Cause No. 115,414-A-1, certain other pending water-related disputes between the City and LCRA were settled. LCRA was granted an option to acquire up to a 50% undivided interest in the City's proposed Water Treatment Plant No. 4 (discussed below). The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication have been issued by the TNRCC.

Pursuant to previous agreements between the City and LCRA, LCRA has agreed to supply the City additional water from storage in Lakes Travis and Buchanan. The City also has leased Tom Miller Dam, and the City's right to divert and use water for the generation of hydroelectric power through Tom Miller Dam, to LCRA. The Settlement Agreement provided for the City to receive water from Lake Travis for the proposed Water Treatment Plant No. 4, and for additional water for municipal and other purposes of use downstream of Lake Travis.

The City and LCRA executed the First Amendment to the December 10, 1987 Comprehensive Water Settlement Agreement (the "First Amendment") on October 7, 1999. This First Amendment extends the existing Settlement Agreement through the year 2050, and gives the City a 50-year assured water supply by providing additional water that the City can take from the Highland Lakes. Additionally, the First Amendment includes an option for the City to renew the Settlement Agreement through the year 2100, a full century of water supply. The City paid a discounted amount of $100.0 million to the LCRA as part of the First Amendment contract provisions. The $100.0 million payment to LCRA included compensation for the following terms:

– Pre-paid reservation fee for an additional 75,000 firm acre-feet of water supply, which increased the City's total water supply from 250,000 firm acre-feet to 325,000 firm acre-feet for the additional 50-year period with an option to renew for another additional 50-year period.
– Pre-paid water use charges that would be paid by the City for water use above 150,000 firm acre-feet up to 201,000 firm acre-feet.

As a result of this amendment, the City will not have to pay any additional raw water costs to the LCRA until such time as the City begins diverting over 201,000 firm acre-feet per year. The City projects water usage above 201,000 firm acre-feet in approximately the year 2021. The amendment also had numerous provisions that benefited the City. Also, a legal issue regarding the building of Water Treatment Plant No. 4 was settled. The First Amendment provides for mutual release of the City and LCRA from any claims or causes of action relating to the delayed construction of Water Treatment Plant No. 4.

Water Treatment Plants

The City's Water and Wastewater Utility has three water treatment plants (Green, Davis and Ullrich) which have a rated capacity of 250 million gallons per day ("mgd"). The water treatment plants have a combined clear well storage capacity of 38.8 million gallons on site. The City's Water and Wastewater Utility includes a water distribution system having 2,825 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 113 million gallons, 25,838 fire hydrants and forty-two booster pump stations.

The City receives its water supply from the Colorado River through the three water treatment plants. The Green Plant takes water from Town Lake, which is located near the downtown area of the City. The Davis Plant and the Ullrich Plant both take water from Lake Austin.

The Green Plant is located east of Shoal Creek near its junction with the Colorado River and has a rated capacity of 35 mgd. An intake station on the river contains four traveling water screens and four raw water pumps. The Green Plant was constructed in 1924 and expanded in 1935, 1938, 1949 and 1985. The firm pumping capacity (i.e., with one of the largest pumps out of service) is 35 mgd. Water is pumped through a forty-two inch line to the chemical feed building, where it is split into two parallel treatment units. The Green Plant operates on a site that limits any major expansion or upgrading of treatment processes. Its capacity can be replaced by the planned expansion of the Ullrich Plant and construction of a transmission line from the Ullrich Plant north to the Green Plant service area. If the requirements for the Safe Drinking Water Act (SDWA) Phase II Disinfection/Disinfection By-Products Rule require expensive space consuming modifications, the aging Green Plant may need to be replaced by the year 2003. Without the restrictions of this proposed rule, it could continue in service.

The Davis Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 115 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, and raw water and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963, 1977 and 1987.

The Ullrich Plant, located on a site south of Red Bud Trail and Forest View Drive, has a rated capacity of 100 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, six upflow-solids contact clarifiers, twelve filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. It is likely that other improvements will be needed prior to 2005 in order to meet the Disinfectant/Disinfection By-Products Rule of the federal Safe Drinking Water Act.

Construction of Water Treatment Plant No. 4 will add incremental initial capacity of up to 60 million gallons per day with an intake structure rated at 150 million gallons per day. Based on revised growth projections, the City anticipates that construction of Water Treatment Plant No. 4 will not be started before the year 2017. $104 million of bonds have been authorized for this project based on an earlier schedule pursuant to which the plant would have been already under construction. Additional costs incurred due to the revised timing are anticipated to be funded with capital recovery fees.

Water Conservation Plan

The Water and Wastewater Utility developed a water conservation plan for emergency purposes in the early 1980's after experiencing an equipment failure in the distribution system during a high summer demand period. Although the problems were short lived, they had sufficient impact to cause the development of a plan for any potential future problems. The plan is designed to educate customers to use water effectively and to reduce the peak demands on the Water and Wastewater Utility. The contingency plan, which is in effect from May 1 to September 30 of each year, has three stages with progressively more restrictive water use provisions. The plan is presently designed to shift from voluntary to mandatory stages when daily pumpage exceeds a specific limit established by the City Manager which relates to treatment capacity. If higher levels of pumpage should occur, the plan would move to one of the more restrictive mandatory levels. Currently, the treatment facilities have a rated capacity of 227 mgd. Mandatory water restrictions were required during the extreme drought conditions of July through September 2000. Inclining block rates implemented April 1, 1994, are designed to promote water conservation by Single Family Residential Customers.

Water Storage and Pumping Facilities

In addition to the water treatment plants, the Water and Wastewater Utility owns and operates the following storage facilities and major water pump stations.

	Total Storage Capacity (Millions of Gallons)	Firm Pumping Capacity (Gallons per Minute)
North System		
Anderson Mill	3	(1)
East Austin	12	37,700
Forest Ridge	3	5,000
Four Points (ground)	7	
Four Points (elevated)	1	3,600
Guilford Cove	0.275	600
Highland Park	2	1,000
Howard Lane	20	(1)
Jollyville	11	51,000
Martin Hill	34	(1)
North Austin	10	39,800
Pond Springs	3	(1)
Spicewood Springs	10	59,000
South System		
Center Street	8	31,400
Davis Lane	20	43,500
Eberhart	1.5	11,500
La Crosse	2	(1)
Leuthan Lane	3	860
Loop 360	0.439	1,200
Lost Creek	(2)	2,000
Oak Hill Pump	(2)	250
Oak Hill Reservoir	1	(1)
Pilot Knob	10	(1)
Slaughter Lane	6	15,000
Travis County	(2)	1,800
Westlake Drive	0.010	200

(1) Storage only, no pumps.
(2) Pumps only, no reservoir.
Source: City's Water and Wastewater Utility.

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Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 1988 through 2000.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Million of Gallons)
1988	36,332	6.80	162
1989	38,300	5.40	178
1990	38,311	-	177
1991	36,125	(5.70)	161
1992	36,989	2.40	169
1993	39,824	7.70	189
1994	39,766	(0.10)	199
1995	39,542	(0.70)	192
1996	45,835	15.90	205
1997	42,812	(6.60)	195
1998	46,438	8.50	211
1999	46,422	(0.03)	216
2000	52,194	(12.40)	227

Source: City's Water and Wastewater Utility.

Projected Water Pumpage - TABLE NINE

The following table, based on actual operating experience, summarizes the peak day and total annual water pumpage requirements projected by the City.

Fiscal Year	Total Pumpage (Million of Gallons)	Maximum Day Pumpage (Million of Gallons)
2001	47,210	229
2002	48,270	235
2003	49,098	241
2004	51,001	247
2005	51,018	253
2006	52,044	259
2007	52,044	265
2008	53,617	271
2009	54,421	277
2010	55,237	0

Source: City's Water and Wastewater Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2001		2000		1999		1998		1997	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		50,184,839		52,326,065		46,679,391		46,668,512		42,802,212
Less: Sales to Other Water Utilities (1)		3,689,468		3,863,466		3,146,201		3,797,257		3,662,066
Thousands Gallons to System		46,545,371		48,462,599		43,533,190		42,871,255		39,140,146
Water Sales:										
Urban	165,536	37,653,186	161,243	41,973,466	159,625	35,594,247	152,545	36,026,412	143,177	30,219,525
Rural	11,700	2,219,216	11,242	2,435,328	10,607	1,852,000	10,131	1,968,939	11,139	1,787,935
	177,236	39,872,402	172,485	44,408,794	170,232	37,446,247	162,676	37,995,351	154,316	32,007,460
City Departments	392	588,880	392	650,006	379	619,553	481	705,983	364	559,575
Total Sales to Ultimate Consumer	177,628	40,461,282	172,877	45,058,800	170,661	38,065,800	163,157	38,701,334	154,680	32,567,035
Used by Water Utility		1,531,430		1,613,380		1,422,526		1,418,185		48,299
Loss and Unaccounted For		4,552,659		1,790,419		4,044,864		2,751,736		6,524,813
Thousand Gallons to System		46,545,371		48,462,599		43,533,190		42,871,255		39,140,147
Maximum Daily Consumption		240,285		220,305		204,746		206,371		190,919
Average Daily Consumption in Thousands of Gallons		127,522		132,774		119,269		117,455		107,233

(1) Includes sales to all wholesale customers.

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Large Water Customers - TABLE ELEVEN

Water and Wastewater Utility
Large Water Customers
Five Year Comparative Data (1996 - 2000)

	Fiscal Year Ended September 30 (Gallons in Thousands)									
	2001		2000		1999		1998		1997	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
Motorola, Inc. (1)	1,931,463	$4,886,000	1,814,060	$4,031,000	1,781,016	$3,854,519	1,904,313	$3,926,799	1,894,879	$3,918,062
Advanced Micro Devices	1,135,801	4,094,000	1,044,510	2,082,000	1,186,752	2,570,155	1,250,741	2,583,860	1,151,306	2,384,265
University of Texas (2)	979,919	2,340,000	1,029,359	2,341,000	908,424	2,055,888	824,213	1,783,840	824,049	1,766,841
Travis County Water Control and Improvement District No. 10	848,672	1,666,000	901,248	1,831,000	699,180	1,415,804	737,810	1,508,855	579,175	998,887
Wells Branch Municipal Utility District	587,057	1,076,000	646,054	1,328,000	544,046	1,106,798	559,016	1,012,516	463,043	851,317
Anderson Mill Municipal Utility District	492,533	1,153,000	546,213	936,000	510,713	871,792	542,058	899,308	467,978	799,344
Samsung (3)	486,185	851,000	462,139	1,005,000	353,927	767,700	363,761	811,784	48,002	90,861
North Austin Municipal Utility District	364,580	712,000	406,345	850,000	297,789	622,179	323,138	657,591	276,784	557,003
Lost Creek Municipal Utility District	303,592	608,000	355,547	758,000	282,637	600,415	320,721	654,622	237,423	496,763
Shady Hollow MUD	247,103	496,000	300,277	800,000	217,346	575,947	266,715	671,082	195,505	493,767
	7,376,905	$17,882,000	7,505,752	$15,962,000	6,781,830	$14,441,197	7,092,486	$14,510,257	6,138,144	$12,357,110

(1) Totals for Motorola, Inc. include their east Austin plant site and their west Austin plant sites.
(2) Totals for the University of Texas at Austin are citywide for 1996 and 1999.
(3) These facilities have no comparative data prior to 1997.

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WASTEWATER SYSTEM

Service Area

The Water and Wastewater Utility provides wastewater service to customers within the corporate limits of the City and a portion of Travis and Williamson Counties. The City has entered into wholesale service contracts with ten municipal utility districts, one private utility, the Eanes Independent School District, and the Cities of Sunset Valley and Rollingwood to provide wastewater service.

Facilities

The Water and Wastewater Utility has three main wastewater treatment plants with a permitted capacity of 120 mgd, one sludge treatment facility, over 2,635 miles of sanitary wastewater mains and lines, and 114 lift stations. The three treatment plants are the Walnut Creek Wastewater Treatment Plant which began operations in 1977, the Govalle Wastewater Treatment Plant constructed in 1936, and the South Austin Regional Wastewater Treatment Plant completed in 1986. The Hornsby Bend Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 1997 and 1998, the City received from the TNRCC and the U.S. Environmental Protection Agency renewals of discharge permits for all its wastewater treatment plants. The permits are valid for five years and will be renewed in 2002 and 2003.

The Walnut Creek Wastewater Treatment Plant is currently permitted to discharge an average flow of 60 mgd. During 2000 average flow was 47 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant is currently in the engineering design phase with construction scheduled to be completed in approximately 2004.

The Govalle Wastewater Treatment Plant was initially constructed in 1937 and has undergone several expansions. It now has a permitted capacity of 20 mgd. During 1999 average flow was 10 mgd. Sludge from this plant is also pumped to the anaerobic digesters at Hornsby Bend. Extensive modernization completed in 1986 and subsequent improvements completed in March and September 1988 have enabled the Govalle plant to reliably produce the quality of effluent required by state and federal permits. A major interceptor tunnel completed in September 1988 diverts any excess flows from Govalle to the South Austin Regional Plant.

The South Austin Regional Wastewater Treatment Plant, which replaced the Williamson Creek Treatment Plant, began operation in April 1986. The plant is now permitted to discharge at a rate of 50 mgd. During 2000 average flow was 33 mgd. A major interceptor transports the wastewater to the South Austin plant from the site of the former Williamson Creek plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant. A 25 mgd upgrade to this plant is currently in the engineering design phase with construction scheduled to be completed in approximately 2005.

The Hornsby Bend Treatment Plant serves as the City's central sludge treatment and disposal facility. Waste sludge from the Walnut Creek, South Austin Regional and Govalle plants is pumped to anaerobic digesters at Hornsby Bend. A greenhouse enclosed aquaculture pond is used to treat the pond water prior to its use for irrigation on utility owned land at the site. Major improvements recently completed at Hornsby Bend include sludge thickening facilities. Sludge received at Hornsby Bend is thickened, anaerobically digested, dewatered in sludge drying basins and composted for marketing and distribution. Some dried sludge is applied to on-site agricultural land. A Center for Environmental Research has been established with the cooperation of the City, the University of Texas and Texas A&M University. The City provides laboratory, offices and research facilities at Hornsby Bend for the two universities to conduct environmental research.

In 1985, the City entered into a contract with the Brushy Creek Water Control and Improvement District No. 1, Williamson County MUD No. 2, Williamson County MUD No. 3 and the City of Round Rock to fund, construct, and operate a regional wastewater collection and treatment system (the "Project") serving the upper Brushy Creek watershed. In 1994, the Project participants terminated the agreement. The City and the City of Round Rock entered an interlocal agreement where the two cities assumed the obligations and divided the Project assets and entered an interim operations and maintenance agreement. LCRA and Brazos River Authority ("BRA") have purchased Round Rock's share in the Project and have also purchased a portion of Austin's share relating to the area now included in the City of Cedar Park's extra-territorial jurisdiction. The City of Cedar Park entered into a wastewater service agreement with LCRA and BRA in 1997. Final negotiations were completed, selling Austin's remaining assets to the LCRA, effective October 1, 2000, with Austin becoming a customer of the LCRA and BRA wastewater system. The agreement, which requires Austin to pay for its portion of capital expansions and operations and maintenance costs on an annual basis, reserves enough wastewater capacity to adequately serve all of the portions of Austin's city limits or extra territorial jurisdiction within the Brushy Creek watershed.

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

The City believes that the structural condition of the Wastewater System is generally sound. Expenses for operation, maintenance and repairs of the over 2,700 miles of wastewater lines and mains were approximately $7.2 million during FY 1999-2000.

Lift Stations

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

Name	Firm Capacity (Gallons per Minute)
Montopolis (1)	22,000
Boggy Creek East	16,400
Shoal Creek	9,000
Tracor	5,580
Canterbury (1)	3,475
Taylor Slough	3,400
Barton Creek	5,800
Lake Creek	4,200
Davis Springs	3,600
Springfield	2,400

(1) These lift stations control flow to the Govalle and South Austin Regional Wastewater Treatment Plants.

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 1988 through fiscal year 2000.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
1988	21,193	(9.7)
1989	22,771	7.4
1990	22,935	(0.7)
1991	25,002	9.0
1992	30,126	20.5
1993	26,797	(11.1)
1994	25,257	(5.7)
1995	30,038	18.9
1996	28,140	(6.3)
1997	32,898	16.9
1998	31,609	(3.9)
1999	34,298	8.5
2000	30,684	(10.5)

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Projected Wastewater Flows - TABLE THIRTEEN

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

Fiscal Year	Total Wastewater Flow (Millions of Gallons)
2001	33,971
2002	33,470
2003	34,173
2004	34,938
2005	35,803
2006	36,675
2007	37,372
2008	38,082
2009	38,806
2010	39,543

Source: City's Water and Wastewater Utility. Such projections are based on actual operating experience.

To meet these projections, the capacity of the Walnut Creek Wastewater Treatment Plant is expected to be increased from 60 mgd to 75 mgd by the year 2000. Also, if the Govalle Plant is shut down by the year 2002 as presently planned, the South Austin Regional Wastewater Treatment Plant will have to be expanded to a capacity of 65 mgd.

COMBINED WATER AND WASTEWATER UTILITY INFORMATION

Future Capital Improvements for Water and Wastewater System

During the next five years, it is anticipated that the Water and Wastewater System will require approximately $576.3 million for system improvements. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of $454.1 million additional Parity Water/Wastewater Obligations and (2) the application of $122.2 million of anticipated transfers from current revenues and amounts on hand.

Services Financed by Utility Districts

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

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

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

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

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

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

The City previously consented to the creation of twelve MUDs inside the City's corporate limits, of which nine of which have been dissolved. Three of the twelve MUDs had their annexation status changed from full purpose to limited purpose in 1995 and were reannexed for full purpose in 1998. The creation of the inside City districts were approved by the TNRCC. They receive retail water and wastewater services as well as other services from the City and will issue bonds and levy an ad valorem tax to finance internal water, wastewater and drainage facilities. Under existing law, the City will not have to assume any of the debt issued for these City districts, so long as they are not dissolved.

Development in some area MUDs may have impacted an initiative petition which was submitted to the City Council by the Save Our Springs (SOS) Coalition on March 13, 1992. Certification of the petition caused an ordinance "to prevent pollution of Barton Springs, Barton Creek and the Barton Springs Aquifer" to be added to the City's August 8, 1992 election. At the election, the voters of the City approved the ordinance. Certain developers challenged the ordinance as an unconstitutional taking of property without just compensation. Ultimately, the Texas Supreme Count upheld the constitutionality of the ordinance. See "The City - Recent Annexation" herein.

Water and Wastewater Rates

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

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

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

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Water Service Rates Effective November 1, 2001 TABLE FOURTEEN

Monthly Customer Charges

Customer Account Charge	Charge per Month	Meter Size	Retail Charge per Month	Wholesale Charge per Month
		Equivalent Meter Charge		
Retail Customer Account Charge ($/Month)	$1.53	5/8	$ 1.79	$ 1.79
		3/4	2.32	2.32
Wholesale Customer Account Charge ($/Month)	$1.53	1	3.07	3.07
		1 ¼	4.14	4.14
		1 ½	5.20	5.20
		2	7.34	7.34
		3	16.72	16.72
		4	27.39	27.39
		6	54.06	54.06
		8	80.74	80.74
		10	107.41	107.41
		12	123.41	123.41

Volume Unit Charge (1)

Unit Cost per 1,000 Gallons	Inside City	Outside City
Single-Family Residential (2)		
0 – 2,000 Gallons	$0.70	$0.70
2,001 – 9,000 Gallons	2.00	2.00
9,001 – 15,000 Gallons	3.50	3.50
15,001 – Over Gallons	6.12	6.02
Multifamily (3)		
Off Peak	$2.27	$2.13
Peak	2.47	2.34
Commercial (3)		
Off Peak	$2.79	$2.52
Peak	3.00	2.77
Large Volume/Industrial (3)		
Off Peak	$2.44	
Peak	2.67	
Golf Courses (3)		
Off Peak	$2.79	$2.52
Peak	3.00	2.77

(1) Wholesale unit charges vary between $1.42 and $2.24 for each 1,000 gallons.
(2) The City of Austin has approved an inclining block rate structure to promote water conservation for the Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.
(3) Off Peak (November 1 – June 30 Bills). Peak (July 1 – October 31 Bills).

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Wastewater Service Rates Effective November 1, 2001 – TABLE FIFTEEN

Customer Account Charge

	Inside City	Outside City	Wholesale Customers
Customer Account Charge ($/month)	$2.60	$2.60	$2.60

Volumes Unit Charge

	Unit Cost per 1,000 Gallons*	
	Inside City	Outside City
Retail Inside City:		
Single-Family		
0 - 2,000 Gallons	$2.10	$3.00
2,001 - Over Gallons	4.76	5.40
Multifamily	3.73	3.73
Commercial	4.09	4.09
Large Volume/Industrial	3.59	
Golf Courses	4.09	4.09

Wholesale unit charges vary between $2.57 and $3.20 for each 1,000 gallons.

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* Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance, under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 as shown below. There are a number of express exemptions from payment of these fees. The City's current policy is to restrict the use of Capital Recovery Fee receipts for the defeasance of water and wastewater revenue bond debt.

	Water	Wastewater	Total
Drinking Water Protection Zone in the City's extraterritorial jurisdiction	$1,700	$1,300	$3,000
Drinking Water Protection Zone in the City limits	1,500	1,200	2,700
Desired Development Zone in the City's extraterritorial jurisdiction	1,300	800	2,100
Desired Development Zone in the City limits	700	400	1,100
Urban watersheds	600	400	1,000
Central urban redevelopment combining district area and the area bounded by Town Lake, Lamar Boulevard, 15th Street, and IH-35	600	400	1,000

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Analysis of Water Bills - TABLE NINE A

	Fiscal Year Ended September 30				
Average Monthly Bill Per Customer - Water	2000	1999	1998	1997	1996
Inside City (Urban)					
Residential	$ 30.13	$ 23.50	$ 24.38	$ 19.84	$ 23.49
Multi-Family	338.37	306.97	287.39	268.40	282.59
Commercial	199.83	166.96	167.04	141.46	155.37
Industrial	95,352.85	90,525.34	90,635.15	90,714.07	96,335.85
City Departments	321.34	315.39	273.08	309.89	286.16**
Outside City (Rural)					
Residential	42.02	33.95	37.50	28.83	37.62
Multi-Family	193.96	168.54	181.26	205.62	233.76
Commercial	178.16	127.26	136.67	112.24	129.24
Average Monthly Bill					
Above Customers	57.71	48.23	49.24	43.02	48.35
Sales to Other Water Utilities*	38,611.80	31,045.89	30,633.76	22,886.99	27,037.64
Average Monthly Bill					
All Customers	$ 61.50	$ 51.32	$ 52.99	$ 46.86	$ 52.97
Average Monthly Use in 1000 Gallons - Water					
Inside City (Urban)					
Residential	10.13	8.25	8.84	7.41	8.75
Multi-Family	138.10	125.51	123.52	115.50	122.10
Commercial	81.34	67.58	71.32	60.41	65.75
Industrial	43,836.58	41,787.88	43,884.04	43,817.22	44,968.85
City Departments	154.26	147.32	130.30	139.17	141.15
Outside City (Rural)					
Residential	11.98	9.87	11.11	8.74	11.10
Multi-Family	82.78	71.81	77.44	88.03	100.55
Commercial	76.62	54.05	58.24	47.36	54.99
Average Monthly Use					
Above Customers	21.76	18.62	19.79	17.57	19.52
Sales to Other Water Utilities*	18,938.56	15,422.55	15,821.91	11,737.39	14,093.65
Average Monthly Use					
All Customers	23.62	20.15	21.73	19.54	21.93
Average Revenue Per 1000 Gallons - Water					
Inside City (Urban)					
Residential	$2.97	$2.85	$2.76	$2.68	$2.68
Multi-Family	2.45	2.45	2.33	2.32	2.31
Commercial	2.46	2.47	2.34	2.34	2.36
Industrial	2.18	2.17	2.07	2.07	2.14
City Departments	2.08	2.14	2.10	2.23	2.03
Outside City (Rural)					
Residential	3.51	3.44	3.37	3.30	3.39
Multi-Family	2.34	2.35	2.34	2.34	2.32
Commercial	2.33	2.35	2.35	2.37	2.35
Average Revenue					
Above Customers	2.65	2.59	2.49	2.45	2.48
Sales to Other Water Utilities*	2.04	2.01	1.94	1.95	1.92
Average Revenue					
All Customers	2.60	2.55	2.44	2.40	2.42

* Includes all Wholesale Customers.

** Several UT campus accounts activated.

Analysis of Wastewater Bills - TABLE NINE B

Average Monthly Bill Per Customer - Wastewater	2000	1999	1998	1997	1996
Inside City (Urban)					
Residential	$ 23.13	$ 19.82	$ 18.21	$ 18.27	$ 18.90
Multi-Family	477.69	413.23	379.55	370.09	372.98
Commercial	253.56	191.99	176.54	167.14	167.02
Industrial	127,044.30	118,340.25	119,765.31	114,209.91	107,515.00
City Departments	***	169.76	217.44	236.69	218.40**
Outside City (Rural)					
Residential	28.91	23.50	21.62	21.48	22.25
Multi-Family	373.97	295.60	305.84	381.17	367.83
Commercial	668.53	634.63	490.90	436.06	406.82
Average Monthly Bill					
Above Customers	58.34	50.14	47.80	47.41	47.77
Sales to Other Utilities*	28,359.53	23,816.54	21,793.24	22,026.20	17,731.62
Average Monthly Bill					
All Customers	$ 60.15	$ 51.66	$ 49.43	$ 49.73	$ 49.68
Average Monthly Use in 1000 Gallons – Wastewater					
Inside City (Urban)					
Residential	6.08	5.24	5.10	5.11	5.30
Multi-Family	122.67	106.47	102.36	99.78	100.54
Commercial	51.72	47.68	45.90	43.24	43.48
Industrial	38,611.97	36,108.57	38,260.31	36,485.28	34,346.18
City Departments	***	50.10	65.96	78.37	63.98
Outside City (Rural)					
Residential	6.46	5.26	5.18	5.16	5.36
Multi-Family	95.76	75.88	82.27	102.80	99.14
Commercial	168.11	160.33	129.87	115.24	107.42
Average Monthly Use					
Above Customers	14.66	13.25	13.31	13.18	13.26
Sales to Other Wastewater Utilities*	10,550.50	8,919.36	8,780.43	8,064.18	6,530.35
Average Monthly Use					
All Customers	15.33	13.81	13.97	14.03	13.97
Average Revenue Per 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	$3.80	$3.79	$3.57	$3.57	$3.57
Multi-Family	3.89	3.88	3.71	3.71	3.71
Commercial	4.90	4.03	3.85	3.87	3.84
Industrial	3.29	3.28	3.13	3.13	3.13
City Departments	***	3.39	3.30	3.02	3.41
Outside City (Rural)					
Residential	4.48	4.47	4.17	4.16	4.15
Multi-Family	3.91	3.90	3.72	3.71	3.71
Commercial	3.98	3.96	3.78	3.78	3.79
Average Revenue					
Above Customers	3.98	3.79	3.59	3.60	3.60
Sales to Other Utilities*	2.69	2.67	2.48	2.73	2.72
Average Revenue					
All Customers	3.92	3.74	3.54	3.54	3.56

* Includes all wholesale customers.
** Several UT campus accounts activated.
*** 2000 Included in Inside City Commercial.

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the period beginning with the fiscal year ("FY") FY96 through FY00 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY96 through FY00, were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY96 through FY00 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY96 through FY00 were primarily attributable to inflationary increases in the cost of power, and chemicals, along with system growth. Increased costs of compliance with the Safe Drinking Water Act and line maintenance are reflected in FY97.

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The Electric Light and Power System and Water and Wastewater System – TABLE SEVENTEEN

	(Unaudited) 12 Months, Ended 12-31-01	As of September 30 2001	2000	1999	1998
Plant Cost					
Utility Systems					
Electric	$3,100,750,933	$3,067,649,886	$2,842,927,082	$2,693,237,524	$2,625,217,308
Water	1,178,977,237	1,169,574,534	1,090,911,586	1,003,650,278	893,668,714
Wastewater	1,088,863,941	1,080,758,935	1,032,885,331	976,681,032	921,580,649
Total Cost	$5,368,592,111	$5,317,983,355	$4,966,723,999	4,673,568,834	4,440,466,671
Allowance for Depreciation:					
Electric	$1,153,138,085	$1,131,860,735	$1,048,947,313	972,367,880	895,154,272
Water	272,069,500	264,352,217	242,395,336	220,477,506	202,674,479
Wastewater	337,557,002	328,639,983	304,151,983	280,008,297	256,629,792
Total Depreciation	1,762,764,587	1,724,852,935	1,595,494,632	1,472,853,683	1,354,458,543
Cost after Depreciation	$3,605,827,524	$3,593,130,420	$3,371,229,367	$3,200,715,151	$3,086,008,128
City's Equity in the Systems					
Utility Systems	$5,368,592,111	$5,317,983,355	$4,966,723,999	$4,673,568,834	$4,440,466,671
Plus: Inventories, Materials and Supplies (1)	34,272,534	34,688,816	32,904,657	32,227,327	31,950,001
Net Construction Assets and Unamortized Bond Issue Cost(2)	181,539,817	154,575,909	126,423,265	145,027,887	129,476,175
	5,584,404,462	5,507,248,080	5,126,051,921	4,850,824,048	4,601,892,847
Less:					
Allowance for Depreciation	1,762,764,587	1,724,852,935	1,595,494,632	1,472,853,683	1,354,458,543
Construction Contract Payable	0	279,041	1,149,032	2,127,799	2,222,064
Total	1,762,764,587	1,725,131,976	1,596,643,664	1,474,981,482	1,356,680,607
Utility Systems, Net	3,821,639,875	3,782,116,104	3,529,408,257	3,375,842,566	3,245,212,240
Revenue Bonds and Other Debt Service (3)	2,948,832,207	2,988,903,922	2,932,066,283	2,865,320,460	2,818,680,622
Less: Bond Retirement and Reserve Funds	170,690,405	170,699,819	161,597,147	160,866,775	169,005,087
Net Debt	2,778,141,802	2,818,204,103	2,770,469,136	2,704,453,685	2,649,675,535
Equity in Utility's Systems	$ 1,043,498,073	$ 963,912,001	$ 758,939,121	$ 671,388,881	$ 595,536,705
Percentage of City's Equity in Utility Systems	27.30%	25.49%	21.50%	19.89%	18.35%

(1) Does not include fuel oil or coal inventories of approximately $14,038,892 at September 30, 2001. Consists primarily of spare parts inventory.
(2) Includes investment in municipal utility districts of $1,756,084.
(3) Includes Revenue Bonds and Tax and Revenue Bonds of $2,640,797,440 (net of discounts and inclusive of premiums); Contract Revenue Bonds of $76,463,104 (net of discounts); Capital Lease Obligation Bonds of $18,923,134, Water District Bonds of $250,000; Commercial Paper of $228,468,720 (net of discounts); General Obligation Bonds of $15,823,992 (net of discounts and inclusive of premiums); and Contractual Obligations of $8,177,532.

LITIGATION

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

Electric Light and Power System Litigation

On October 15, 1990, the four STP owners: City of Austin, City of San Antonio, Reliant, and CPL jointly filed a lawsuit against Westinghouse Electric Corporation and two of its employees in the District Court of Matagorda County, Texas, 130th Judicial District, Cause of Action No. 90-5-0684A-C. This litigation alleged that Westinghouse knowingly sold the STP owners a nuclear steam supply system containing a steam generator tubing that is susceptible to stress corrosion cracking, that Westinghouse had failed to meet its warranty obligations and that Westinghouse violated the Texas Deceptive Trade Practices Act. A jury trial began in Bay City, Texas in July 1995 and continued until the parties reached a negotiated settlement on December 7, 1995. This settlement, which has been sealed pursuant to an order of the trial court, is viewed by STP owners as providing significant assurances that STP can continue operating economically for many years to come.

On February 22, 1994, the City of Austin filed a lawsuit in State District Court in Harris County, 162nd Judicial District, Cause of Acting No. 94-007946, against HLP. This lawsuit alleged that Reliant breached its contractual duties to operate, maintain and manage STP and was negligent in operating the plant. The City contended that these operational and management failures resulted in an extended shut down of both STP units beginning in early February 1993 and lasting well into 1994. Trial began on March 6, 1996, and the case went to jury on April 22, 1996. With the jury apparently deadlocked, Austin and Reliant reached a settlement on April 30, 1996. This settlement required Reliant to pay Austin $20,000,000 plus court costs and replace Reliant as STP Project Manager by a new non-profit operating company.

Austin Energy and Enron Corporation have entered into a joint operation agreement (the Sandhill Power Project). Although Enron Sandhill is not in bankruptcy, its guarantor, Enron North America Corporation is currently under Chapter 11 protection. Prior to the bankruptcy filing, Austin Energy issued a notice of default to Enron Sandhill and Enron North America stating that Enron and Partnership were in anticipatory breach of their obligations under the Participation Agreement because of past due invoices. The letter also stated that Austin Energy would decline any requests to schedule delivery of energy from Sandhill Energy Center until payment of delinquent invoices have been received and authorized written assurances are given that future invoices will be paid in a timely manner. Austin Energy suspended all bilateral transactions with Enron in early November 2001 and no additional energy transactions are contemplated with Enron. Austin Energy does not anticipate that the Enron bankruptcy proceedings, in which Austin Energy is listed as an unsecured creditor, will have a material adverse affect on the operation of the Sandhill Energy Center.

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 the settlement of these claims and pending litigation will not have a material adverse effect on the City's financial condition. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2000.

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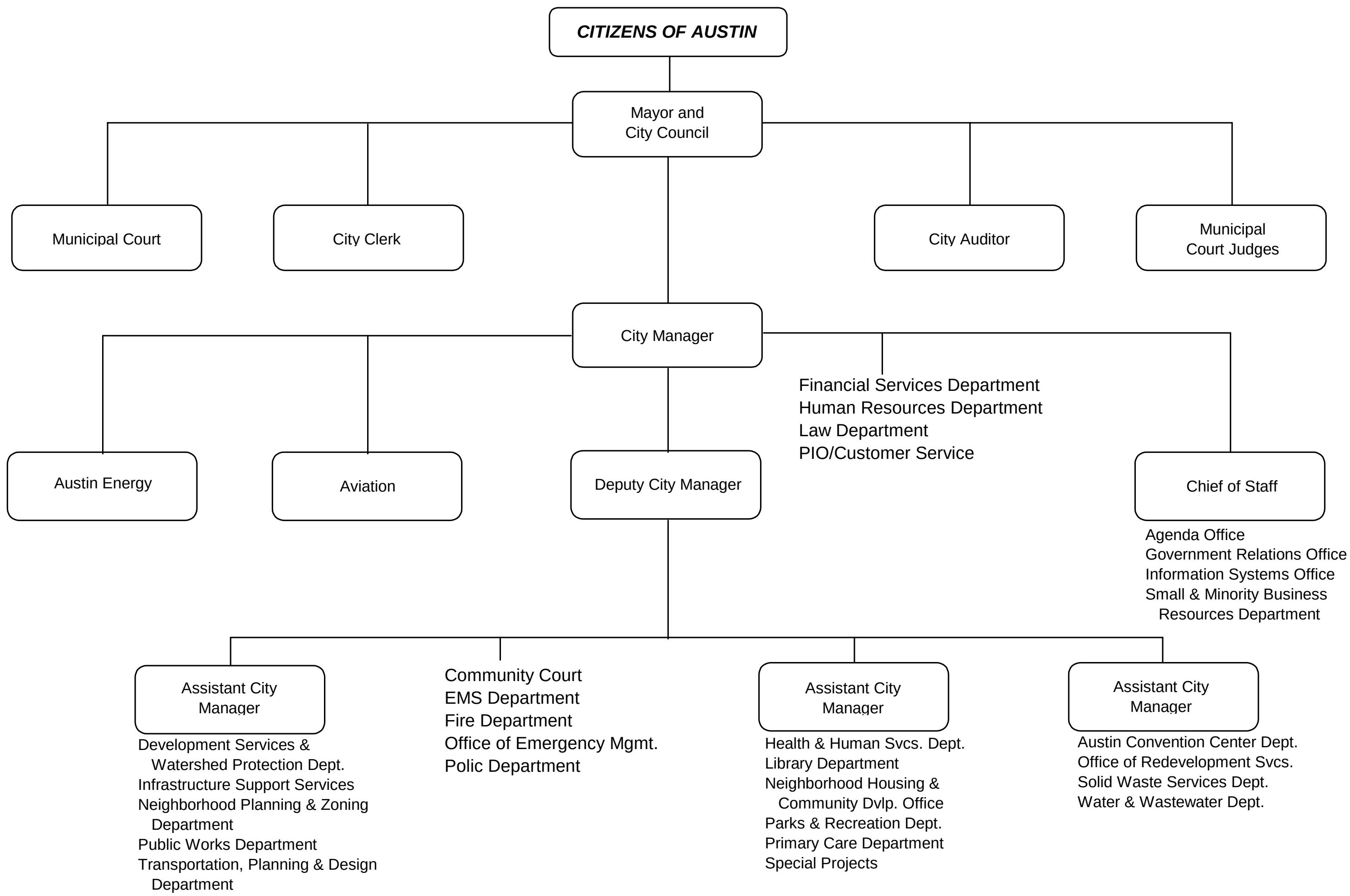
CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

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

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Jesus Garza was appointed City Manager on June 22, 1994.

City Manager – Jesus Garza

Mr. Garza received his Masters in Public Affairs from the Lyndon Baines Johnson School of Public Affairs of the University of Texas and a Bachelor of Science degree from the University of Texas at Austin. Mr. Garza served as Acting City Manager and Assistant City Manager for the City of Austin prior to his appointment as City Manager. He previously held positions as Executive Director of the Texas Water Commission and Deputy City Manager of the City of Corpus Christi. Mr. Garza has announced his retirement as City Manager effective April 30, 2002.

Director of Financial and Administrative Service – John Stephens, CPA

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

Services Provided by the City

The City's major activities include police and fire protection, emergency medical services, parks and libraries, public health and social services, planning and zoning, general administrative services, solid waste disposal, and maintenance of bridges, streets and storm drains. The City owns and operates several major enterprises including an electric utility system, water and wastewater utility system, an airport and two public event facilities. In addition, the City owns a hospital which is operated by The Daughters of Charity Health Services of Austin under the terms of a long term lease.

Employees

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

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

Annexation Program

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

If the annexation service plan for an annexation area includes a schedule for the provision of full municipal services, the City has two and one-half years from the date of the annexation to substantially complete the capital improvements necessary to provide services to the area. However, if necessary, the City may propose a longer schedule. A wide range of services – police and fire protection, sanitation, and maintenance of public facilities such as water and wastewater facilities, road, streets, and parks – must be provided immediately following annexation. Failure to provide municipal services in accordance with the service plan may provide grounds for disannexation of the area and may also result in a refund of taxes and fees collected for services not provided. The City may not reannex for ten years any area that was disannexed for failure to provide services.

It is expected that some of the areas to be annexed will include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes (see "Services Financed by Utility Districts"). Existing utility districts, as well as those that may be created from time to time, may issue bonds for their own improvements.

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

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

The City Charter and the State's annexation laws provide for the City with the ability to undertake two types of annexation. "Full purpose" annexation, discussed above, annexes territory into the City for all purposes, including the assessment and collection of ad valorem taxes on taxable property. The second type of annexation is known as "limited purpose" annexation by which territory may be annexed for the limited purposes of "Planning and Zoning" and "Health and Safety." Territory so annexed is subject to ordinances achieving these purposes: chiefly, the City's zoning ordinance, building code, and related ordinances regulating land development. Taxes may not be imposed on property annexed for limited purposes; municipal services are not provided; and residents of the area are restricted to voting only in City elections for City Council and Charter amendments. The City believes that limited purpose annexation is a valuable growth management tool. As noted below, the City annexed over 20,000 acres of territory for limited purposes in 1984 and has developed annual Strategic Annexation Programs since 1987. These programs prioritized areas to be considered for annexation at the end of the calendar year, thereby minimizing the fiscal impact to the City due to annexation.

The following table sets forth (in acres) the annual results of the City of Austin annexations since 1991 Negative numbers reflect disannexations in excess of acreage annexed. The data presented in the table for limited purpose acres has been adjusted. Previously, total limited purpose acres annexed annually were reduced by the number of acres converted from limited to full purpose status. This decrease in the total annual limited purpose acres annexed has been eliminated, along with the net annexation column.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
1992	960	0
1993	2,795	0
1994	3,057	0
1995	(1,748)	2,770
1996	3,163	0
1997	15,083	0
1998	2,660	1,698
1999	90	588
2000	4,057	4,184
2001	3,908	1,972

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

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

Recent Annexation

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

Annexations completed in 2000 included several undeveloped tracts and right of ways, the Davenport West area, adjacent to a previously annexed municipal utility district, and the Eubank Acres area in north central Austin. These areas added approximately $93 million in taxable assessed value and a population of 1,600 to the City of Austin. The Avery Ranch area was annexed for limited purposes in 1999.

Austin MUDs 1, 2, and 3, also known as the Harris Branch MUDs, were converted from limited purpose jurisdiction and reannexed by the City for full purposes in December 1998. This annexation added $50.4 million in taxable assessed value and a population of 1,575 to the City of Austin.

Ten MUDs were annexed by the City of Austin in December 1997, adding over $1.034 billion in taxable assessed value and a population of 22,432 to the City. These MUD annexations were a part of the 1997 annexation plan, which added a total of over $1.691 billion in taxable assessed value and a population of 29,131 to the City of Austin. Some of the recently annexed areas continue to experience growth along with increased taxable assessed value.

Litigation related to some of the areas annexed in 1997 was settled in 2000. Portions of the Circle C MUDs were included in a Water Quality Protection Zone (WQPZ) which was created just prior to annexation. The Texas Supreme Court has overturned the law under which the WQPZ was created. The Circle C MUDs were also included in the Southwest Travis County Water District (SWTCWD) pursuant to a statute passed by the Legislature in 1995. This statute was overturned by an appeals court. An appeal of that decision to the Texas Supreme Court was withdrawn. Pursuant to settlement agreements with certain developers and residents in the Circle C MUDs, remaining challenges to the annexation of the Circle C MUDs have been withdrawn. Consequently, there are no longer any challenges to the 1997 annexations of the Circle C MUDs.

Future Annexation

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

- Avery Ranch – sections of limited purpose area will continue to be converted to full purpose status
- Springwoods MUD and adjacent areas – annexation in December 2002 (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects)
- Canterbury Trails Annexation Area – December 2002
- Motorola Campus – limited purpose area with conversion in September 2003
- Onion Creek Annexation Area – December 2003
- Anderson Mill MUD and adjacent areas – September 2004
- Wildhorse Ranch – limited purpose area with conversions to full purpose expected to begin in December 2003.

Pension Plans

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

The Police Officers contribute 9.0% and the City contributes 18% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 11.7% of payroll, the City contributes 20.05%.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund and Firefighter's Fund over 8.5 years and 10.6 years, respectively. The Municipal Employees Fund is fully funded.

In accordance with the Governmental Accounting Standards Board Statement Number 5, the pension benefit obligation for the Municipal Employees Fund as of December 31, 1999, was $1,044,500. The pension benefit obligation for the Police Officers' Fund as of December 31, 1999, was $257,850,000. The pension benefit obligation for the Firefighters' Pension Fund as of December 31, 1999, was $317,223,000. See Note 9 to the City's Financial Statements for additional information on the Pension Plans.

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees. Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these benefits. Post retirement benefits include health insurance and $1,000 of life insurance for the retired employee only. The City pays either all or a portion of the retiree's health insurance premiums, depending upon the health care plan selected. Retirees may also receive health insurance benefits for dependents eligible under the plan at their own cost.

The City recognizes the cost of providing these benefits to employees and retirees by expensing the City contributions to the Health Benefits Fund in the year in which the contributions are made. Total contributions were $27,394,366 in 1999 and $24,600,422 in 1998. The cost for providing those benefits for 1,930 retirees and 9,020 active employees in 1999 and 1,769 retirees and 8,699 active employees in 1998 is not separable.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately $12.5 million for claims and damages at the end of fiscal year 1999. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Health Benefits Fund.

INVESTMENTS

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

Legal Investments

Under Chapter 2256, Texas Government Code (The Public Funds Investment Act), the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, is eligible collateral for borrowing from a Federal Reserve Bank and is accepted by a domestic bank whose short-term obligations are rated at least A-l, P-l, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated; (6) commercial paper with a stated maturity of 270 days or less from the date of its issuance that either (a) is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or, (b) is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof; (7) fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas, and secured by obligations described by 1 above (the principal and interest on which are guaranteed by the United States or any of its agencies), pledged with a third party selected or approved by the City, and having a market value of no less than the principal amount of the funds disbursed (the term includes direct security repurchase agreements and reverse security repurchase agreements and the term of any reverse repurchase agreement may not exceed 90 days after the reverse security repurchase agreement is delivered; money received by the City under the terms of a reverse security repurchase agreement may be used to acquire additional authorized investments, but the term of the authorized investment acquired must mature not later than the expiration date stated in the reverse security repurchase agreement); (8) certificates of deposit issued by state and national banks domiciled in Texas that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issues that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the City; (9) certificates of deposit issued by savings and loan associations domiciled in Texas that are (a) guaranteed or insured by the Federal Savings and Loan Insurance Corporation or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates, or in any other manner and amount provided by law for deposits of the City; (10) share certificates issued by a state or federal credit union domiciled in Texas that are (a) guaranteed or insured by the National Credit Union Share Insurance Fund or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates, or in any other manner and amount provided by law for deposits of the City; (11) SEC-regulated, no-load money market mutual funds with a dollar-weighted average stated portfolio maturity of 90 days or less and whose investment objectives include seeking to maintain a stable net asset value of $1 per share; (12) no-load mutual funds registered with and regulated by the SEC that have a dollar weighted average stated maturity of less than two years, invest exclusively in obligations described in the preceding clauses, 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 or no lower than investment grade with a weighted average maturity no greater than 90 days; the City may not invest funds under its control in an amount that exceeds

10% of the total assets of any individual money market mutual fund described in clauses (11) or (12); (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas; Government Act) as amended, whose assets consist exclusively of the obligations that are described by Section IV, A, 1-9 above. A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service. The City also may invest bond proceeds in a guaranteed investment contract.

State law strictly prohibits investment 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. In addition, the City is prohibited from investing any portion of bond proceeds, reserves and funds held for debt service in no-load mutual funds.

State law also treats as an eligible investment a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas and electric energy to protect a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public against loss due to price fluctuations. As used in the Public Funds Investment Act, "hedging" means the buying and selling of fuel oil, natural gas, and electric energy futures or options or similar contracts on those commodity futures as a protection against loss due to price fluctuations.

Investments in collateralized mortgage obligations are strictly prohibited by the City of Austin investment policy. These securities are also disallowed for collateral positions.

Investment Policies

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

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

Additional Provisions

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

Current Investments

As of December 31, 2001, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U.S. Treasuries	13.10%
U.S. Agencies	48.30%
Commercial Paper	1.70%
Repurchase Agreements	0.00%
Money Market Funds	15.30%
TexasTERM	5.90%
Local Government Investment Pools	15.70%

The dollar weighted average maturity for the combined City investment portfolios is 1.67 years. The City prices the portfolios daily utilizing a market pricing service.

TAX EXEMPTION

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

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

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

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Issuer as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the Owners. 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 its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount and Premium Bonds

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

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Second Supplement, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to 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 Systems 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 end. 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 updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year is October 1 to September 30. Accordingly, it must provide updated information by March 31, 2003 and in each succeeding year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the 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 within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and the SID. 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. 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 Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Systems, 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.

Compliance with Prior Undertakings

The City is in material compliance with all prior undertakings under Rule 15c2-12.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received unenhanced ratings of "A3 by Moody's Investors Service, Inc. ("Moody's"), "A-" by Standard & Poor's Rating Group ("S&P") and "A" by Fitch IBCA, Inc. ("Fitch"). The Bonds will be rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch as a result of the policy issued by the Insurer (see "Bond Insurance"). An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the City nor the Financial Advisor will undertake any responsibility to notify bondholders of any such revisions or withdrawals of rating.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER RELEVANT INFORMATION – Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Opinions

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, "Security for the Bonds," "Description of the Bonds", "Tax Exemption," "Continuing Disclosure of Information," "APPENDIX C" and "APPENDIX D" to verify that the information relating to the Bonds and the Ordinance contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the Closing occurring. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the BOOK-ENTRY ONLY SYSTEM. Certain legal matters will be passed upon for the Underwriter's Counsel by Winstead Sechrest & Minick P.C., counsel to the Underwriters.

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

Financial Advisor

Public Financial Management, 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. Public Financial Management, 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.

Verification of Mathematical Calculations

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

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

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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

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

____
Mayor
City of Austin, Texas

ATTEST:

____
City Clerk
City of Austin, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

Life in Austin

Austin is a unique city known for its beauty, its dynamic style, and its diverse community. Located in the heart of the Texas Hill Country, the Austin area is blessed with panoramic views, an abundance of rivers and lakes, and a climate that is conducive to outdoor activity.

Austin is a great place to enjoy the outdoors. With Austin's winter temperatures rarely dipping below freezing and often reaching into the 70's and 80's and with long summers, the city, county, and state parks and recreation facilities are busy year-round.

Austin Weather

Mean temperature	69
Mean low temperature	58
Mean high temperature	78
Clear days	116
Average rainfall	32"
Average days of sunshine	300

Austin's Parks and Recreation Department (PARD) is acknowledged as one of the finest in the country. For the second consecutive year PARD was a finalist for the national Gold Medal Award given by the National Recreation and Park Association. PARD administers a number of public outdoor recreational facilities, including numerous 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, including renowned Barton Springs, where as many as 300,000 people a year enjoy its constant 68 degree spring-fed water.

Austin is home to a number of outdoor events and festivals, including various art, music, food and wine festivals, races and bicycle rides and nightly flights of the world's largest urban bat colony. A favorite holiday event is the Trail of Lights, a festive, mile-long display of lighted scenes of the holiday season, with over 200,000 visitors in two weeks.

In addition to outdoor recreational opportunities, Austinites can choose from a wide variety of indoor recreational activities. 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. Austin also has a number of museums, art galleries, a new opera facility and a wide variety of restaurants and clubs, especially in the popular Sixth Street and Warehouse District areas.

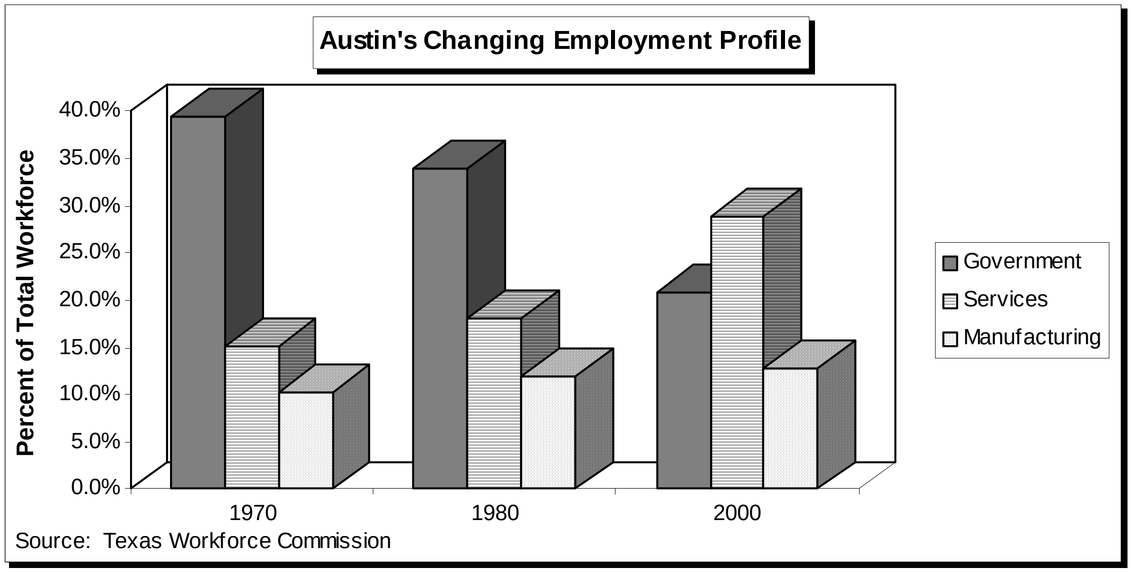
With its seven institutions of higher learning and 90,000 students, education is a significant aspect of life in the Austin area. Access to these institutions, especially the University of Texas at Austin (UT), has attracted many of the high-technology industries that now drive most of the growth in the City's economy. The largest public University in the nation, UT is known as a world-class center of education and research.

Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with 30% of its adults having a college degree and over 88% of the workforce having some college education. The city may also have the most computer-literate populace in the country. *Yahoo Magazine* rated Austin as one of the top five most wired cities in the nation. *MONEY* magazine selected Austin as one of the "Best Places to Live" in the country.

Industry and Business

In 2000, the Austin metropolitan area continued to receive national recognition for its dynamic economy and its quality of life. *Forbes* magazine names Austin the best place to do business and advance your career. *Sales and Marketing Management* magazine named Austin as "One of the Best Places to do Business Next Year".

As the capital of Texas and the home of the University of Texas, Austin has long been considered a government and university town. However, Austin is also one of the premier high-tech communities in the country. Approximately 200 companies in Austin employ people in producing computers or computer peripherals. These companies and various other professional service and low-tech firms make up a key segment of Austin's growing employment base. While government employment is still a stabilizing force in the Austin economy, it now accounts for a much lower percentage of the make-up of Austin's total employment. As the comparison below shows, since 1970, government employment has decreased substantially relative to the other large employment sectors in the Austin area.



Although the high technology industry in Austin has recently suffered a decline, the outlook for Austin's high technology industry remains promising and the City's ability to attract new businesses and individuals remains strong, though the City cannot predict the growth of economic development or the population of the City. Austin is a unique place that offers an abundance of recreational and cultural activities and excellent municipal services. The area's large university student population, primarily at the University of Texas, helps to keep the City intellectually active and provides a valuable resource to companies locating to the area.

With all the features Austin has to offer, the City enjoys a strong tourism industry, which has a significant impact on the Austin economy. There are more than 13,000 hotel rooms available in the Austin area, and Austin hotels experienced a 76% occupancy rate, up 6% from 1999. The City's existing convention and meeting facilities include the Austin Convention Center, whose expanded facility will open in 2002, Palmer Auditorium and City Coliseum. Other facilities available in Austin include the Erwin Center at the University of Texas and the Texas Exposition and Heritage Center.

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	1970	% of Total	1980	% of Total	1990	% of Total	2000	% of Total	June 30, 2001	% of Total
Manufacturing	13,300	10.3%	30,550	12.9%	49,300	12.6%	84,662	12.9%	82,600	12.0%
Government	51,150	39.5%	80,950	34.3%	110,400	28.8%	137,171	20.9%	140,400	20.3%
Trade	26,100	20.2%	48,400	20.5%	78,400	20.4%	150,231	22.9%	156,000	22.6%
Services and Miscellaneous	19,600	15.1%	40,950	17.3%	97,200	25.3%	190,048	28.9%	213,000	30.9%
Finance, Insurance and Real Estate	6,150	4.7%	13,700	5.8%	23,400	6.1%	32,031	4.9%	33,500	4.9%
Contract Construction	8,750	6.8%	13,300	5.6%	12,000	3.1%	39,134	6.0%	40,000	5.8%
Transportation, Communications & Utilities	4,000	3.1%	7,200	3.1%	12,100	3.2%	21,540	3.3%	22,900	3.3%
Mining	450	0.3%	1,100	0.5%	700	0.2%	1,353	0.2%	1,700	0.2%
Total	129,500	100.0%	236,150	100.0%	383,500	100.0%	656,170	100.0%	690,600	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 2001 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of June 30, 2001.

Source: 2000 Comprehensive Annual Financial Report, Texas Workforce Commission.

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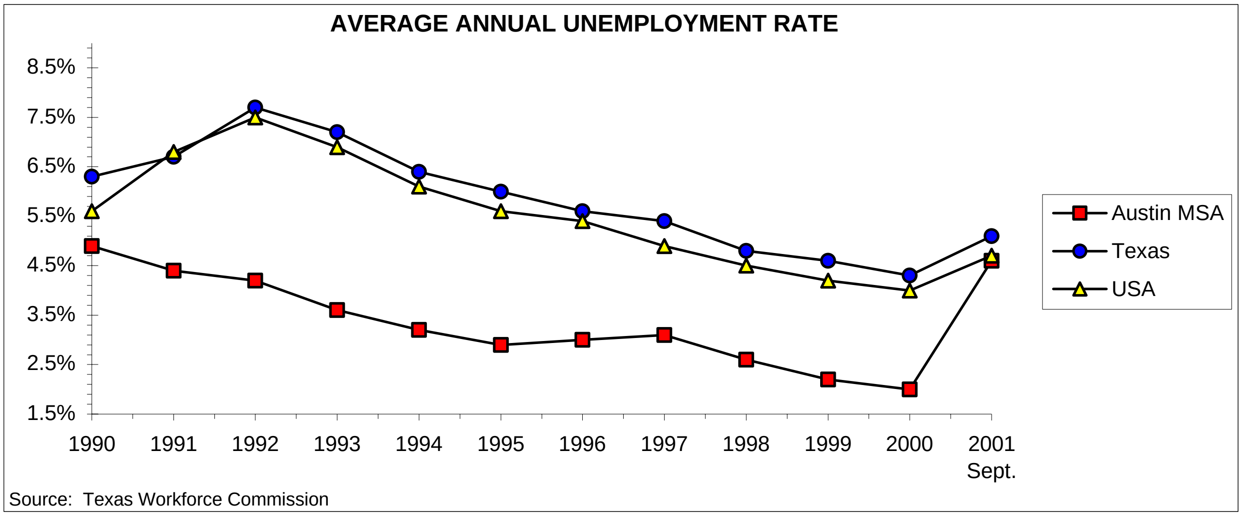
Average Annual Unemployment Rate



	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 Sept	4.6%	5.1%	4.7%

Note: Information is updated periodically, data contained herein is latest provided.
Source: 2001 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-97	$ 5.421	1-1-98	$ 6.399	1-1-99	$ 7.335	1-1-00	$ 8.790	1-1-01	$ 8.964
2-1-97	10.626	2-1-98	10.708	2-1-99	12.155	2-1-00	12.316	2-1-01	13.362
3-1-97	5.734	3-1-98	6.641	3-1-99	7.318	3-1-00	8.799	3-1-01	8.791
4-1-97	5.848	4-1-98	6.780	4-1-99	7.252	4-1-00	8.119	4-1-01	8.887
5-1-97	7.861	5-1-98	9.155	5-1-99	10.027	5-1-00	11.234	5-1-01	11.754
6-1-97	6.446	6-1-98	7.367	6-1-99	7.900	6-1-00	9.091	6-1-01	8.865
7-1-97	6.013	7-1-98	7.056	7-1-99	7.632	7-1-00	9.314	7-1-01	9.208
8-1-97	8.541	8-1-98	9.587	8-1-99	10.611	8-1-00	11.313	8-1-01	10.941
9-1-97	6.569	9-1-98	7.251	9-1-99	7.916	9-1-00	8.718	9-1-01	8.713
10-1-97	6.967	10-1-98	7.277	10-1-99	7.855	10-1-00	9.356	10-101	9.299
11-1-97	8.477	11-1-98	8.623	11-1-99	9.676	11-1-00	11.423		
12-1-97	6.770	12-1-98	7.417	12-1-99	9.239	12-1-00	9.346		

Source: State of Texas Comptroller's Office.

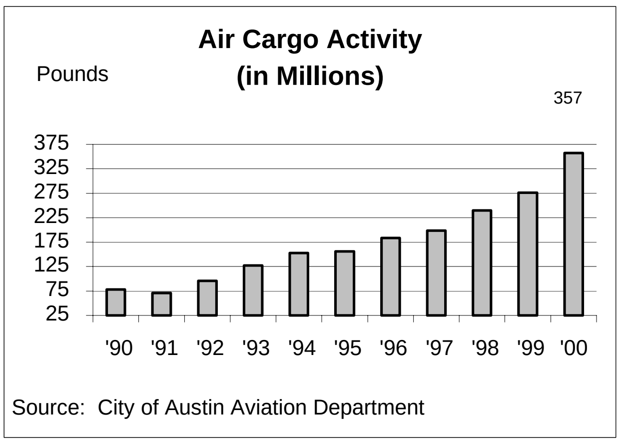
Ten Largest Employers (As of September 30, 2000)

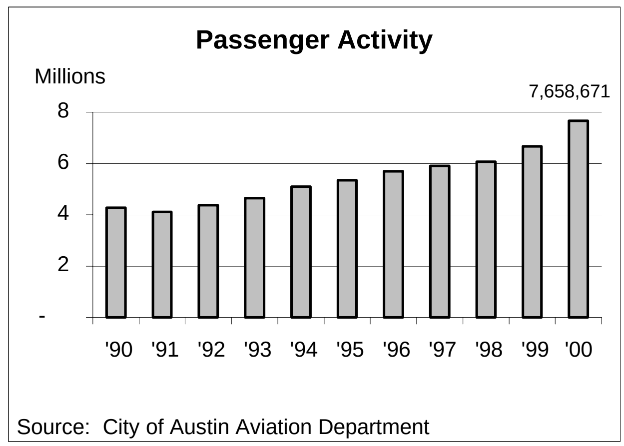
Employer	Product or Service	Employees
Dell Computer Corporation	Computers	20,800
The University of Texas at Austin	Education and Research	20,277
City of Austin	City Government	10,566
Motorola, Inc.	Electronic Components	10,500
Austin Independent School District	Education	9,417
HEB Grocery	Grocery/Pharmacy	7,500
Seton Medical Center	Hospital	6,756
IBM Corporation	Office Machines	6,500
Internal Revenue Service	Federal Agency	5,800
Advanced Micro Devices	Computers	4,600

Source: 2000 Comprehensive Annual Financial Report.

Transportation

Austin-Bergstrom International Airport





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

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

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

Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 9 major airlines: American, America-West, Continental, Delta, Northwest, Southwest, TWA, United and Vanguard. In addition, Atlantic Southeast and Skywest Airlines serve Austin as commuter airlines. Direct service is available to major U.S. 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%

(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

Source: 2000 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.

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Effective Buying Income and Retail Sales

Area	Median Household EBI	Per Capita EBI	% of Households by EBI Group* A	B	C	D	Per Capita Retail Sales
City of Austin	$39,811	$22,241	24.0%	20.4%	15.7%	39.9%	$ 34,173
Austin MSA	43,415	21,661	21.8%	19.0%	15.5%	43.7%	24,039
Texas	37,636	17,677	26.4%	20.6%	15.8%	37.2%	13,648
USA	39,129	18,426	24.4%	20.7%	16.8%	38.2%	12,889

*Group A $0 - $19,999
*Group B $20,000 - 34,999
*Group C $35,000 - 49,999
*Group D $50,000 and over
Source: 2001 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 $942 per month during the second quarter of year 2001, with an occupancy rate of 94.2% in the first three months of 2001.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1991	7,581	$ 711,123,662	$ 93,803
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	18,562	3,550,230,620	190,340
2001 (Sept)	13,609	2,646,788,176	196,335

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
1991	78.9%
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	94.5%
2001 (2nd Quarter)	93.0%

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

Education

The Austin Independent School District had an enrollment of 77,050 for the Spring of 2001. This reflects an increase of 1.03% in enrollment from the Spring of 2000. The District includes 106 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	77,050	72,076

Source: Austin Independent School District.

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

The University of Texas at Austin had an enrollment of 50,616 for the fall semester of 2001 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 $2.1 billion in 1999. There are more than 15,700 hotel rooms available within the Austin Metropolitan Area. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. For the second quarter of 2001 the occupancy rate for the Austin area was 66.7%, with a downtown average room rate of $131.31.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy tax collections and revenues of the facility, the Palmer Auditorium with a seating capacity of 5,996 or 60,000 square feet of exhibit space; and City Coliseum which has a seating capacity of 3,600 or 28,000 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

RICHARD MENDOZA
Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

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

We have audited the general purpose financial statements of the City of Austin, Texas ("City") as of and for the year ended September 30, 2001, as listed in the accompanying table of contents under "General Purpose Financial Statements" and the following individual fund supporting financial statements included in Exhibit F-1, Exhibit F-2, and Exhibit F-3: Electric Fund Balance Sheet, Electric Fund Statement of Revenues, Expenses, and Changes in Retained Earnings, Electric Fund Statement of Cash Flows, Water and Wastewater Fund Balance Sheet, Water and Wastewater Fund Statement of Revenues, Expenses, and Changes in Retained Earnings, Water and Wastewater Fund Statement of Cash Flows, Airport Fund Balance Sheet, Airport Fund Statement of Revenues, Expenses, and Changes in Retained Earnings, and Airport Fund Statement of Cash Flows. These general purpose financial statements and individual fund supporting financial statements listed above are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements and individual fund supporting financial statements listed above 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 general purpose financial statements and individual fund supporting financial statements listed above are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements and individual fund supporting financial statements listed above. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and the presentation of the individual fund supporting financial statements listed above. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Austin, Texas as of September 30, 2001, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the individual fund supporting financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds as of September 30, 2001, and the results of operations and the cash flows of such funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Richard Mendoza, CPA

Austin, Texas
January 18, 2002

ALL FUND TYPES AND ACCOUNT GROUPS
COMBINED BALANCE SHEET
September 30, 2001
With comparative totals for September 30, 2000

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Current assets:				
Cash	$ 87,388	6,835	246	--
Pooled investments and cash	35,120,932	57,155,129	--	127,703,177
Investments, at fair value	--	903,585	16,344,051	--
Working capital advances	--	--	--	--
Cash and investments held by trustee	--	--	--	--
Receivables, net of allowances:				
Property taxes	4,445,274	--	3,072,010	--
Accounts and other receivables	27,849,270	16,982,963	--	2,384,375
Receivables from other governments	--	10,477,094	--	--
Due from other funds	--	13,689,040	--	7,997,755
Inventories, at cost	1,522,969	259,336	--	--
Real property held for resale	--	4,290,745	--	--
Other assets	273,011	930,616	--	839,748
Total current assets	69,298,844	104,695,343	19,416,307	138,925,055
Restricted assets:				
Revenue note current debt service account	--	--	--	--
Revenue bond current debt service account	--	--	--	--
Revenue bond future debt service account	--	--	--	--
Revenue bond retirement reserve account	--	--	--	--
Construction account	--	--	--	--
Due from other funds	--	--	--	--
Advances to other funds	--	--	--	--
Decommissioning account	--	--	--	--
Capital improvement account	--	--	--	--
Operating reserve account	--	--	--	--
Hotel occupancy tax account	--	--	--	--
Renewal and replacement account	--	--	--	--
Investments and cash held by trustee	--	--	--	--
Nuclear fuel inventory acquisition account	--	--	--	--
Mueller disposition account	--	--	--	--
Customer and escrow deposits	--	--	--	--
Other restricted accounts	--	--	--	--
Total restricted assets	--	--	--	--
Fixed assets, at cost:				
Property, plant and equipment	--	--	--	--
Less accumulated depreciation	--	--	--	--
Net property, plant and equipment	--	--	--	--
Investment in municipal utility districts	--	--	--	--
Intangible assets, net of amortization	--	--	--	--
Other long-term assets	--	--	--	--
Deferred costs and expenses, net of amortization	--	--	--	--
Other debits:				
Amount available in debt service funds	--	--	--	--
Amount to be provided for accrued compensated absences	--	--	--	--
Amount to be provided for retirement of long-term debt	--	--	--	--
Total assets	$ 69,298,844	104,695,343	19,416,307	138,925,055

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	2001	2000
44,300	22,875	--	--	--	161,644	195,563
133,857,198	53,308,192	8,112,717	--	--	415,257,345	341,916,193
--	--	--	--	--	17,247,636	10,461,177
3,014,635	--	--	--	--	3,014,635	2,548,202
--	292,073	--	--	--	292,073	198,423
--	--	--	--	--	7,517,284	7,567,074
135,001,019	321,341	--	--	--	182,538,968	211,976,161
--	--	128,894	--	--	10,605,988	15,066,423
150,000	--	--	--	--	21,836,795	33,218,120
48,991,431	1,668,318	--	--	--	52,442,054	50,021,832
--	--	--	--	--	4,290,745	1,923,982
27,798,023	295,823	--	--	--	30,137,221	66,596,625
348,856,606	55,908,622	8,241,611	--	--	745,342,388	741,689,775
392,997	--	--	--	--	392,997	441,867
134,089,286	--	--	--	--	134,089,286	118,709,645
192,196,078	--	--	--	--	192,196,078	221,753,105
177,614,370	--	--	--	--	177,614,370	168,178,520
325,032,405	1,885,414	--	--	--	326,917,819	376,567,991
26,872	--	--	--	--	26,872	384,424
4,559,850	--	--	--	--	4,559,850	4,586,722
72,591,362	--	--	--	--	72,591,362	63,515,224
34,547,866	--	--	--	--	34,547,866	15,485,262
6,900,950	--	--	--	--	6,900,950	17,509,286
572,788	--	--	--	--	572,788	2,076,499
11,063,999	--	--	--	--	11,063,999	11,043,578
5,213,934	--	--	--	--	5,213,934	20,393,686
31,898,253	--	--	--	--	31,898,253	33,473,935
5,778,587	--	--	--	--	5,778,587	2,616,040
7,325,312	--	--	--	--	7,325,312	12,199,305
14,153,590	--	--	--	--	14,153,590	10,156,981
1,023,958,499	1,885,414	--	--	--	1,025,843,913	1,079,092,070
6,494,638,304	77,773,612	--	734,191,487	--	7,306,603,403	6,775,627,049
(1,944,774,595)	(26,697,015)	--	--	--	(1,971,471,610)	(1,822,117,652)
4,549,863,709	51,076,597	--	734,191,487	--	5,335,131,793	4,953,509,397
1,756,084	--	--	--	--	1,756,084	2,107,665
95,101,582	--	--	--	--	95,101,582	97,500,000
3,969,980	--	--	--	--	3,969,980	1,326,942
634,789,800	8,404	--	--	--	634,798,204	641,821,907
--	--	--	--	16,467,130	16,467,130	9,756,704
--	--	--	--	49,412,297	49,412,297	47,885,622
--	--	--	--	566,110,732	566,110,732	553,810,692
6,658,296,260	108,879,037	8,241,611	734,191,487	631,990,159	8,473,934,103	8,128,500,774

(continued)

ALL FUND TYPES AND ACCOUNT GROUPS
COMBINED BALANCE SHEET
September 30, 2001
With comparative totals for September 30, 2000

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
LIABILITIES, EQUITY AND OTHER CREDITS				
Current liabilities:				
Accounts payable	$ 5,586,536	4,690,171	--	7,072,545
Accrued payroll	5,798,262	268,918	--	--
Accrued compensated absences	2,774,177	192,714	--	--
Claims payable	--	--	--	--
Construction contracts payable	--	--	--	--
Contract revenue bonds payable	--	--	--	--
Due to other governments	--	--	--	--
Due to other funds	--	13,839,040	--	7,994,095
Interest payable on other debt	--	--	--	--
General obligation bonds payable and other tax supported debt	--	--	--	--
Water improvement district bonds payable	--	--	--	--
Capital lease obligations payable	--	--	--	--
Deferred revenue and other liabilities	7,059,278	46,022,257	2,949,177	929,415
Total current liabilities	21,218,253	65,013,100	2,949,177	15,996,055
Liabilities payable from restricted assets:				
Accounts and retainage payable	--	--	--	--
Accrued interest payable	--	--	--	--
General obligation bonds and other tax supported debt payable	--	--	--	--
Revenue bonds payable within one year	--	--	--	--
Capital lease obligations payable	--	--	--	--
Decommissioning expense payable	--	--	--	--
Nuclear fuel expense payable	--	--	--	--
Other liabilities	--	--	--	--
Total liabilities payable from restricted assets	--	--	--	--
Long-term obligations, net of current portion:				
Accrued compensated absences	--	--	--	--
Claims payable	--	--	--	--
Construction contracts payable	--	--	--	--
Contract revenue bonds payable, net of discount	--	--	--	--
Advances from other funds	--	--	--	--
Loans payable	--	--	--	--
Capital appreciation bond interest payable	--	--	--	--
Commercial paper notes payable	--	--	--	--
Revenue notes payable	--	--	--	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	--	--	--	--
Revenue bonds payable, net of discount and inclusive of premium	--	--	--	--
Water improvement district bonds payable	--	--	--	--
Capital lease obligations payable	--	--	--	--
Decommissioning assessment payable	--	--	--	--
Accrued landfill closure and postclosure costs	--	--	--	--
Deferred revenue and other liabilities	--	--	--	--
Total liabilities	$ 21,218,253	65,013,100	2,949,177	15,996,055

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	**Internal Service**	**Trust and Agency**	**General Fixed Assets**	**General Long-Term Debt**	**2001**	**2000**
70,348,995	5,015,021	42,177	--	--	92,755,445	100,063,130
4,260,772	1,735,063	--	--	--	12,063,015	9,638,871
10,888,218	4,055,853	--	--	--	17,910,962	18,378,165
--	14,101,232	--	--	--	14,101,232	13,747,986
204,041	--	--	--	--	204,041	1,074,032
6,605,000	--	--	--	--	6,605,000	6,930,000
--	--	1,587,256	--	--	1,587,256	1,310,591
--	26,872	3,660	--	--	21,863,667	33,602,544
5,210,331	70,899	--	--	--	5,281,230	6,392,313
2,953,607	1,058,294	--	--	--	4,011,901	3,906,398
250,000	--	--	--	--	250,000	366,000
2,286,614	--	--	--	--	2,286,614	2,100,001
7,863,588	1,000,451	3,198,822	--	--	69,022,988	63,425,716
110,871,166	27,063,685	4,831,915	--	--	247,943,351	260,935,747
46,646,854	--	--	--	--	46,646,854	40,191,049
71,024,255	--	--	--	--	71,024,255	62,027,168
5,045,853	--	--	--	--	5,045,853	3,688,803
105,220,662	--	--	--	--	105,220,662	104,302,365
--	--	--	--	--	--	7,500,000
72,591,362	--	--	--	--	72,591,362	63,515,224
31,898,253	--	--	--	--	31,898,253	33,473,935
10,970,414	--	--	--	--	10,970,414	11,954,008
343,397,653	--	--	--	--	343,397,653	326,652,552
8,106,045	2,466,758	--	--	49,412,297	59,985,100	56,381,438
--	9,416,434	--	--	--	9,416,434	8,378,102
75,000	--	--	--	--	75,000	75,000
69,858,104	--	--	--	--	69,858,104	88,254,611
--	241,850	--	--	4,318,000	4,559,850	4,586,722
--	--	--	--	11,208,126	11,208,126	9,210,660
145,060,818	--	--	--	--	145,060,818	128,547,946
228,468,720	--	--	--	--	228,468,720	403,255,427
28,000,000	--	--	--	--	28,000,000	28,000,000
61,855,982	4,917,785	--	--	562,677,630	629,451,397	623,286,293
3,125,935,659	--	--	--	--	3,125,935,659	2,875,791,298
--	--	--	--	--	--	423,000
16,636,520	--	--	--	--	16,636,520	17,534,999
1,703,648	--	--	--	--	1,703,648	1,976,937
6,904,024	--	--	--	--	6,904,024	6,700,886
42,636,780	--	--	--	4,374,106	47,010,886	9,233,172
4,189,510,119	44,106,512	4,831,915	--	631,990,159	4,975,615,290	4,849,224,790

(continued)

ALL FUND TYPES AND ACCOUNT GROUPS
COMBINED BALANCE SHEET
September 30, 2001
With comparative totals for September 30, 2000

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Continued				
Equity and other credits:				
Contributions from municipality	$ --	--	--	--
Contributions from State and Federal governments	--	--	--	--
Contributions in aid of construction	--	--	--	--
Contributions from the private sector	--	--	--	--
Investment in general fixed assets	--	--	--	--
Retained earnings:				
Reserved for renewal and replacement	--	--	--	--
Reserved for passenger facility charge	--	--	--	--
Unreserved	--	--	--	--
Fund balances:				
Reserved:				
Encumbrances	6,460,867	3,276,115	--	79,211,890
Inventories and prepaid items	1,795,980	259,336	--	--
Notes receivable	--	3,441,706	--	--
Real property held for resale	--	4,290,745	--	--
Nonexpendable trust	--	--	--	--
Emergencies	15,000,000	--	--	--
Contingencies	366,953	--	--	--
Unreserved:				
Designated for future use	539,613	29,247,723	--	--
Designated for debt service	--	--	16,467,130	--
Designated for purposes of trust	--	--	--	--
Undesignated	23,917,178	(833,382)	--	43,717,110
Total equity and other credits	48,080,591	39,682,243	16,467,130	122,929,000
Total liabilities, equity and other credits	$ 69,298,844	104,695,343	19,416,307	138,925,055

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	**Internal Service**	**Trust and Agency**	**General Fixed Assets**	**General Long-Term Debt**	**2001**	**2000**
56,252,909	53,464,798	--	--	--	109,717,707	102,259,366
162,967,116	--	--	--	--	162,967,116	167,117,885
394,672,524	--	--	--	--	394,672,524	410,144,687
4,175,344	--	--	--	--	4,175,344	4,175,344
--	--	--	734,191,487	--	734,191,487	669,969,579
11,063,999	--	--	--	--	11,063,999	11,065,953
11,909,161	--	--	--	--	11,909,161	10,152,485
1,827,745,088	11,307,727	--	--	--	1,839,052,815	1,680,670,900
--	--	--	--	--	88,948,872	62,693,897
--	--	--	--	--	2,055,316	1,824,251
--	--	--	--	--	3,441,706	5,040,609
--	--	--	--	--	4,290,745	1,923,982
--	--	1,040,217	--	--	1,040,217	1,040,217
--	--	--	--	--	15,000,000	17,658,310
--	--	--	--	--	366,953	615,422
--	--	--	--	--	29,787,336	33,760,268
--	--	--	--	--	16,467,130	9,756,704
--	--	2,369,479	--	--	2,369,479	4,224,460
--	--	--	--	--	66,800,906	85,181,665
2,468,786,141	64,772,525	3,409,696	734,191,487	--	3,498,318,813	3,279,275,984
6,658,296,260	108,879,037	8,241,611	734,191,487	631,990,159	8,473,934,103	8,128,500,774

ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year ended September 30, 2001
With comparative totals for year ended September 30, 2000

	Governmental Fund Types		
	General	Special Revenue	Debt Service
REVENUES			
Taxes	$ 251,749,818	36,178,201	68,639,520
Franchise fees	31,452,706	--	--
Fines, forfeitures and penalties	16,999,766	4,184,809	--
Licenses, permits and inspections	17,630,897	--	--
Charges for services/goods	14,984,531	22,836,690	--
Intergovernmental revenues	--	42,307,471	--
Property owners' participation and contributions	--	--	--
Contributions to trusts	--	--	--
Interest and other	10,584,063	22,076,579	3,101,822
Total revenues	343,401,781	127,583,750	71,741,342
EXPENDITURES (1)			
Current:			
Administration	9,425,506	58,430,016	--
Urban growth management	11,569,463	--	--
Public safety	210,280,836	--	--
Public services and utilities	9,519,936	--	--
Public health	41,437,116	--	--
Public recreation and culture	47,459,639	--	--
Social services management	8,071,026	--	--
Nondepartmental expenditures	57,857,261	--	--
Special projects	--	53,632,074	--
Capital outlay for construction	--	--	--
Debt service:			
Principal retirement	--	--	44,550,106
Interest, commissions and other	--	--	30,295,459
Total expenditures	395,620,783	112,062,090	74,845,565
Excess (deficiency) of revenues over expenditures	(52,219,002)	15,521,660	(3,104,223)
OTHER FINANCING SOURCES (USES)			
Proceeds of refunding bonds	--	--	110,563,444
Payment to escrow agent	--	--	(110,563,444)
Proceeds from issuance of general obligation bonds and other tax supported debt	--	--	--
Operating transfers in	86,282,962	39,320,803	9,814,649
Operating transfers out	(29,992,440)	(59,736,704)	--
Total other financing sources (uses)	56,290,522	(20,415,901)	9,814,649
Excess (deficiency) of revenues and other sources over expenditures and other uses	4,071,520	(4,894,241)	6,710,426
Fund balances at beginning of year	44,509,071	35,070,972	9,756,704
Adjustment for a change in accounting principle	--	9,070,655	--
Fund balances at beginning of year, as restated	44,509,071	44,141,627	9,756,704
Residual equity transfer in (out)	(500,000)	434,857	--
Fund balances at end of year	$ 48,080,591	39,682,243	16,467,130

(1) Expenditures include capital outlay of $2,432,283 in the General Fund, $668,248 in the special revenue funds, and $213,506 in the expendable trust funds.

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

	Fiduciary Fund Type	Totals (Memorandum Only)	
Capital Projects	**Expendable Trust**	**2001**	**2000**
--	--	356,567,539	341,986,742
--	--	31,452,706	23,699,065
--	--	21,184,575	20,024,670
--	--	17,630,897	18,173,885
--	--	37,821,221	43,227,549
8,961,227	--	51,268,698	44,973,932
11,439,828	--	11,439,828	9,508,185
--	720,273	720,273	337,735
11,963,968	189,359	47,915,791	36,906,538
32,365,023	909,632	576,001,528	538,838,301
--	--	67,855,522	65,875,366
--	--	11,569,463	10,188,934
--	20,676	210,301,512	191,614,923
--	11,773	9,531,709	6,129,315
--	--	41,437,116	41,037,563
--	2,521,381	49,981,020	44,429,880
--	--	8,071,026	9,387,107
--	--	57,857,261	53,458,609
--	--	53,632,074	39,230,221
105,423,588	--	105,423,588	99,863,556
--	--	44,550,106	27,220,117
--	--	30,295,459	42,460,582
105,423,588	2,553,830	690,505,856	630,896,173
(73,058,565)	(1,644,198)	(114,504,328)	(92,057,872)
--	--	110,563,444	--
--	--	(110,563,444)	--
58,990,000	--	58,990,000	59,330,000
41,854,349	1,000,000	178,272,763	139,301,402
(24,904,490)	(173,580)	(114,807,214)	(79,355,042)
75,939,859	826,420	122,455,549	119,276,360
2,881,294	(817,778)	7,951,221	27,218,488
120,047,706	4,224,460	213,608,913	187,793,677
--	--	9,070,655	7,806,558
120,047,706	4,224,460	222,679,568	195,600,235
--	(1,037,203)	(1,102,346)	(139,155)
122,929,000	2,369,479	229,528,443	222,679,568

GENERAL FUND, SPECIAL REVENUE FUNDS AND DEBT SERVICE FUND
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL-BUDGET BASIS
Year ended September 30, 2001

	General Fund			Annually Budgeted Special Revenue Funds		
	Actual-Budget Basis	Budget	Variance -- Favorable (Unfavorable)	Actual-Budget Basis	Budget	Variance -- Favorable (Unfavorable)
REVENUES						
Taxes	$ 251,749,818	259,543,305	(7,793,487)	--	--	--
Franchise fees	31,452,706	28,002,200	3,450,506	--	--	--
Fines, forfeitures and penalties	16,999,766	16,684,955	314,811	--	--	--
Licenses, permits and inspections	17,630,897	16,953,748	677,149	--	--	--
Charges for services/goods	13,724,721	11,262,833	2,461,888	--	--	--
Interest and other	10,584,063	8,957,902	1,626,161	74,703,323	70,953,424	3,749,899
Total revenues	342,141,971	341,404,943	737,028	74,703,323	70,953,424	3,749,899
EXPENDITURES						
Administration	9,422,061	9,757,764	335,703	55,433,485	57,906,326	2,472,841
Urban growth management	11,611,673	13,028,116	1,416,443	--	--	--
Public safety	212,694,718	217,975,633	5,280,915	--	--	--
Public services and utilities	9,681,985	10,111,779	429,794	--	--	--
Public health	41,634,578	42,067,305	432,727	--	--	--
Public recreation and culture	47,783,963	47,973,830	189,867	--	--	--
Social services management	7,296,906	8,517,380	1,220,474	--	--	--
Nondepartmental expenditures	9,007,839	9,476,990	469,151	--	--	--
Principal retirement	--	--	--	--	--	--
Interest and other	--	--	--	--	--	--
Fees and commissions	--	--	--	--	--	--
Total expenditures	349,133,723	358,908,797	9,775,074	55,433,485	57,906,326	2,472,841
Excess (deficiency) of revenues over expenditures	(6,991,752)	(17,503,854)	10,512,102	19,269,838	13,047,098	6,222,740
OTHER FINANCING SOURCES (USES)						
Operating transfers in	93,697,676	92,882,676	815,000	39,123,803	39,061,313	62,490
Operating transfers out	(81,948,329)	(85,674,400)	3,726,071	(61,071,665)	(58,852,169)	(2,219,496)
Total other financing sources (uses)	11,749,347	7,208,276	4,541,071	(21,947,862)	(19,790,856)	(2,157,006)
Excess (deficiency) of revenues and other sources over expenditures and other uses	4,757,595	(10,295,578)	15,053,173	(2,678,024)	(6,743,758)	4,065,734
Fund balances at beginning of year	39,205,196	10,315,578	28,889,618	12,275,160	5,621,098	6,654,062
Fund balances at end of year	$ 43,962,791	20,000	43,942,791	9,597,136	(1,122,660)	10,719,796

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

Debt Service Fund			Totals (Memorandum Only)		
Actual-Budget Basis	**Budget**	**Variance -- Favorable (Unfavorable)**	**Actual-Budget Basis**	**Budget**	**Variance -- Favorable (Unfavorable)**
68,639,520	68,515,476	124,044	320,389,338	328,058,781	(7,669,443)
--	--	--	31,452,706	28,002,200	3,450,506
--	--	--	16,999,766	16,684,955	314,811
--	--	--	17,630,897	16,953,748	677,149
--	--	--	13,724,721	11,262,833	2,461,888
3,101,822	3,032,846	68,976	88,389,208	82,944,172	5,445,036
71,741,342	71,548,322	193,020	488,586,636	483,906,689	4,679,947
--	--	--	64,855,546	67,664,090	2,808,544
--	--	--	11,611,673	13,028,116	1,416,443
--	--	--	212,694,718	217,975,633	5,280,915
--	--	--	9,681,985	10,111,779	429,794
--	--	--	41,634,578	42,067,305	432,727
--	--	--	47,783,963	47,973,830	189,867
--	--	--	7,296,906	8,517,380	1,220,474
--	--	--	9,007,839	9,476,990	469,151
50,813,885	48,123,885	(2,690,000)	50,813,885	48,123,885	(2,690,000)
32,728,200	36,669,300	3,941,100	32,728,200	36,669,300	3,941,100
13,962	10,000	(3,962)	13,962	10,000	(3,962)
83,556,047	84,803,185	1,247,138	488,123,255	501,618,308	13,495,053
(11,814,705)	(13,254,863)	1,440,158	463,381	(17,711,619)	18,175,000
18,525,131	12,264,564	6,260,567	151,346,610	144,208,553	7,138,057
--	--	--	(143,019,994)	(144,526,569)	1,506,575
18,525,131	12,264,564	6,260,567	8,326,616	(318,016)	8,644,632
6,710,426	(990,299)	7,700,725	8,789,997	(18,029,635)	26,819,632
9,756,704	9,350,509	406,195	61,237,060	25,287,185	35,949,875
16,467,130	8,360,210	8,106,920	70,027,057	7,257,550	62,769,507

ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
Year ended September 30, 2001
With comparative totals for year ended September 30, 2000

	Proprietary Fund Types	
	Enterprise	Internal Service
REVENUES		
Electric services	$ 806,310,682	--
Water and wastewater services	219,914,504	--
User fees and rentals	178,112,881	--
Billings to departments	--	169,413,223
Employee contributions	--	20,350,742
Operating revenues from other governments	3,266,054	--
Other operating revenues	--	4,341,498
Operating revenues	1,207,604,121	194,105,463
EXPENSES		
Electric operations	458,685,525	--
Water and wastewater operations	102,411,722	--
Other enterprise operations	141,784,303	--
Internal service operations	--	186,345,906
Depreciation and amortization	160,840,169	3,591,343
Total operating expenses	863,721,719	189,937,249
Operating income (loss) before nonoperating revenues (expenses) and operating transfers	343,882,402	4,168,214
NONOPERATING REVENUES (EXPENSES)		
Interest and other revenues	81,598,970	1,510,452
Interest on revenue bonds and other debt	(227,748,710)	(312,766)
Interest capitalized during construction	5,234,561	--
Capital contributions	46,843,438	--
Passenger facility charge	9,999,244	--
Amortization of bond issue costs	(1,452,994)	(6,223)
Other nonoperating expense	(1,732,555)	(199,576)
Total nonoperating revenues (expenses)	(87,258,046)	991,887
Costs (recovered) to be recovered in future years	(40,719,456)	--
Income (loss) before operating transfers	215,904,900	5,160,101
Operating transfers:		
Operating transfers in	36,576,026	1,000,000
Operating transfers out	(101,041,575)	--
Net income (loss)	151,439,351	6,160,101
Add depreciation transferred to contributions	2,537,185	--
Net increase in retained earnings/fund balances	153,976,536	6,160,101
Retained earnings/fund balances at beginning of year, as previously reported	1,699,241,712	5,147,626
Prior period adjustment	(2,500,000)	--
Retained earnings/fund balances at beginning of year, as restated	1,696,741,712	5,147,626
Retained earnings/fund balances at end of year	$ 1,850,718,248	11,307,727

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

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Fiduciary Fund Type	Totals (Memorandum Only)	
Nonexpendable Trust	2001	2000
--	806,310,682	782,729,128
--	219,914,504	240,478,634
--	178,112,881	159,972,993
--	169,413,223	142,895,966
--	20,350,742	18,389,105
--	3,266,054	3,278,280
--	4,341,498	3,036,285
--	1,401,709,584	1,350,780,391
--	458,685,525	420,074,862
--	102,411,722	96,365,741
--	141,784,303	123,538,253
--	186,345,906	161,563,025
--	164,431,512	159,361,415
--	1,053,658,968	960,903,296
--	348,050,616	389,877,095
--	83,109,422	72,782,771
--	(228,061,476)	(225,453,642)
--	5,234,561	1,852,527
--	46,843,438	--
--	9,999,244	9,407,652
--	(1,459,217)	(1,430,722)
--	(1,932,131)	(4,339,779)
--	(86,266,159)	(147,181,193)
--	(40,719,456)	25,711,965
--	221,065,001	268,407,867
--	37,576,026	26,368,879
--	(101,041,575)	(86,315,239)
--	157,599,452	208,461,507
--	2,537,185	2,342,835
--	160,136,637	210,804,342
1,040,217	1,705,429,555	1,492,125,213
--	(2,500,000)	--
1,040,217	1,702,929,555	1,492,125,213
1,040,217	1,863,066,192	1,702,929,555

ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
COMBINED STATEMENT OF CASH FLOWS
Year ended September 30, 2001
With comparative totals for year ended September 30, 2000

CITY OF AUSTIN, TEXAS
Exhibit A-5

	Proprietary Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
		Enterprise	Internal Service	Nonexpendable Trust (1)	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers	$	1,268,237,045	194,706,933	--	1,462,943,978	1,256,518,708
Cash payments to suppliers for goods and services		(469,462,293)	(66,782,766)	--	(536,245,059)	(442,115,070)
Cash payments to employees for services		(202,768,392)	(78,710,560)	--	(281,478,952)	(259,860,712)
Cash payments to claimants/beneficiaries		--	(38,399,752)	--	(38,399,752)	(36,369,463)
Cash received from other governments		3,266,054	--	--	3,266,054	2,785,271
Taxes collected and remitted to other governments		(22,824,871)	--	--	(22,824,871)	(16,981,467)
Net cash provided by operating activities		576,447,543	10,813,855	--	587,261,398	503,977,267
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Operating transfers in		36,576,026	1,000,000	--	37,576,026	26,368,879
Operating transfers out		(101,041,575)	--	--	(101,041,575)	(86,315,239)
Interest paid on revenue notes and other debt		(189,068)	--	--	(189,068)	(1,170,582)
(Increase) decrease in deferred assets		(938,863)	--	--	(938,863)	135,567
Contributions from municipality		904,368	3,253,421	--	4,157,789	139,155
Loan repayments to other funds		(178,169)	--	--	(178,169)	--
Loan repayments from other funds		--	--	--	--	21,222
Net cash provided (used) by noncapital financing activities		(64,867,281)	4,253,421	--	(60,613,860)	(60,820,998)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Proceeds from long-term debt issues		172,830,000	--	--	172,830,000	217,844,960
Proceeds from long-term loans		1,405,340	--	--	1,405,340	--
Principal paid on long-term debt		(119,832,943)	(1,218,746)	--	(121,051,689)	(135,584,651)
Proceeds from the sale of fixed assets		20,000	17,000	--	37,000	930,246
Purchased interest received		2,715,091	--	--	2,715,091	815,775
Interest paid on revenue bonds and other debt		(198,907,791)	(332,315)	--	(199,240,106)	(201,681,835)
Passenger facility charges		9,999,244	--	--	9,999,244	9,407,652
Acquisition and construction of capital assets		(449,640,566)	(11,238,356)	--	(460,878,922)	(368,546,747)
Contributions from municipality		1,366	3,731,702	--	3,733,068	6,776,620
Contributions from State and Federal governments		8,943,294	--	--	8,943,294	10,931,313
Acquisition of intangible assets		(101,582)	--	--	(101,582)	(100,000,000)
Contributions in aid of construction		4,254,591	--	--	4,254,591	16,594,929
Bond discounts and issuance costs		(3,809,169)	(4,111)	--	(3,813,280)	(2,245,888)
Bond premiums		3,060,414	28,186	--	3,088,600	240,583
Bonds issued for advanced refundings of debt		367,738,710	590,656	--	368,329,366	100,000,000
Cash paid for bond refundings/defeasances		(376,494,068)	(603,492)	--	(377,097,560)	(99,205,027)
Cash paid for nuclear fuel inventory		(10,571,733)	--	--	(10,571,733)	(6,681,685)
Net cash used by capital and related financing activities		(588,389,802)	(9,029,476)	--	(597,419,278)	(550,403,755)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investment securities		(707,851,885)	--	--	(707,851,885)	(652,344,315)
Proceeds from sale and maturities of investment securities		731,249,880	--	--	731,249,880	668,174,899
Interest on investments		62,394,228	1,510,452	--	63,904,680	63,408,464
Reverse repurchase agreement income		--	--	--	--	4,608,990
Reverse repurchase agreement expense		--	--	--	--	(4,357,463)
Net cash provided by investing activities	$	85,792,223	1,510,452	--	87,302,675	79,490,575

(continued)

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

ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
COMBINED STATEMENT OF CASH FLOWS
Year ended September 30, 2001
With comparative totals for year ended September 30, 2000

CITY OF AUSTIN, TEXAS
Exhibit A-5
(Continued)

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust (1)	2001	2000
Net increase (decrease) in cash and cash equivalents	$ 8,982,683	7,548,252	--	16,530,935	(27,756,911)
Cash and cash equivalents, October 1, 2000 (2)	556,854,286	47,960,302	1,040,217	605,854,805	633,611,716
Cash and cash equivalents, September 30, 2001 (2)	565,836,969	55,508,554	1,040,217	622,385,740	605,854,805
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income	343,882,402	4,168,214	--	348,050,616	389,877,095
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	158,340,169	3,591,343	--	161,931,512	156,861,415
Amortization	12,846,051	--	--	12,846,051	11,549,749
Change in assets and liabilities:					
(Increase) decrease in working capital advances	(466,433)	--	--	(466,433)	578,050
(Increase) decrease in accounts receivable	24,254,033	14,708	--	24,268,741	(38,529,923)
(Increase) decrease in allowance for uncollectible accounts	131,372	--	--	131,372	(364,004)
Decrease in due from other funds	--	--	--	--	24,766
(Increase) decrease in inventory	(2,589,703)	411,012	--	(2,178,691)	3,291,819
(Increase) decrease in prepaid expenses and deferred costs	567,710	(96,545)	--	471,165	(1,084,338)
(Increase) decrease in other regulatory assets	(100,068)	--	--	(100,068)	356,339
(Increase) decrease in other long-term assets	(2,643,038)	--	--	(2,643,038)	123,674
Increase (decrease) in accounts payable	(3,474,944)	321,243	--	(3,153,701)	32,446,830
Increase (decrease) in accrued payroll and compensated absences	2,204,700	648,343	--	2,853,043	(8,174,383)
Increase (decrease) in deferred revenue	(985,824)	586,762	--	(399,062)	(892,652)
Decrease in decommissioning assessment payable	(262,048)	--	--	(262,048)	(271,131)
(Increase) decrease in unrecovered fuel revenue	35,803,879	--	--	35,803,879	(51,725,251)
Increase in accrued landfill closure costs	203,138	--	--	203,138	233,505
Increase in claims payable	--	1,391,578	--	1,391,578	2,453,761
Decrease in due to other governments	--	--	--	--	(493,009)
Decrease in due to other funds	--	(301,397)	--	(301,397)	(45,988)
Decrease in advance from other funds	--	(26,872)	--	(26,872)	(328,269)
Increase in other liabilities	7,819,618	105,466	--	7,925,084	7,146,769
Increase in customer deposits	916,529	--	--	916,529	942,443
Total adjustments	232,565,141	6,645,641	--	239,210,782	114,100,172
Net cash provided by operating activities	$ 576,447,543	10,813,855	--	587,261,398	503,977,267

(continued)

(1) Nonexpendable trust fund cash and cash equivalents of $1,040,217 are reported on the balance sheet with all trust and agency funds' pooled investments and cash of $9,421,637 at October 1, 2000 and $8,112,717 at September 30, 2001.

(2) Cash and cash equivalents includes $476,493,720 and $2,375,955 in enterprise and internal service funds' restricted accounts, respectively at October 1, 2000 and $431,935,471 and $1,885,414 in enterprise and internal service funds' restricted accounts, respectively at September 30, 2001.

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

ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
COMBINED STATEMENT OF CASH FLOWS
Year ended September 30, 2001
With comparative totals for year ended September 30, 2000

CITY OF AUSTIN, TEXAS
Exhibit A-5
(Continued)

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust (1)	2001	2000
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Increase in advances to other funds	$ --	--	--	--	4,318,000
Increase (decrease) in deferred assets/expenses	(22,261,454)	(1,100)	--	(22,262,554)	9,720,585
Unamortized bond discounts, premiums, and issue costs on refunded bonds	(790,465)	--	--	(790,465)	--
Increase in capital appreciation bond interest payable	(16,512,872)	--	--	(16,512,872)	(18,674,086)
Increase in deferred revenue	--	--	--	--	(4,318,000)
Increase in contributed facilities	18,229,303	--	--	18,229,303	14,918,520
Net increase in fair value of investment	17,604,840	--	--	17,604,840	990,517
Amortization of bond discounts, premiums, and issue costs	(4,912,708)	(2,455)	--	(4,915,163)	(5,333,141)
Amortization of deferred loss on refundings	(539,387)	(3,768)	--	(543,155)	(514,217)
Loss on disposal of assets	(947,635)	(199,576)	--	(1,147,211)	(1,872,106)
Costs (recovered) to be recovered in future years	(40,719,456)	--	--	(40,719,456)	25,711,965
Loss on extinguishment of debt	(116,807)	--	--	(116,807)	(556,529)
Due to other funds for fixed assets	--	--	--	--	(2,656)
Contributions from other funds	--	--	--	--	63,750
Deferred revenue and other liabilities	34,362,666	--	--	34,362,666	--

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

1 -- REPORTING ENTITY

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.

As required by generally accepted accounting principles, these financial statements present the City 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.

The City's major activities or functions include police and fire protection, emergency medical services, parks and libraries, public health and social services, urban growth management, and general administrative services. In addition, the City owns and operates certain major enterprise activities, including an electric utility system, water and wastewater system, airport, convention center, and other enterprise activities. These activities are included in the accompanying financial statements.

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, 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 function of these boards is ministerial rather than substantive.

The City retirement plans (described in Note 9) 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.

2 -- SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City relating to the funds and account groups included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) in its publication GASB Statement 1 entitled *Authoritative Status of NCGA Pronouncements and AICPA Industry Auditing Guide*, and all subsequent GASB statements, interpretations, concept statements, and technical bulletins; the National Council on Governmental Accounting (NCGA) in the publication entitled *Governmental Accounting, Auditing, and Financial Reporting*, including NCGA Statements 1 through 7 and interpretations thereof; and by the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*. The following represent the more significant accounting and reporting policies and practices used by the City.

GASB Statement 34

GASB Statement 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments* represents a significant change in financial reporting for governments. The City will implement GASB Statement No. 34 in the financial statements for fiscal year 2002.

Audit

The Charter of the City of Austin requires an annual audit by an independent certified public accountant.

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

The accounts of the City are organized and operated on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund balances or retained earnings, revenues, and expenditures or expenses. The various funds are grouped by category and type in the financial statements. The City maintains the following fund types within three broad fund categories and the account groups:

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those, if any, which should be accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is on determination of financial position and changes in financial position rather than on determination of net income. The following governmental fund types are maintained by the City:

General Fund -- The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law, ordinance, or contractual agreement to other funds are accounted for in this fund.

Special Revenue Funds -- Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. There are four major groups of funds within the special revenue funds, in addition to the Housing Assistance Fund. Of these groups, three account for the activities related to grant programs and one accounts for activities for which expenditures are legally restricted. The groups are: Federal grant funds (both direct and indirect funds), State grant funds, other special revenue grant funds, and other special revenue funds.

Debt Service Funds -- The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, related costs and certain loans. The two debt service funds are General Obligation Debt Service and HUD Section 108 Loans.

Capital Project Funds -- Capital project funds are used to account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds and trust funds). Capital projects are funded primarily by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues.

In 1981, the City Council passed an ordinance that requires the establishment of a separate fund for each bond proposition approved in each bond election. These separate funds are grouped by year and by bond election date. There are eight major groups of funds within the capital projects funds that account for the activities related to various capital improvement projects as follows:

Prior to 1984:	funds authorized prior to 1981;
	funds authorized August 29, 1981, for street and drainage, fire stations, and emergency medical service projects;
	funds authorized September 11, 1982, for various purposes;
	funds authorized October 22, 1983, for Jollyville Road Improvements and City facility improvements;
1984:	funds authorized September 8, 1984, for various purposes;
1985:	funds authorized January 19, 1985, for cultural projects;
	funds authorized July 26, 1985, for parks and recreation;
	funds authorized September 26, 1985, for art in public places;
	funds authorized December 14, 1985, for various purposes;
1987:	funds authorized September 3, 1987, for street improvements;
1992:	funds authorized August 10, 1992, for various purposes;
1997:	funds authorized May 3, 1997, for radio trunking;
1998:	funds authorized November 3, 1998, for various purposes; and
Other:	other funds established for various purposes.

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

Proprietary Funds

Proprietary funds are used to account for the City's ongoing organizations and activities that are similar to those found in the private sector. The measurement focus is on capital maintenance and on determination of net income, financial position, and changes in financial position.

Enterprise Funds -- Enterprise funds are used to account for operations: (1) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City's enterprise funds include the following:

Fund	Accounts For
Electric System	Activities of the City-owned electric utility, doing business as Austin Energy
Water and Wastewater System	Activities of the City-owned water and wastewater utility
Hospital	Activities related to the lease of City-owned Brackenridge Hospital
Solid Waste Services	Solid waste collection and disposal activities; recycling activities
Airport	Operations of the Austin-Bergstrom International Airport
Convention Center	Operations of the Convention Center, Palmer Auditorium, and the City Coliseum; construction of the Convention Center expansion and Town Lake Venue Project
Drainage	Drainage management activities
Transportation	Street maintenance activities
Golf	Public golf courses
Parks and Recreation	City-sponsored softball and recreation programs

Internal Service Funds -- Internal service funds are used to account for the financing of goods or services provided by one department or agency to other City departments or agencies or to other governmental units on a cost-reimbursement basis. The City maintains nine internal service funds as follows:

Fund	Accounts For
Fleet Maintenance	Maintenance costs of City-owned vehicles
Support Services	Activities of the City's support service departments
Information Systems	Activities of the Information Systems Department
Employee Benefits	Activities related to the health, dental, and life insurance costs of City employees
Liability Reserve	Coverage of the City’s major claims liabilities
Workers’ Compensation	Workers’ compensation costs
Radio Communication	Radio communication services for City departments and area agencies
Infrastructure Support Services	Activities for support services for five City departments
Capital Projects Management	Activities for management of the City’s capital improvement projects

Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. Fiduciary funds include expendable and nonexpendable trust funds and agency funds.

Expendable Trust Funds -- Expendable trust funds are accounted for in essentially the same manner as governmental funds. The measurement focus is on determination of changes in financial position rather than on net income.

Nonexpendable Trust Funds -- These funds are accounted for in the same manner as proprietary funds, with the measurement focus on determination of net income and capital maintenance.

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

Agency Funds -- Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term liabilities. The following are the account groups maintained by the City:

General Fixed Assets Account Group **--** This account group accounts for all fixed assets of the City other than those accounted for in the proprietary funds.

General Long-Term Debt Account Group **--** This account group accounts for and provides control over all long-term liabilities other than those accounted for in the proprietary funds, including unmatured general obligation bonds.

Basis of Accounting

Basis of accounting refers to the time at which revenues and expenditures (governmental funds) or expenses (proprietary funds) are recognized in the accounts and reported in the financial statements.

Governmental funds, expendable trust funds, and agency funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, certain revenues are recorded when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt, which is recognized when due. This exception is in conformity with generally accepted governmental accounting principles. Agency funds use the modified accrual basis of accounting to recognize assets and liabilities.

Property tax revenues are recognized when they become available in accordance with GASB Interpretation No. 5, *Property Tax Revenue Recognition in Governmental Funds*. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (within 60 days). Tax collections expected to be received after the 60-day availability period are reported as deferred revenue. Sales taxes are also recognized when they become available in accordance with GASB Statement No. 22, *Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds.*

In fiscal year 2001, the City implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* and Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues* – an amendment of GASB Statement No. 33. The Statements establish financial reporting standards for nonexchange transactions. The Statements require that certain revenues be recognized when the underlying transaction occurs, even if collected in a future financial reporting period. As a result, the City has recognized certain imposed nonexchange transactions collected within 60 days subsequent to September 30. The cumulative effect to fund balance as of September 30, 2001 was an increase of $5,831,220 in the Hotel-Motel Occupancy Tax Fund and an increase of $2,408,514 in the Vehicle Rental Tax Fund. See page 27 for further information on prior period restatements. In addition, the City recognized certain capital contributions as non-operating revenues.

In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual grant programs are used for guidance. For most of the City's grants, money must be expended for the specific purpose or project before any amounts will be paid to the City. For all grants, revenues are recognized based upon the expenditures recorded.

Proprietary funds and nonexpendable trust funds use the accrual basis of accounting under which revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

In accordance with GASB Statement 20, the City is required to follow all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, including FASB Statement 71, unless those pronouncements conflict

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

with or contradict GASB pronouncements. The City has elected not to follow FASB pronouncements issued subsequent to that date.

Investment earnings are recorded on the accrual basis in all funds, and unrealized gains or losses on investments are recognized in accordance with GASB Statement No. 31.

Revenues in the Electric Fund, Water and Wastewater Fund, Solid Waste Services Fund, Drainage Fund, and Transportation Fund are recognized as they are billed to customers on a cyclical basis. 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. Electric deferred or unbilled revenues are recorded if actual fuel costs differ from amounts billed to customers, and any over-collections 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 fuel recovery is more than 10% of expected fuel costs.

Revenues for the airport fund are recognized as they are billed to customers. Effective November 1, 1993, the Airport Fund began to charge each enplaned passenger a $3 passenger facility charge, as allowed by the Federal Aviation Administration. Airport Fund 2001 non-operating revenues included passenger facility charges of $9,999,244. These funds were approved by the FAA for debt service payments for the Austin-Bergstrom International Airport.

Revenues for the Convention Center are recognized as they are billed to customers upon completion of events held at the Convention Center facilities.

In accordance with current accounting principles, provisions of the various statements need not be applied to immaterial items.

Rates

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's determination of water and wastewater utility rates and electric utility rates is 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 not decided to enter into retail competition, as allowed by State law, thus the effects of entering retail competition are uncertain and do not warrant a change in accounting policy.

Budget

In accordance with the City Charter, the City adheres to the following procedures in establishing its operating budgets:

(1) At least thirty days prior to the beginning of the new fiscal year, the City Manager submits a proposed budget to the City Council. The budget represents the financial plan for the new fiscal year and includes proposed expenditures and the means of financing them.

(2) Public hearings are conducted on the budget to obtain taxpayer comments.

(3) The budget is legally enacted by the City Council no later than the twenty-seventh day of the last month of the old fiscal year, through passage of an appropriation ordinance and tax levying ordinance.

(4) The City Manager has the authority to transfer appropriation balances from one expenditure account to another 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. Any budget amendments for the General Fund are summarized in Note 3.

(5) Formal budgetary control is employed as a management control device during the year for the General Fund, certain non-grant special revenue funds, debt service funds and proprietary funds. Management control for the operating budget

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

is maintained at the fund and department level. Formal budgetary control is employed as a management control device in the special revenue grant funds and capital projects funds for the life of the related grants or projects.

(6) Annual budgets are legally adopted for the General Fund, certain special revenue funds, debt service funds, certain trust funds, and proprietary funds. A comparison of budget to actual is presented in the financial statements for all governmental funds that adopt annual budgets. Budgets for the grant-related special revenue funds are established pursuant to the terms of the related grant awards.

Capital project fund appropriations are increased on an annual basis through the budgetary process. However, the budgets are not binding on an annual basis. Rather, budgets are long-range and are used for planning purposes. Accordingly, no comparison of budget to actual is presented in the financial statements for such funds.

(7) The City Charter does not permit a deficiency of anticipated revenues over appropriations. If at any time during the fiscal year the City Manager determines that available revenues plus beginning fund balance will be less than total appropriations for the year, he or she shall reconsider the work programs of the departments and agencies and revise them to prevent deficit spending. Expenditures may not legally exceed budgeted activities at the departmental level.

(8) At the close of each fiscal year, any unencumbered appropriation balances in the General Fund and certain special revenue funds lapse or revert to the undesignated fund balance. In the proprietary funds, unencumbered appropriations also lapse but do not revert to fund balance for accounting purposes because of the differences in methods of accounting. Unencumbered appropriation balances in the grant-related special revenue funds and capital projects funds do not lapse at year-end.

Encumbrances outstanding at year end and the related appropriation are available for expenditure in subsequent years. For governmental funds, encumbrances constitute the equivalent of expenditures for budgetary purposes and accordingly, the accompanying financial statements present comparisons of actual results to the budgets for governmental funds on a budget-basis (see Note 3), which may differ from that used for reporting in accordance with generally accepted accounting principles (GAAP basis).

Encumbrances

Encumbrances represent commitments for unperformed (executory) contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded to reserve appropriations, is used in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute GAAP-basis expenditures or liabilities, since the commitments will be honored during the subsequent year.

Pooled Investments and Cash

Cash balances of all City funds (except for certain funds shown in Note 6 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

The City complies with Governmental Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (see Note 6), which requires certain investments to be reported at fair value. The fair value is 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 at fair value as of September 30, 2001.

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

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 other	Average cost

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

Property, Plant and Equipment -- Proprietary Funds

Property, plant and equipment owned by the proprietary funds are stated at historical cost. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of fixed assets are capitalized. 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. Depreciation of plant and equipment classified by functional components is provided by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Electric Fund and Water and Wastewater Fund:	
Plant	30-50 years
Improvements to grounds	30-50 years
Transmission and distribution system	12-50 years
Other machinery and equipment	7-30 years
Vehicles	7 years
Other Enterprise Funds and Internal Service Funds:	
Buildings and improvements	40 years
Improvements to grounds	15 years
Machinery and equipment	7-12 years
Vehicles	7 years

Depreciation of completed but unclassified fixed assets is provided by the straight-line method, using a composite rate.

The City is accelerating the depreciation of two generating stations that will be retired before the end of their estimated useful life. The increase to Electric Fund 2001 depreciation expense for this accelerated depreciation is $209,974.

When the City retires or otherwise disposes of proprietary fund fixed assets (other than debt-financed assets of the utility funds), it recognizes a gain or loss on the disposal of the assets.

Federal, State or local grant funds that are restricted to purchasing property, plant, and equipment and contributions in aid of construction are recorded as capital contributions when received. Depreciation on contributed assets is recorded as an expense in the statement of operations; for contributions prior to fiscal year 2001, the depreciation is then transferred to the related contribution accounts. Contributions of funds from the municipality are recorded as equity contributions when received.

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

Intangible Assets – Proprietary Funds

On October 7, 1999, the City and the Lower Colorado River Authority (LCRA) signed a historic fifty-year assured water supply agreement, with an option to extend another fifty years. The $100 million contract reserves an additional 75,000 acre-feet of water for Austin and allows the City to take water from the Highland Lakes, rather than relying exclusively on available river water. The Water and Wastewater Fund has recorded the water rights as an intangible asset, which is being amortized over 40 years and is reported net of accumulated amortization of $5 million.

General Fixed Assets

General fixed assets have been acquired for general governmental purposes. Assets purchased or constructed are recorded as expenditures in the governmental funds and capitalized at historical cost in the General Fixed Assets Account Group. Contributed fixed assets are recorded in the General Fixed Assets Account Group at estimated fair market value at the time received.

The City does not capitalize public domain general fixed assets (infrastructure) and, accordingly, no such assets are recorded in the General Fixed Assets Account Group. Infrastructure consists of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and traffic signal systems. Such assets normally are immovable and are of value only to the City. Therefore, the responsibility for stewardship for capital expenditures is satisfied without recording these assets. This accounting treatment will change with the implementation of GASB Statement No. 34 in fiscal year 2002.

No depreciation has been provided on general fixed assets. No interest has been capitalized on general fixed assets.

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 recorded in the General Long-Term Debt Account Group.

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 fund capital projects of certain enterprise funds are to be repaid from net revenues of these funds. Such debt is recorded in the funds.

The City defers and amortizes gains or losses that its proprietary funds realize on refundings of debt 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.

Compensated Absences

All full-time employees accumulate vacation benefits in varying annual amounts up to a maximum allowable accumulation of six weeks. All full-time employees earn sick leave benefits at a rate of twelve days per year; these benefits may be accumulated without limit. Upon termination, an employee is reimbursed for all accumulated vacation days. If the terminating employee was employed prior to October 1, 1986 and leaves in good standing, reimbursement is also made for all accrued sick leave up to ninety days. Certain employees are also allowed to accumulate credit for compensatory time in lieu of overtime pay up to 120 hours. Compensated absence liabilities include the components above, as well as employment-related taxes.

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

For governmental funds, the estimated current portion of the compensated absence liability is recorded as an expenditure and liability in the General Fund or special revenue fund, with the non-current portion of the liability recorded in the General Long-Term Debt Account Group. The current portion is estimated based on amounts paid to terminating employees during the most recent fiscal year. Actual vacation, sick and compensatory time benefits paid during the year are recorded as expenditures in the governmental funds.

For proprietary funds, the compensated absences liability is recorded as an expense and related liability in the year earned. The current portion is estimated based on an analysis of the historical use of benefits by the employees.

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 bond, 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 20).

Pension Plans

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 9).

Federal and State Grants, Entitlements and Shared Revenues

Grants, entitlements and shared revenues may be accounted for within any of the seven fund types. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the proper fund type in which to record the related transactions. Grants, entitlements and shared revenues received for activities normally recorded in a particular fund type may be accounted for in that fund type, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally recorded in other governmental funds are accounted for within these special revenue fund groups: 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. Grant money restricted for acquisition or construction of capital assets is recorded as capital contributions in the applicable proprietary fund in fiscal year 2001.

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.

Transactions Between Funds

During the course of normal operations, the City has numerous transactions between funds. Short-term advances between funds are accounted for in the pooled investments and cash accounts. 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. 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.

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

Nonrecurring or nonroutine transfers of equity between funds are treated as residual equity transfers and are reported as additions to or deductions from the fund balance of governmental funds. Residual equity transfers to proprietary funds are treated as contributed capital, and such transfers from proprietary funds are reported as reductions of retained earnings or contributed capital as appropriate. All other legally authorized transfers are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

Comparative Data

Comparative data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data, (i.e., presentation of prior year totals by fund type) have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

Reclassifications and Restatements

Certain comparative data for the prior year have been reclassified or restated to present them in a manner consistent with the current year's financial statements. In 2001, the City implemented GASB Statements No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues* **--** *an amendment of GASB Statement No. 33*, resulting in the following restatement of fund balance for the following special revenue funds for fiscal year 2000 (in thousands):

Description	Hotel-Motel Occupancy Tax Fund	Vehicle Rental Tax Fund
Fund balance, September 30, 2000, as previously reported	$ --	5,954
Prior period adjustment	7,604	1,467
Fund balance, September 30, 2000, restated	$ 7,604	7,421

In fiscal year 2001, the City identified a liability that should have been recorded in the Airport Fund at September 30, 2000. This liability has been recorded, and the Airport Fund September 30, 2000 retained earnings has been restated, decreasing retained earnings by $2.5 million, from $146.4 million to $143.9 million.

Total Columns on Combined Financial Statements

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. No consolidating or other eliminations of interfund balances or transactions were made in arriving at the totals. Such data are not comparable to a consolidation.

Deferred Items

The City's utility systems are reported in accordance with Statement of Financial Accounting Standards 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 in accordance with GASB Statement 31. 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.

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

Statement of Cash Flows

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 investment and cash accounts.

Landfill Closure and Postclosure Care Costs

The City reports municipal solid waste landfill costs in accordance with GASB Statement 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, an enterprise fund.

3 -- BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on cash and available resources (budget basis) that differs from generally accepted accounting principles (GAAP basis). In order to provide a meaningful comparison of actual results with the budget, the Combined Statement of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund, certain special revenue funds, and debt service funds present the actual and budget amounts in accordance with the City's budget basis.

3 -- BUDGET BASIS REPORTING, continued

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

The primary differences between GAAP and budget reporting for the General Fund are the reporting of encumbrances and the reporting of certain operating transfers. General Fund accrued payroll is recorded at the department level on a GAAP basis and in nondepartmental expenditures on the budget basis. The differences for those special revenue funds that have a legally adopted annual budget are the reporting of unbudgeted revenues, encumbrances and the recording of payroll and compensated absences on a GAAP basis, as opposed to the budget basis. Adjustments necessary to convert the excess of revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund and these special revenue funds are provided, as follows:

	General Fund	Special Revenue Funds (1)
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	$ 4,071,520	(4,894,241)
Adjustment:		
Less: Excess revenues and other sources over expenditures and other uses for nonbudgeted funds - GAAP basis	--	1,346,691
Adjusted excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	4,071,520	(3,547,550)
Other adjustments:		
Increase due to unbudgeted revenues	--	1,988,153
Decrease due to unbudgeted payroll accrual	--	(60,747)
Decrease due to net compensated absences accrual	--	(46,752)
Decrease due to outstanding encumbrances established in 2001	(5,078,795)	(2,537,884)
Increase due to payments against prior year encumbrances	2,858,091	1,526,756
Decrease due to contingency and emergency reserves in 2001	2,906,779	--
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	$ 4,757,595	(2,678,024)

(1) The special revenue funds that have legally adopted budgets are Aviation Asset Forfeiture, Balcones Canyonlands Conservation Plan, Child Safety, Disproportionate Share, EMS Travis County Reimbursed, Energy Conservation Rebates and Incentives, Environmental Remediation, Federally Qualified Health Center, Fee Waiver, Health and Human Services Travis County Reimbursed, Hotel-Motel Occupancy Tax, Municipal Court Building Security, Municipal Court Technology, Neighborhood Housing and Conservation, One Texas Center, PARD Cultural Projects, PARD Police Asset Forfeitures, Police Federal Seized Funds, Police Seized Money, Public Improvement District, Strategic Planning Investment, Sustainability, Telecommunity Partnership, Tourism and Promotion, and Vehicle Rental Tax.

The following special revenue funds reported expenditures in excess of appropriations, but did not report a deficit fund balance:

Balcones Canyonlands Conservation Plan	$ 190,298
Federal Qualified Health Center	1,451,507

Although the debt service fund statements are prepared on a budget basis, no differences exist between GAAP basis and budget basis fund balance for these funds except for the amount of enterprise-related and certain departmental-related debt payments ($8,710,482) budgeted as operating transfers.

3 -- BUDGET BASIS REPORTING, continued

c -- Budget Amendments

The original budget of the General Fund was amended several times during fiscal year 2001. The following table compares original to amended budgets:

	Original Budget	Amendments Increase (Decrease)	Amended Budget
REVENUES			
Taxes	$ 259,543,305	--	259,543,305
Franchise fees	28,002,200	--	28,002,200
Fines, forfeitures and penalties	16,684,955	--	16,684,955
Licenses, permits and inspections	16,953,748	--	16,953,748
Charges for services/goods	11,324,483	(61,650)	11,262,833
Interest and other	8,479,022	478,880	8,957,902
Total revenues	340,987,713	417,230	341,404,943
EXPENDITURES			
Administration	9,744,905	12,859	9,757,764
Urban growth management	16,194,366	(3,166,250)	13,028,116
Public safety	210,856,890	7,118,743	217,975,633
Public services and utilities	6,165,431	3,946,348	10,111,779
Public health:			
Physician stipend/Charity care	10,495,146	--	10,495,146
Medical Assistance Program-			
hospital contracted services/patient services	6,108,237	--	6,108,237
Other public health	26,101,710	(637,788)	25,463,922
Public recreation and culture	47,897,480	76,350	47,973,830
Social services management	8,517,380	--	8,517,380
Nondepartmental expenditures	16,025,874	(6,548,884)	9,476,990
Total expenditures	358,107,419	801,378	358,908,797
TRANSFERS			
Operating transfers in	89,386,082	3,496,594	92,882,676
Operating transfers out	(82,561,954)	(3,112,446)	(85,674,400)
Total transfers	6,824,128	384,148	7,208,276
Deficiency of revenues and other sources over expenditures and other uses	$ (10,295,578)	--	(10,295,578)

The amended budget is presented in the accompanying financial statements. The General Fund budget includes other revenues and requirements, which are presented in the nondepartmental category. The amended expenditure budget for these nondepartmental requirements includes the following: tuition reimbursement ($85,000), accrued payroll ($1,009,000), expenses for workers' compensation ($5,810,516) and liability reserve ($2,500,000), and wage adjustment ($72,474).

3 -- BUDGET BASIS REPORTING, continued

There were budget amendments to the following special revenue funds during fiscal year 2001:

	Original Budget	Increase (Decrease)	Amended Budget
REVENUES			
EMS Travis County Reimbursed	$ 6,030,912	92,415	6,123,327
Federally Qualified Health Center	8,451,974	1,486,746	9,938,720
Public Improvement District	--	1,396,521	1,396,521
EXPENDITURES			
EMS Travis County Reimbursed	6,030,912	92,415	6,123,327
Federally Qualified Health Center	14,882,349	2,036,802	16,919,151
Health and Human Services Travis County Reimbursed	5,382,536	126,362	5,508,898
Neighborhood Housing and Conservation	2,418,462	(411,000)	2,007,462
Public Improvement District	--	1,446,521	1,446,521
OPERATING TRANSFERS IN			
Federally Qualified Health Center	7,194,444	1,455,574	8,650,018
Neighborhood Housing and Conservation	1,554,051	89,000	1,643,051
Public Improvement District	--	150,000	150,000
OPERATING TRANSFERS OUT			
Federally Qualified Health Center	--	763,252	763,252
Neighborhood Housing and Conservation	362,464	500,000	862,464

4 -- DEFICITS IN FUND BALANCE AND RETAINED EARNINGS

At September 30, 2001, the funds below reported deficits in fund balance or retained earnings. Management intends to recover these deficits through future operating revenues, transfers or debt issues. Of the proprietary funds below, all except the Liability Reserve Fund have positive fund equity.

	Deficit Fund Balance		Deficit Retained Earnings
Special Revenue Funds:		**Enterprise Funds:**	
Austin Transportation Study	$ 147,250	Parks and Recreation	$ 941,043
One Texas Center	555,355		
Voluntary Utility Assistance	59,518	**Internal Service Funds:**	
Capital Projects Funds:		Employee Benefits	5,027,128
Energy improvements - city facilities	82,006	Liability Reserve	1,086,764
Parks/Old Bakery	490,544	Worker's Compensation	925,266
Police facilities	13,785		
Street resurfacing	54,298		
Police substations	253,964		
Traffic signals	4,397,286		
Build Austin	114,762		
CMTA Mobility	248,274		
Public Works	106,447		
Tanglewood park	64,197		
City Hall, plaza, parking garage	4,961,211		
Conservation Land	4,551		
Colony Park	11,509		

5 -- POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund type at September 30, 2001:

	Pooled Investments and Cash	
	Unrestricted	Restricted
General Fund	$ 35,120,932	--
Special Revenue Funds	57,155,129	--
Capital Projects Funds	127,703,177	--
Enterprise Funds:		
Electric	56,571,935	101,127,208
Water and Wastewater	11,904,032	100,508,566
Hospital	35,173,831	--
Solid Waste Services	2,389,996	9,387,949
Airport	5,012,442	84,387,645
Convention Center	17,981,848	96,480,473
Other	4,823,114	27,484,968
Internal Service Funds	53,308,192	1,885,414
Fiduciary Funds	8,112,717	--
Subtotal pooled investments and cash	415,257,345	421,262,223
Total pooled investments and cash	$ 836,519,568	

6 -- INVESTMENTS AND DEPOSITS

INVESTMENTS

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 or its agencies and instrumentalities;
(2) direct obligations of the State of Texas;
(3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
(4) obligations of states, agencies, counties, cities, or other political subdivisions of any state rated A or better by a national investment rating firm;
(5) certificates of deposit that are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or its successor, or secured by obligations described in (1) through (4) above, and having a market value of at least the principal amount of the certificates;
(6) fully collateralized direct and reverse repurchase agreements. State statutes require that securities underlying repurchase agreements must have a market value of at least 100% of the repurchase agreement's cost. Money received by the City under the terms of a reverse security repurchase agreement may be used to acquire additional authorized securities, but the term of the authorized security acquired must mature not later than the expiration date stated in the reverse security repurchase agreement;
(7) bankers acceptances accepted by a domestic bank maturing in 270 days or less from the date of its issuance and is rated at least A-1, P-1 by a national investment rating firm;
(8) commercial paper with a stated maturity of 270 days or less from the date of its issuance and is either (a) rated not less than A-1, P-1 by at least two national investment rating firms, or (b) is rated at least A-1, P-1 by one national investment rating firm and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
(9) SEC-regulated, no load money market mutual funds with a dollar weighted average portfolio maturity of 90 days or less and whose investment objectives include seeking to maintain a stable net asset value of $1 per share;
(10) local government investment pools, such as the Texas Local Government Investment Pool, organized in accordance with Chapter 791, Texas Government Code (The Interlocal Cooperation Act), whose assets consist of the obligations described in (1) through (8) above. A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service; and

6 -- INVESTMENTS AND DEPOSITS, continued

(11) share certificates issued by state or federal credit unions domiciled in Texas that are guaranteed or issued by the National Credit Union Share Insurance Fund or its successor, or secured by obligations described under (1) through (4) above having a market value of at least the principal amount of the certificates.

The City follows GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires that governmental entities should report investments at fair value on the balance sheet, and that all investment income, including changes in the fair value of investments, should be reported as revenue in the operating statement. The change in investment value is reported on the balance sheet in either pooled investments and cash for investment pool participants, or in investments, for those funds which hold their own investments; the revenue is reported on the income statement in interest income.

The City participates in two Texas local government investment pools, TexPool and TexasTERM, which are external investment pools. The State Comptroller of Public Accounts maintains oversight responsibility for TexPool. This responsibility includes the ability to influence operations, designation of management, and accountability for fiscal matters. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The fair value of the City's position in TexPool is the same as the value of the shares the City holds. TexasTERM was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. An advisory board, consisting of participants or their designees, maintains oversight responsibility. TexasTERM provides a fixed-term investment with a maturity of up to one year; therefore, the fair value of the City's position is equivalent to the carrying value.

The City did not participate in any reverse repurchase agreements during fiscal year 2001.

The City's investments (with exceptions noted below) are categorized below to give an indication of the level of risk (Category 1-lowest level of risk to Category 3-highest level of risk) assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City's agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the City's trust department or agent, but not in the City's name.

	Category			Fair
	1	2	3	Value
Investments				
Obligations of the U.S. government and its agencies	$ 826,532,613	--	--	826,532,613
Commercial paper	14,925,358	--	--	14,925,358
	841,457,971	--	--	841,457,971
Investments held by trustee				
Obligations of the U.S. government and its agencies	72,357,639	--	--	72,357,639
Investments not categorized				
Money market mutual funds				57,950,064
TexPool, Texas Local Government Investment Pool				383,490,260
TexasTERM, Local Government Investment Pool				85,000,000
				526,440,324
Total investments				$ 1,440,255,934

6 -- INVESTMENTS AND DEPOSITS, continued

Investments owned by the various funds of the City at September 30, 2001 are as follows:

Description	Yields		Fair Value	Change in Fair Value
NON-POOLED INVESTMENTS				
Money market mutual funds	3.29% -	3.35%	$ 724,043	--
Obligations of the U.S. government and its agencies	5.00% -	14.29%	423,533,793	16,686,459
TexPool, Texas Local Government Investment Pool	3.34%		160,418,696	--
TexasTERM, Local Government Investment Pool	4.04%		10,000,000	--
Total non-pooled investments			594,676,532	16,686,459
POOLED INVESTMENTS				
Money market mutual funds	3.14% -	3.35%	57,226,021	--
Obligations of the U.S. government and its agencies	5.29% -	5.78%	475,356,459	4,870,819
Commercial paper	3.46%		14,925,358	--
TexPool, Texas Local Government Investment Pool	3.34%		223,071,564	--
TexasTERM, Local Government Investment Pool	3.59%		75,000,000	--
Total pooled investments			845,579,402	4,870,819
TOTAL ALL INVESTMENTS			$ 1,440,255,934	21,557,278

DEPOSITS

The September 30, 2001, carrying amount of deposits is as follows:

Cash	
Unrestricted	$ 161,398
Restricted	246
Cash held by trustee	
Unrestricted	292,073
Restricted	5,213,934
Pooled cash	4,390,364
Total deposits	$ 10,058,015

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

7 -- 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, 2000, upon which the 2001 levy was based, was $41,419,314,286.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2001, 98.98% of the current tax levy (October 1, 2000) 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.

7 -- 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 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 a contractual arrangement, Travis County bills and collects property taxes for the City.

The tax rate to finance general governmental purposes, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2001, was $.3011 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.6989 per $100 assessed valuation, and could levy approximately $289,479,588 in additional taxes from the assessed valuation of $41,419,314,286 before the legislative limit is reached.

8 -- FIXED ASSETS

Components of the City's fixed assets at September 30, 2001, are summarized as follows (in thousands of dollars):

	Electric Fund	Water & Wastewater Fund	Hospital Fund	Solid Waste Services Fund	Airport Fund	Convention Center Fund	Other Enterprise Funds	Internal Service Funds	General Fixed Assets	Total
Land and land rights	$ 34,352	135,154	760	10,462	58,691	26,089	2,760	485	190,379	459,132
Buildings and improvements	561,747	1,323,647	74,017	10,127	639,014	83,775	16,259	3,530	219,095	2,931,211
Machinery and equipment	2,023,592	478,192	4	11,413	16,667	1,744	17,224	18,093	62,458	2,629,387
Completed assets not classified	203,389	158,323	13	20,977	10,271	3,385	15,618	54,161	--	466,137
Total plant in service	2,823,080	2,095,316	74,794	52,979	724,643	114,993	51,861	76,269	471,932	6,485,867
Less accumulated depreciation	(1,131,861)	(592,992)	(33,754)	(22,483)	(126,438)	(24,599)	(12,648)	(26,697)	--	(1,971,472)
Net property, plant and equipment in service	1,691,219	1,502,324	41,040	30,496	598,205	90,394	39,213	49,572	471,932	4,514,395
Construction in progress	193,753	155,017	--	12,722	10,404	109,054	25,206	1,505	262,259	769,920
Nuclear fuel, net of amortization	19,438	--	--	--	--	--	--	--	--	19,438
Plant held for future use	31,379	--	--	--	--	--	--	--	--	31,379
Total property, plant and equipment	$ 1,935,789	1,657,341	41,040	43,218	608,609	199,448	64,419	51,077	734,191	5,335,132

The following table summarizes the changes in components of the General Fixed Assets Account Group for the year ended September 30, 2001:

	Land	Buildings	Improvements Other Than Buildings	Machinery and Equipment	Construction in Progress	Total
Balance, September 30, 2000	$ 174,543,252	176,908,215	42,187,232	67,842,125	208,488,755	669,969,579
Additions	--	--	--	--	77,099,502	77,099,502
Retirements	(2,811,509)	--	--	(6,770,497)	(3,253,421)	(12,835,427)
Completed construction	18,647,173	--	--	1,422,794	(20,069,967)	--
Transfers (to) from other funds	--	--	--	(36,866)	(5,301)	(42,167)
Balance, September 30, 2001	$ 190,378,916	176,908,215	42,187,232	62,457,556	262,259,568	734,191,487

8 -- FIXED ASSETS, continued

The City does not capitalize public domain general fixed assets. This accounting policy affects only the General Fixed Asset Account Group. During 2001, the City did not capitalize completed infrastructure assets amounting to $33,925,820.

Construction in progress includes various capital projects that are funded primarily by general obligation and revenue bonds. The General Fixed Asset Account Group includes as construction-in-progress certain completed capital projects in service at September 30, 2001, which have not been unitized or capitalized pending classification to the proper fixed asset in-service categories. In all other funds, completed construction unclassified is included in property, plant and equipment.

The City anticipates the need for numerous additional utility-related projects over the next several years. However, the City has no formal commitments to projects other than those currently under construction. Estimated unfunded future expenditures for capital projects will be funded from operations, issuance of additional general obligation or revenue bonds, or from alternative methods of financing.

The City has recorded capitalized interest for fiscal year 2001 in the following funds related to the construction of various capital improvement projects:

Solid Waste Services	$ 800,393
Airport	1,237,475
Convention Center	3,090,193
Drainage	106,500

9 -- 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, 2000. Membership in the plans at December 31, 2000 is as follows:

	City Employees	Police Officers	Fire Fighters	Total (Memorandum Only)
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,068	259	352	3,679
Current employees	6,894	1,183	921	8,998
Total	9,962	1,442	1,273	12,677

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

9 -- 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 provide an adequate financing arrangement. Contributions for fiscal year ended September 30, 2001, are as follows (in thousands):

	City Employees	Police Officers	Fire Fighters	Total (Memorandum Only)
City	$ 24,118	10,738	8,429	43,285
Employees	24,118	5,369	6,398	35,885
Total contributions	$ 48,236	16,107	14,827	79,170

c-- Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost of $43,285,000 for fiscal year ended September 30, 2001, 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 (Memorandum Only)
City's Annual Pension Cost (APC):				
1999	$ 17,513	8,907	7,722	34,142
2000	20,458	9,834	7,984	38,276
2001	24,118	8,429	10,738	43,285
Percentage of APC contributed:				
1999	100%	100%	100%	N/A
2000	100%	100%	100%	N/A
2001	100%	100%	100%	N/A
Net Pension Obligation:				
1999	$ --	--	--	--
2000	--	--	--	--
2001	--	--	--	--

9 -- 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, 1999. 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%	5.5%
Projected Annual Salary Increases	4.5% to 14.5%	6.6% average	7%
Post retirement benefit increase	None	None	3.5% effective January 1, 2001 through January 1, 2004 and, 0.5% annually thereafter
Assumed Rate of Return on Investments	8%	8.25%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	Not applicable	8.5 years	Not applicable

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	Unfunded Actuarial Accrued Liability (Excess)	Funded Ratio	Annual Covered Payroll	Percentage of Unfunded Actuarial Accrued Liability (Excess) to Covered Payroll
City Employees						
1993	$ 579,100	541,200	(37,900)	107.0%	235,200	(16.1%)
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%)
Police Officers						
1993	$ 97,093	106,127	9,034	91.5%	34,550	26.1%
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%
Fire Fighters						
1993	$ 175,612	193,343	17,731	90.8%	29,018	61.1%
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%)

10 -- SELECTED REVENUES

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton") to operate City-owned Brackenridge Hospital. This lease agreement qualifies as an operating lease for accounting purposes. The lease agreement specifies a minimum lease payment, in addition to a supplemental rent payment based on approximately 46% of net disproportionate share revenue proceeds. In fiscal year 2001, the Hospital Fund revenues included minimum lease payments of $864,764 and additional rent of $5,385,433. The minimum lease payment includes an amendment approved by the City Council in November 2000 to reduce the amount of rent payment to the City by $1,000,000 for fiscal year 2001. The reduction was used by Seton to expand facilities and services at Brackenridge Hospital and Children's Hospital of Austin.

The City participates in the Agreement Regarding Disposition of Tobacco Settlement Proceeds filed on July 24, 1998, in the case *The State of Texas v. The American Tobacco Co.,* et al. Under the terms of the agreement, a political subdivision may receive a pro rata share of the annual amount of settlement proceeds distributed by the State of Texas. The City received proceeds of approximately $1.4 million in fiscal year 2001, which was recorded in the Hospital Fund.

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 2001, the Airport Fund revenues included minimum concession guarantees of $7,925,185.

The following is a schedule by year of minimum future rentals on noncancelable operating leases up to a term of thirty years for the Hospital Fund and twenty years for the Airport Fund as of September 30, 2001. Amounts for the Hospital Fund do not include supplemental rent payments as discussed above.

Fiscal Year Ended September 30	Hospital Fund	Airport Fund
2002	$ 1,864,764	9,199,981
2003	1,864,764	9,197,428
2004	1,864,764	8,625,182
2005	1,864,764	7,601,680
2006	1,864,764	7,598,557
Thereafter	35,430,516	20,939,151
Totals	$ 44,754,336	63,161,979

11 -- GENERAL LONG-TERM DEBT

a -- General Obligation Debt -- Capital Projects Funding

Capital projects funds are used to account for the acquisition and construction of general fixed assets. Capital projects are funded primarily by the issuance of general obligation debt, other tax supported debt, interest income and intergovernmental revenues.

General obligation debt is collateralized by the full faith and credit of the City and is reported as an obligation of the General Long-Term Debt Account Group (GLTDAG), except as described below. 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 fund fixed assets of proprietary funds is reported as an obligation of these proprietary 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 proprietary funds to meet the debt service requirements.

As described in Note 7, State Statute and the City Charter establish a practical limitation of $1.50 per $100 of assessed valuation on the debt service tax rate levied to service general obligation debt, including interest. The tax rate to finance the payment of principal and interest on general obligation long-term debt for the year ended September 30, 2001, was $.1652 per $100 assessed valuation. At September 30, 2001, allowable taxes related to debt service (assuming the rate of $1.50 per $100 assessed valuation) are approximately $621,289,714, providing potential additional taxes for debt service of $552,865,007 from the assessed valuation of $41,419,314,286.

11 -- GENERAL LONG-TERM DEBT, continued

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, tax notes and assumed municipal utility district (MUD) bonds outstanding at September 30, 2001, including those reported in certain proprietary funds:

Series	Date Issued	Original Issue	Amount Outstanding at September 30, 2001	Aggregate Interest Requirements at September 30, 2001	Interest Rates Of Debt Outstanding at September 30, 2001	Maturity Dates Of Serial Debt
Series 1992	October, 1992	$ 52,490,000	$ 3,000,000	$ 217,500 (1)	7.25%	9/1/2002
Series 1992	October, 1992	5,405,000	250,000	14,000 (1)	5.6%	9/1/2002
Series 1993	February, 1993	71,600,000	62,945,000	15,982,533 (1)	5.20 - 5.75%	9/1/2002-2009
Series 1993	October, 1993	25,000,000	18,960,000	6,288,039 (1)	4.20 - 4.75%	9/1/2002-2013
Series 1993	October, 1993	6,435,000	4,880,000	1,618,869 (1)	4.20 - 4.75%	9/1/2002-2013
Series 1993A	October, 1993	70,230,000	52,850,000	10,398,370 (1)	4.25 - 5.00%	9/1/2002-2010
Series 1994	October, 1994	33,260,000	5,500,000	696,000 (1)	5.20 - 6.00%	9/1/2002-2005
Series 1994	October, 1994	3,550,000	475,000	51,065 (1)	5.10 - 5.70%	9/1/2002-2004
Series 1995	October, 1995	30,250,000	2,185,000	596,920 (1)	7.30 - 7.75%	9/1/2002-2005
Series 1995	October, 1995	8,660,000	1,550,000	218,100 (1)	4.75 - 6.00%	9/1/2002-2005
Series 1996	October, 1996	30,550,000	13,625,000	5,899,063 (1)	4.70 - 6.00%	9/1/2002-2011
Series 1996	October, 1996	11,755,000	4,675,000	339,530 (2)	4.70 - 4.80%	11/1/2001-2003
Taxable Series 1997	May, 1997	18,400,000	15,400,000	2,333,400 (1)	6.90 - 6.95%	3/1/2002-2004
Series 1997	October, 1997	29,295,000	28,515,000	17,221,816 (1)	5.00 - 5.75%	9/1/2002-2017
Series 1997	October, 1997	13,975,000	7,570,000	698,850 (2)	4.50%	11/1/2001-2004
Series 1997	October, 1997	2,120,000	1,850,000	908,213 (1)	4.50 - 7.00%	9/1/2002-2017
Series 1998	January, 1998	110,300,000	110,090,000	50,535,613 (1)	3.95 - 5.25%	9/1/2003-2016
Assumed MUD Debt	December, 1997	33,680,000	16,641,011	11,560,668 (3)	4.40 -10.50%	11/15/2001-2021
Series 1998	October, 1998	13,430,000	13,330,000	7,830,075 (1)	4.40 - 7.13%	9/1/2002-2018
Series 1998	October, 1998	22,770,000	20,800,000	10,151,223 (1)	4.10 - 7.00%	9/1/2002-2018
Series 1998	October, 1998	14,975,000	10,990,000	1,187,522 (2)	3.90 - 4.25%	11/1/2001-2005
Series 1999	October, 1999	51,100,000	50,690,000	37,845,500 (1)	4.13 - 5.75%	9/1/2002-2019
Series 1999	October, 1999	10,335,000	8,455,000	1,240,800 (2)	4.50 - 4.75%	11/1/2001-2006
Series 1999	October, 1999	5,590,000	5,245,000	3,091,538 (1)	5.00 - 6.00%	9/1/2002-2019
Series 2000	October, 2000	52,930,000	51,245,000	40,488,600 (1)	4.35 - 6.00%	9/4/2003-2020
Series 2000	October, 2000	6,060,000	5,890,000	3,605,694 (1)	5.00 - 5.38%	9/1/2002-2020
Series 2001	June, 2001	123,445,000	120,755,000	31,641,531 (1)	4.50 - 5.50%	9/1/2002-2022
Total			$ 638,361,011			

(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.

In October 2000, the City issued Public Improvement Bonds, Series 2000, in the amount of $52,930,000. Of the proceeds from the issue, $5,745,000 will be used for libraries, $1,000,000 will be used for asbestos abatement, $26,345,000 will be used for street improvements, $6,910,000 will be used for park and recreation facilities, $10,990,000 will be used for emergency centers, and $1,940,000 will be used for police forensics. These bonds will be amortized serially on September 1 of each year from 2001 to 2020. Certain of these bonds are callable beginning September 1, 2010. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2001. Total interest requirements for these bonds, at rates ranging from 4.35% to 6.0% are $43,353,038.

11 -- GENERAL LONG-TERM DEBT, continued

In October 2000, the City issued Certificates of Obligation, Series 2000, in the amount of $6,060,000. Of the proceeds from the issue, $2,160,000 will be used for developer reimbursements and $3,900,000 will be used for land conservation. These certificates of obligation will be amortized serially September 1 of each year from 2001 to 2020. Certain of these obligations are callable beginning September 1, 2010. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2001. Total interest requirements for these obligations, at rates ranging from 5% to 5.38% are $3,920,300.

In June 2001, the City issued $123,445,000 in Public Improvement Refunding Bonds, Series 2001, with a weighted average interest rate of 5.17% to advance refund the following:

Series Refunded	Amount	Weighted Average Interest Rate
Public Improvement Refunding Bonds, Series 1990A	$17,380,000	6.91%
Public Improvement Refunding Bonds, Series 1991A	880,000	5.88%
Public Improvement Refunding Bonds, Series 1992	3,000,000	7.25%
Certificates of Obligation, Series 1992	275,000	5.75%
Public Improvement Refunding Bonds, Series 1992	58,315,000	6.09%
Public Improvement Refunding Bonds, Series 1994	3,500,000	5.57%
Certificates of Obligation, Series 1994	800,000	5.56%
Public Improvement Refunding Bonds, Series 1995	19,755,000	5.26%
Certificates of Obligation, Series 1995	4,420,000	5.25%
Austin Municipal Utility District No. 2 Unlimited Tax Bonds, Series 1991	1,635,000	8.15%
Circle C Municipal Utility District No. 3 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1996	760,000	5.38%
Circle C Municipal Utility District No. 4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1994	1,950,000	5.64%
Maple Run at Austin Municipal Utility District Unlimited Tax and Revenue Bonds, Series 1986	1,850,000	8.72%
North Central Austin Growth Corridor Municipal Utility District No. 1 Waterworks Combination Unlimited Tax and Revenue Bonds, Series 1986	520,000	6.38%
North Central Austin Growth Corridor Municipal Utility District No. 1 Waterworks and System Combination Unlimited Tax and Revenue Bonds, Series 1987	250,000	6.50%
South Austin Growth Corridor Municipal Utility District No. 1 Unlimited Tax and Revenue Bonds, Series 1987	250,000	6.00%
Southland Oaks Municipal Utility District Unlimited Tax and Revenue Bonds, Series 1995	2,840,000	6.10%
Southland Oaks Municipal Utility District Unlimited Tax and Revenue Bonds, Series 1996	1,470,000	5.96%
Village at Western Oaks Municipal Utility District Unlimited Tax and Revenue Bonds, Series 1995	1,815,000	6.00%
Village at Western Oaks Municipal Utility District Unlimited Tax and Revenue Bonds, Series 1996	1,580,000	5.88%
Travis County Water Control and Improvement District No.12 Waterworks and Sewer System Tax and Revenue Refunding Bonds, Series 1965	45,000	5.00%
Travis County Water Control and Improvement District No.14 Waterworks and Sewer System Tax and Revenue Refunding Bonds, Series 1963	70,000	5.00%
Travis County Water Control and Improvement District No. 9 Refunding Bonds, Series 1962	58,000	5.00%

The net proceeds of $128,476,463 (after issuer contribution of $105,332 and after payment of $303,373 in underwriting fees, insurance, and other issuance costs) 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 payments on the refunded bonds. 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 City advance refunded these bonds to reduce total debt service payments in the current period and in future years by approximately $7.1 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $6.3 million.

11 -- GENERAL LONG-TERM DEBT, continued

The following is a summary of general obligation bonds, certificates of obligation, contractual obligation and tax note transactions of the City (including those of certain enterprise funds) for the year ended September 30, 2001 (in thousands of dollars), excluding assumed tax and revenue bond principal of $13,705,390 and Water and Wastewater note of $120,000 and premiums/discounts of ($28,924).

	General Obligation Bonds and Other Tax Supported Debt	
	General Long-Term Debt Account Group	Proprietary Funds
Balance payable--September 30, 2000	$ 550,039	56,124
Refunding activity:		
Refunding debt issued	106,234	17,211
Outstanding debt defeased by refunding	(108,515)	(5,093)
Balance payable subsequent to refunding	547,758	68,242
Debt issued:		
Parks and recreation	6,910	--
Street improvements	26,345	--
Libraries	5,745	--
Health Department safety and welfare renovations	1,000	--
Public safety	12,930	--
Developer reimburseables	2,160	--
Land conservation	3,900	--
Debt issued during the year	58,990	--
Debt retired during the year	(44,070)	(6,264)
Balance payable--September 30, 2001	$ 562,678	61,978

General obligation bonds authorized and unissued amount to $435,155,000 at September 30, 2001. Bond ratings at September 30, 2001, were Aa2 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's) and AA+ (Fitch).

b -- Other Long-Term Debt

In addition to general obligation bonds, certificates of obligation, contractual obligations, and tax notes, the General Long-Term Debt Account Group includes all liabilities of the City (other than those reported in the proprietary funds) which are not due in the current period. Obligations include the following:

Description	Balance September 30, 2000	Increase (Decrease)	Balance September 30, 2001
Accrued compensated absences	$ 47,885,622	1,526,675	49,412,297
Advances from other funds	4,318,000	--	4,318,000
Loans payable:			
HUD Section 108 loan (1)	7,305,000	(285,000)	7,020,000
Municipal Energy Conservation loan (2)	1,905,660	(517,534)	1,388,126
Long-term loan	--	2,800,000	2,800,000
Other liabilities:			
Arbitrage payable	--	2,601,957	2,601,957
Grant liability	--	500,000	500,000
Other	--	1,272,149	1,272,149
	$ 61,414,282	7,898,247	69,312,529

(1) Interest payable in the amount of $3,837,734 at September 30, 2001.

(2) Interest payable in the amount of $85,242 at September 30, 2001.

12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT

a -- 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 fund 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 following table summarizes Combined Utility Systems revenue bonds and other long-term financing transactions for the year ended September 30, 2001 (in thousands of dollars):

Description (Net of discount and inclusive of premium)	Prior Lien Bonds	Subordinate Lien Bonds	Total
Balance payable, October 1, 2000	$ 1,950,526	323,587	2,274,113
Debt repaid, defeased, or refunded	(64,592)	(36,765)	(101,357)
Amortization of bond discount and premium	1,681	(272)	1,409
Balance payable, September 30, 2001	$ 1,887,615	286,550	2,174,165

The total Combined Utility Systems revenue bond obligations at September 30, 2001, exclusive of discounts and premiums, consist of $1,902,370,731 prior lien bonds and $280,854,512 subordinate lien bonds. Aggregate interest requirements for all prior liens and subordinate lien bonds are $1,515,477,155 at September 30, 2001. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2001 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).

b -- Combined Utility Systems Debt -- Revenue Bond Indenture Requirements

The City is required by bond indentures to pledge the net revenues of the Combined Utility Systems for debt service, and is required to maintain debt service funds and bond reserve funds for all outstanding revenue bonds. The debt service funds, with assets of $308,946,379 including accrued interest at September 30, 2001, are restricted within the utility systems and require that the net revenues of the systems, after operating and maintenance expenses are deducted, be irrevocably pledged by providing equal monthly installments that will accumulate to the semiannual principal and interest requirements as they become due.

The bond reserve fund for revenue bond retirement, with assets of $170,699,819 of investments at fair value at September 30, 2001, is also restricted within the utility systems. The City is required to maintain a combined reserve fund for the benefit of the holders of prior lien bonds and subordinate lien bonds, which must contain cash and investments of not less than $85,000,000 and which shall be increased upon the issuance of any additional bonds to the greater of such amount or the average annual principal and interest requirements on all prior lien bonds and subordinate lien bonds. Additional amounts required to be deposited in the reserve fund must be funded from bond proceeds or accumulated in the reserve fund in equal monthly installments within 60 months from the date of delivery of the additional bonds.

The City also covenants under the bond indentures that the custodian of the reserve fund shall be an official City depository and investment of the reserve fund shall be in direct or guaranteed obligations of the United States of America (USA), including obligations guaranteed by the USA, and certificates of deposit of any bank or trust company, the deposits of which are fully secured by a pledge or obligation of the USA or guaranteed by the USA. The revenue bond indentures also provide for a number of other limitations and restrictions. The City is in compliance with all significant limitations and restrictions contained in the revenue bond indentures.

c -- 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.

12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

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

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

d -- Combined Utility Systems Debt -- Bonds Issued and Outstanding

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 2001 (in thousands of dollars):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2001
1982 Refunding	March 1982	$ 598,000	$ 19,315
1986 Refunding	March 1986	545,145	34,490
1987	May 1987	65,000	1,720
1989	July 1989	65,800	2,670
1990	August 1990	6,395	4,055
1990AB Refunding	February 1990	236,009	33,962
1991A Refunding	June 1991	57,080	32,310
1992 Refunding	March 1992	265,806	232,966
1992A Refunding	May 1992	351,706	310,471
1993 Refunding	February 1993	203,166	168,911
1993A Refunding	June 1993	263,410	189,341
1994	May 1994	3,500	2,790
1994 Refunding	October 1994	142,559	107,159
1995 Refunding	June 1995	151,770	46,670
1996AB Refunding	September 1996	249,235	247,265
1997 Refunding	August 1997	227,215	218,210
1998 Refunding	August 1998	180,000	177,160
1998A Refunding	August 1998	123,020	99,065
1998 Refunding	November 1998	245,315	245,080
1998	November 1998	10,000	9,615
			$ 2,183,225

e -- 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, 2001 were P1 (Moody's Investor Services, Inc.), A1 (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.

12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

At September 30, 2001, the Electric Fund had outstanding commercial paper notes of $77,084,000 and the Water and Wastewater Fund had $78,226,000, of commercial paper notes outstanding. Interest rates on the notes range from 2.20% to 3.20%, 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.

f -- 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, 2001 were P1 (Moody’s Investor Services, Inc.), A1+ (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, 2001, the Electric Fund had outstanding taxable notes of $73,158,720 (net of discount of $460,280), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 3.65% to 3.69%. The City intends to refinance maturing commercial paper notes by issuing long-term debt.

g -- Electric System Revenue Debt --General

The City is authorized by ordinance to issue electric 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. The following table summarizes the electric system revenue bonds for the year ended September 30, 2001 (in thousands of dollars):

Description (Net of discount and inclusive of premium on refunding)	Separate Lien Bonds
Balance payable, October 1, 2000	$ --
Debt issued	126,944
Amortization of bond discount and premium	4
Balance payable, September 30, 2001	$ 126,948

h -- Electric System Revenue Debt -- Revenue Bond Indenture Requirements

From July 18, 2000 forward, all revenue obligations, other than commercial paper obligations, to finance capital improvements for the electric system shall be payable from and secured only by a lien on and pledge of the net revenues of the electric system. Electric system revenue debt is subject to the prior claim on and lien on the net revenues of the electric system for the payment of the Combined Utility System Debt (see note 12-a).

i -- Electric System Revenue Debt -- Revenue Bond Refunding Issues

The City was authorized by ordinance to issue Electric Utility System Revenue Refunding Bonds, in an aggregate principal amount of $126,700,000. Proceeds from the bond refunding were used to convert $125,000,000 of outstanding Combined Utility System Commercial Paper Notes, Series A, to long-term debt of the electric utility system. The refunding resulted in future debt service requirements of $136,721,574. No economic gain or loss was recognized on this transaction. Bond ratings at September 30, 2001 were A3 (Moody’s Investor Services, Inc.), A- (Standard & Poor’s), and A (Fitch).

12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

j -- Electric System Revenue Debt -- Bonds Issued and Outstanding

The following table summarizes all electric system original and refunding revenue bonds outstanding at September 30, 2001 (in thousands of dollars):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2001
2001 Refunding	February 2001	$126,700	$126,700

k -- 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. The following table summarizes the water and wastewater system revenue bonds for the year ended September 30, 2001 (in thousands of dollars):

Description (Net of discount and inclusive of premium on refunding)	Separate Lien Bonds
Balance payable, October 1, 2000	$ 100,015
Debt issued	225,809
Amortization of bond discount and premium	5
Balance payable, September 30, 2001	$ 325,829

l -- Water and Wastewater System Revenue Debt -- Revenue Bond Indenture Requirements

From July 18, 2000 forward, all revenue obligations, other than commercial paper obligations, to finance capital improvements for the water and wastewater system shall be payable from and secured only by a lien on and pledge of the net revenues of the water and wastewater system. Water and wastewater system revenue debt is subject to the prior claim on and lien on the net revenues of the water and wastewater system for the payment of the Combined Utility System Debt (see note 12-a).

m -- Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues and Defeasance

The City was authorized by ordinance to issue $152,180,000 of Water and Wastewater System Revenue Bonds, Series 2001A and $73,200,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2001B. Proceeds from the Series 2001A bonds were used to refund $150,000,000 of Commercial Paper Notes, Series A, and $2,625,000 of Circle C Municipal Utility District No. 4 Contract Revenue Bonds, Series 1990. The Series 2001B bonds were used to refund $57,650,000 of tax-exempt Commercial Paper Notes, Series A and $15,012,552 of taxable Commercial Paper Notes. The debt service requirements on the refunding bonds were $237,942,341. No economic gain or loss was recognized on these transactions. An accounting loss of $436,094, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on the refunding. Bond ratings at September 30, 2001 were A2 (Moody's Investor Services, Inc.), A- (Standard & Poor's), and A+ (Fitch).

On May 1, 2001, the City defeased $9,235,000 in Circle C Municipal Utility District No. 3 Contract Revenue Bonds, Series 1996. The Water and Wastewater Fund placed $9,651,944 in an irrevocable escrow account that was used to purchase U.S. Government obligations to provide for all future debt service payments on defeased bonds. The bonds are considered to be legally defeased and the liability has been removed from these financial statements. There was no economic gain or loss recognized on this transaction; an accounting loss on the defeasance of $141,818 was recognized.

12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

n -- Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding

The following table summarizes all water and wastewater system original and refunding revenue bonds outstanding at September 30, 2001 (in thousands of dollars):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2001
2000 Refunding	June 2000	$100,000	$ 100,000
2001A Refunding	June 2001	152,180	152,180
2001B Refunding	June 2001	73,200	73,200
			$ 325,380

o -- Water and Wastewater Fund -- Refunds Payable on Construction Contracts

Refunds payable on construction contracts of approximately $279,041 at September 30, 2001, excluding accrued interest, represent contractual obligations of the Water and Wastewater Fund to refund a percentage of certain construction costs incurred by developers. The contracts vary as to terms and conditions.

p -- Airport -- General

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 following table summarizes Airport System revenue bonds for the year ended September 30, 2001 (in thousands of dollars):

Description (Net of discount and loss on refunding)	Prior Lien Bonds
Balance payable, October 1, 2000	$ 364,477
Amortization of bond discount and loss on refunding	560
Balance payable, September 30, 2001	$ 365,037

The total Airport System obligation for prior lien bonds is $374,245,000, exclusive of discount and loss on refunding, at September 30, 2001. Aggregate interest requirements for all prior lien bonds are $359,378,396 at September 30, 2001. Revenue bonds authorized and unissued amount to $735,795,000 at that date.

q -- Airport -- Revenue Bond Indenture Requirements

The City is required by bond indentures to pledge the net revenues of the Airport System for debt service, and is required to maintain a debt service fund and bond reserve fund for all outstanding revenue bonds. The debt service fund, with assets of $11,390,843 including accrued interest at September 30, 2001, is restricted within the Airport System and requires that the net revenues of the airport, after operating and maintenance expenses are deducted, be irrevocably pledged by providing equal monthly installments that will accumulate to the semiannual principal and interest requirements as they become due.

The City is also required to maintain a reserve fund for the benefit of the holders of prior lien bonds, which must contain cash and investments equal to the arithmetic average of the debt service requirements scheduled to occur in the then current and future fiscal years for all prior lien bonds then outstanding. The bond ordinance allows for the use of a debt service reserve fund surety bond in lieu of the cash deposit. The City holds a surety bond with a total benefit available of $30,429,177. The City is in compliance with all significant limitations and restrictions contained in the revenue bond indentures available in the event a draw is necessary.

12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

r -- Airport Debt -- Bonds Issued and Outstanding

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 2001 (in thousands of dollars):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2001
1989	September 1989	$ 30,000	$ 1,000
1995A	August 1995	362,205	342,205
1995B Refunding	August 1995	31,040	31,040
			$ 374,245

s -- 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, 2001, 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 $392,997 including accrued interest at September 30, 2001 and was restricted within the Airport System. During fiscal year 2001, interest rates on the notes ranged from 1.95% to 5.50%, adjusted weekly, 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.

t -- Convention Center -- General

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 following table summarizes the Convention Center Fund revenue bonds for the year ended September 30, 2001 (in thousands of dollars):

Description (Net of discount, premium and loss on refunding)	Prior Lien Bonds	Subordinate Lien Bonds	Total
Balance payable, October 1, 2000	$ 131,787	109,717	241,504
Debt repaid	(2,945)	--	(2,945)
Amortization of bond discounts, premiums, and loss on refunding	632	(15)	617
Balance payable, September 30, 2001	$ 129,474	109,702	239,176

The total Convention Center obligation for prior and subordinate lien bonds is $247,940,000, exclusive of discounts, premiums and loss on refunding, at September 30, 2001. Aggregate interest requirements for all prior and subordinate lien bonds are $229,850,575 at September 30, 2001. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2001.

12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

u -- Convention Center -- Revenue Bond Issues and Indenture Requirements

The City is required by bond indentures to pledge the hotel occupancy tax revenue for debt service, and is required to maintain a debt service fund and either a bond reserve fund or a debt service reserve fund surety bond. The debt service fund, with assets of $5,341,486 at September 30, 2001, is restricted within the Convention Center and requires that the pledged hotel occupancy revenues of the Convention Center be irrevocably pledged by providing quarterly installments that will accumulate to the semiannual principal and interest requirements as they become due. The debt service reserve fund, with assets of $6,914,551 at September 30, 2001, is required to maintain cash and investments that must equal the lesser of 10% of the principal amount or the maximum annual debt service requirement scheduled to occur in the current and each future fiscal year for all bonds outstanding. All other debt service requirements have been satisfied with the purchase of surety bonds. The City is in compliance with all significant limitations contained in the revenue bond indentures.

In November 1999, the City issued the Town Lake Community Events Center Venue Project Bonds, Series 1999, in the amount of $40,000,000. The Series was issued to construct the Town Lake Community Events Center and a parking facility. The debt is secured and payable from the levy of the Special Motor Vehicle Rental Tax, a 5% tax on the gross rental receipts on the short-term motor vehicle rentals within the City. The City established a debt service fund, with assets of $606,656 at September 30, 2001 to service principal and interest payments. The City maintains as a reserve requirement, a surety bond issued at the date of delivery of the bonds.

v -- Convention Center Debt -- Bonds Issued and Outstanding

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 2001 (thousands of dollars):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2001
1993A	December 1993	$ 75,955	$ 67,940
1999 Refunding	June 1999	6,445	5,000
1999A	June 1999	25,000	25,000
1999	September 1999	110,000	110,000
1999	November 1999	40,000	40,000
			$ 247,940

13 -- CONDUIT DEBT

To provide for low cost housing and for acquisition and construction of industrial and commercial facilities, the City has issued several series of housing and industrial development revenue bonds. 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 $47 million, and $46.5 million outstanding at September 30, 2001.

To provide for facilities located at the airport and convention center, the City has issued various facility revenue bonds. These bonds are special limited obligations of the City, 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 $366 million, with $364.3 million outstanding at September 30, 2001.

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.

14 -- DEBT SERVICE REQUIREMENTS

The following is a schedule of General Obligation Bonds and Other Tax Supported Debt requirements for the General Long-Term Debt Account Group (in thousands):

Fiscal Year Ended September 30	General Obligation Bonds (1)			Public Property Finance Contractual Obligations			Certificates of Obligation		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2002	$ 39,309	28,210	67,519	7,160	1,320	8,480	2,230	2,045	4,275
2003	37,734	26,258	63,992	7,680	994	8,674	2,095	1,913	4,008
2004	39,634	24,356	63,990	7,225	650	7,875	2,220	1,788	4,008
2005	41,852	21,958	63,810	5,550	350	5,900	2,165	1,661	3,826
2006	42,700	19,863	62,563	3,205	132	3,337	1,835	1,562	3,397
Thereafter	335,397	106,749	442,146	870	21	891	30,395	10,689	41,084
	536,626	227,394	764,020	31,690	3,467	35,157	40,940	19,658	60,598

Fiscal Year Ended September 30	Tax Notes			Total		
	Principal	Interest	Total	Principal	Interest	Total
2002	1,500	1,017	2,517	50,199	32,592	82,791
2003	1,900	900	2,800	49,409	30,065	79,474
2004	12,000	416	12,416	61,079	27,210	88,289
2005	--	--	--	49,567	23,969	73,536
2006	--	--	--	47,740	21,557	69,297
Thereafter	--	--	--	366,662	117,459	484,121
	15,400	2,333	17,733	624,656	252,852	877,508

	Principal	Interest	Total
Less: Amounts reported in Enterprise Funds	(55,926)	(17,902)	(73,828)
Amounts reported in Internal Service Funds	(6,052)	(1,467)	(7,519)
Total requirements reported in other funds, exclusive of discounts, loss on refundings and premiums	(61,978)	(19,369)	(81,347)
General Long-Term Debt Account Group requirements at September 30, 2001	$ 562,678	233,483	796,161

(1) General Obligation Bonds exclude Tax Supported Debt of $69,312,529 (see Note 11-b).

14 -- DEBT SERVICE REQUIREMENTS, continued

The following summarizes the proprietary funds debt service obligations at September 30, 2001 (in thousands):

Fiscal Year Ended September 30	Commercial Paper Notes (1) Principal	Commercial Paper Notes (1) Interest	Commercial Paper Notes (1) Total	Revenue Notes (2) Principal	Revenue Notes (2) Interest	Revenue Notes (2) Total
2002	$ 228,929	1,306	230,235	--	1,680	1,680
2003	--	--	--	--	1,680	1,680
2004	--	--	--	--	1,680	1,680
2005	--	--	--	--	1,680	1,680
2006	--	--	--	--	1,680	1,680
Thereafter	--	--	--	28,000	19,320	47,320
	228,929	1,306	230,235	28,000	27,720	55,720
Less: Unamortized bond discount	(460)	--	(460)			
Unamortized loss on bond refundings	--	--	--			
Add: Unamortized bond premium	--	--	--			
Net debt service requirements	228,469	1,306	229,775			

Fiscal Year Ended September 30	General Obligation Bonds and Other Tax Supported Debt (3) Principal	General Obligation Bonds and Other Tax Supported Debt (3) Interest	General Obligation Bonds and Other Tax Supported Debt (3) Total	Revenue Bonds Principal	Revenue Bonds Interest	Revenue Bonds Total
2002	9,178	4,464	13,642	105,219	193,419	298,638
2003	8,752	4,059	12,811	90,525	182,901	273,426
2004	8,294	3,663	11,957	137,236	167,619	304,855
2005	7,770	3,109	10,879	157,092	154,516	311,608
2006	4,969	2,775	7,744	166,619	145,083	311,702
Thereafter	36,842	11,107	47,949	2,600,797	1,746,249	4,347,046
	75,805	29,177	104,982	3,257,488	2,589,787	5,847,275
Less: Unamortized bond discount	(224)	--	(224)	(54,318)	--	(54,318)
Unamortized loss on bond refundings	(843)	--	(843)	(8,113)	--	(8,113)
Add: Unamortized bond premium	1,094	--	1,094	36,099	--	36,099
Net debt service requirements	$ 75,832	29,177	105,009	3,231,156	2,589,787	5,820,943

(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.

(3) Includes assumed tax and revenue bond principal of $13,705,390 and interest of $9,808,616 and $120,000 of Water and Wastewater notes payable.

14 -- DEBT SERVICE REQUIREMENTS, continued

Fiscal Year Ended September 30	Water Improvement District Bonds			Municipal Utility District Contract Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2002	$ 250	13	263	6,605	4,563	11,168
2003	--	--	--	7,405	4,140	11,545
2004	--	--	--	8,045	3,664	11,709
2005	--	--	--	8,770	3,140	11,910
2006	--	--	--	9,385	2,573	11,958
Thereafter	--	--	--	36,515	4,419	40,934
	250	13	263	76,725	22,499	99,224
Less: Unamortized bond discount				(262)	--	(262)
Unamortized loss on bond refundings				--	--	--
Add: Unamortized bond premium				--	--	--
Net debt service requirements				76,463	22,499	98,962

Fiscal Year Ended September 30	Total Debt Service Requirements		
	Principal	Interest	Total
2002	350,181	205,445	555,626
2003	106,682	192,780	299,462
2004	153,575	176,626	330,201
2005	173,632	162,445	336,077
2006	180,973	152,111	333,084
Thereafter	2,702,154	1,781,095	4,483,249
	3,667,197	2,670,502	6,337,699
Less: Unamortized bond discount	(55,264)	--	(55,264)
Unamortized loss on bond refundings	(8,956)	--	(8,956)
Add: Unamortized bond premium	37,193	--	37,193
Net debt service requirements	$ 3,640,170	2,670,502	6,310,672

14 -- DEBT SERVICE REQUIREMENTS, continued

The following summarizes the proprietary funds debt service requirements at September 30, 2001 by fund (in thousands):

Fiscal Year Ended September 30	Electric (1)			Water and Wastewater (2)		
	Principal	Interest	Total	Principal	Interest	Total
2002	$ 231,489	96,681	328,170	108,336	68,887	177,223
2003	67,543	90,030	157,573	26,295	63,484	89,779
2004	92,297	77,094	169,391	44,985	61,039	106,024
2005	101,125	66,094	167,219	55,571	58,779	114,350
2006	101,642	60,240	161,882	62,513	55,281	117,794
Thereafter	1,063,003	570,545	1,633,548	1,023,798	771,655	1,795,453
	1,657,099	960,684	2,617,783	1,321,498	1,079,125	2,400,623
Less: Unamortized bond discount	(22,743)	--	(22,743)	(22,080)	--	(22,080)
Unamortized loss on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	25,322	--	25,322	10,886	--	10,886
Net debt service requirements	1,659,678	960,684	2,620,362	1,310,304	1,079,125	2,389,429

Fiscal Year Ended September 30	Solid Waste Services			Airport		
	Principal	Interest	Total	Principal	Interest	Total
2002	1,962	986	2,948	3,387	24,426	27,813
2003	1,900	883	2,783	5,765	24,173	29,938
2004	1,888	784	2,672	7,316	23,806	31,122
2005	1,677	686	2,363	7,759	23,361	31,120
2006	909	609	1,518	8,473	22,846	31,319
Thereafter	11,428	3,414	14,842	370,495	268,775	639,270
	19,764	7,362	27,126	403,195	387,387	790,582
Less: Unamortized bond discount	(31)	--	(31)	(7,614)	--	(7,614)
Unamortized loss on bond refundings	(710)	--	(710)	(1,557)	--	(1,557)
Add: Unamortized bond premium	296	--	296	18	--	18
Net debt service requirements	$ 19,319	7,362	26,681	394,042	387,387	781,429

(continued)

(1) Included in the debt service requirements of Electric is $150,703,000 principal and $1,001,252 interest for commercial paper notes.

(2) Included in the debt service requirements of Water and Wastewater is $78,226,000 principal and $304,367 interest for commercial paper notes.

14 -- DEBT SERVICE REQUIREMENTS, continued

Fiscal Year Ended September 30	Convention Center			Drainage		
	Principal	Interest	Total	Principal	Interest	Total
2002	$ 3,146	13,649	16,795	187	109	296
2003	3,315	13,487	16,802	190	99	289
2004	5,275	13,269	18,544	166	89	255
2005	6,131	12,976	19,107	155	79	234
2006	6,544	12,644	19,188	105	72	177
Thereafter	224,037	163,996	388,033	1,417	453	1,870
	248,448	230,021	478,469	2,220	901	3,121
Less: Unamortized bond discount	(2,781)	--	(2,781)	(3)	--	(3)
Unamortized loss on bond refundings	(6,518)	--	(6,518)	(2)	--	(2)
Add: Unamortized bond premium	535	--	535	29	--	29
Net debt service requirements	239,684	230,021	469,705	2,244	901	3,145

Fiscal Year Ended September 30	Transportation			Golf		
	Principal	Interest	Total	Principal	Interest	Total
2002	117	18	135	499	414	913
2003	123	13	136	421	388	809
2004	130	7	137	493	367	860
2005	66	2	68	489	342	831
2006	--	--	--	503	319	822
Thereafter	--	--	--	6,080	1,685	7,765
	436	40	476	8,485	3,515	12,000
Less: Unamortized bond discount	--	--	--	(7)	--	(7)
Unamortized loss on bond refundings	--	--	--	(51)	--	(51)
Add: Unamortized bond premium	--	--	--	61	--	61
Net debt service requirements	$ 436	40	476	8,488	3,515	12,003

(continued)

14 -- DEBT SERVICE REQUIREMENTS, continued

Fiscal Year Ended September 30	Fleet Maintenance			Support Services		
	Principal	Interest	Total	Principal	Interest	Total
2002	$ 132	97	229	128	55	183
2003	136	89	225	138	48	186
2004	130	81	211	152	42	194
2005	130	73	203	79	34	113
2006	84	67	151	45	30	75
Thereafter	1,338	431	1,769	558	141	699
	1,950	838	2,788	1,100	350	1,450
Less: Unamortized bond discount	(2)	--	(2)	(3)	--	(3)
Unamortized loss on bond refundings	(59)	--	(59)	(59)	--	(59)
Add: Unamortized bond premium	18	--	18	28	--	28
Net debt service requirements	1,907	838	2,745	1,066	350	1,416

Fiscal Year Ended September 30	Information Systems			Total Debt Service Requirements		
	Principal	Interest	Total	Principal	Interest	Total
2002	798	123	921	350,181	205,445	555,626
2003	856	86	942	106,682	192,780	299,462
2004	743	48	791	153,575	176,626	330,201
2005	450	19	469	173,632	162,445	336,077
2006	155	3	158	180,973	152,111	333,084
Thereafter	--	--	--	2,702,154	1,781,095	4,483,249
	3,002	279	3,281	3,667,197	2,670,502	6,337,699
Less: Unamortized bond discount	--	--	--	(55,264)	--	(55,264)
Unamortized loss on bond refundings	--	--	--	(8,956)	--	(8,956)
Add: Unamortized bond premium	--	--	--	37,193	--	37,193
Net debt service requirements	$ 3,002	279	3,281	3,640,170	2,670,502	6,310,672

15 -- INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at September 30, 2001, are as follows:

	Current Due From Other Funds	Long-Term Advance To Other Funds
RECEIVABLES:		
Special Revenue Funds		
Other Special Revenue Funds:		
Receivable from Other Special Revenue Funds	$ 13,689,040	--
Capital Projects Funds		
Capital Projects Funds Prior to 1984:		
Receivable from Capital Projects Funds Prior to 1984	82,006	--
Capital Projects Funds 1984:		
Receivable from Capital Projects Funds 1984	504,329	--
Capital Projects Funds 1985:		
Receivable from Capital Projects Funds 1987	54,298	--
Capital Projects Funds 1992:		
Receivable from Capital Projects Funds 1992	72,989	--
Capital Projects Funds 1998:		
Receivable from Capital Project Funds 1998	2,419,473	--
Capital Projects Funds Other Funds:		
Receivable from Capital Projects Funds Other Funds	4,861,000	--
Receivable from Agency Funds	3,660	--
Enterprise Funds		
Electric:		
Special Revenue Funds:		
Receivable from Other Special Revenue Funds	150,000	--
Water and Wastewater (Restricted):		
Internal Service Funds:		
Receivable from Information Systems	26,872	241,850
Airport (Restricted):		
Receivable from General Long-Term Debt Group	--	4,318,000
Total Receivables	$ 21,863,667	4,559,850

(continued)

15 -- INTERFUND RECEIVABLES AND PAYABLES, continued

PAYABLES:	Current Due To Other Funds	Long-Term Advance From Other Funds
Special Revenue Funds		
Federal Grants:		
Payable to Other Special Revenue Funds	$ 8,018,701	--
State Grants:		
Payable to Other Special Revenue Funds	849,390	--
Other Special Revenue Grants:		
Payable to Other Special Revenue Funds	94,722	--
Other Special Revenue Funds:		
Payable to Other Special Revenue Funds	4,726,227	--
Payable to Electric Fund	150,000	
Capital Projects Funds		
Capital Projects Funds Prior to 1984:		
Payable to Capital Projects Funds Prior to 1984	82,006	--
Capital Projects Funds 1984:		
Payable to Capital Projects Funds 1984	504,329	--
Capital Projects Funds 1987:		
Payable to Capital Projects Funds 1985	54,298	--
Capital Projects Funds 1992:		
Payable to Capital Projects Funds 1992	72,989	--
Capital Projects Funds 1998:		
Payable to Capital Projects Funds 1998	2,419,473	--
Capital Projects Funds Other Funds:		
Payable to Capital Projects Funds Other Funds	4,861,000	--
Internal Service Funds		
Information Systems:		
Payable to Water and Wastewater	26,872	241,850
Trust and Agency Funds		
Agency Funds:		
Payable to Capital Projects Funds	3,660	--
General Long-Term Debt Group		
Payable to Airport	--	4,318,000
Total Payables	$ 21,863,667	4,559,850

16 -- INTERFUND TRANSFERS

a -- Interfund Transfers

Operating transfers between funds during the year were as follows:

Operating Transfers In	Operating Transfers Out		Amount
General Fund	Enterprise Funds:	Electric	$ 67,283,000
		Water and Wastewater	18,541,446
		Parks and Recreation	458,516
			86,282,962
Special Revenue Funds - Other:			
Balcones Canyonlands Conservation Plan	General Fund		160,000
	Enterprise Funds:	Drainage	470,015
Barton Springs Conservation	General Fund		45,000
Environmental Remediation	Enterprise Funds:	Water and Wastewater	75,000
		Solid Waste	1,750,000
		Drainage	100,000
Federally Qualified Health Center	Enterprise Funds:	Hospital	8,650,018
Neighborhood Housing and Conservation	General Fund		1,162,995
	Enterprise Funds:	Electric	133,333
		Water and Wastewater	133,333
		Airport	133,333
PARD Cultural Projects	Special Revenue Funds:	Hotel-Motel Occupancy Tax	3,634,952
Public Improvement District	Enterprise Funds:	Water and Wastewater	75,000
		Convention Center	75,000
Sustainability	General Fund		14,307,479
	Enterprise Funds:	Water and Wastewater	2,302,026
		Solid Waste	363,497
		Drainage	267,801
		Transportation	183,364
Tourism and Promotion	General Fund		125,382
	Special Revenue Funds:	Hotel-Motel Occupancy Tax	5,021,275
Voluntary Utility Assistance	General Fund		152,000
			39,320,803
Debt Service Funds:			
General Obligation Debt Service	Special Revenue Funds:	One Texas Center	2,416,538
	Capital Project Funds:	Downtown Art Museum	6,195,647
		Interest income fund	840,000
HUD Section 108 Loans	Special Revenue Funds:	Neighborhood Housing and Conservation	362,464
			9,814,649
Capital Projects Funds	General Fund		12,656,726
	Special Revenue Funds:	Sustainability	13,081,000
	Capital Project Funds:	Cultural arts	461,863
		General government projects	5,824,576
		Fire-general	1,763,404
		Capital reserve	1,000,000
		Interest income fund	6,893,200
	Expendable Trust Funds:	Planting for the future	173,580
			$ 41,854,349

(continued)

16 -- INTERFUND TRANSFERS, continued

Operating Transfers In	Operating Transfers Out		Amount
Enterprise Funds:			
Solid Waste Services	General Fund		$ 1,084,354
	Special Revenue Funds:	Environmental Remediation	868,000
	Enterprise Funds:	Drainage	46,893
Convention Center	Special Revenue Funds:	Hotel-Motel Occupancy Tax	22,488,324
		Vehicle Rental Tax	10,710,151
Drainage	General Fund		298,504
	Special Revenue Funds:	Sustainability	154,000
	Capital Project Funds:	Interest income fund	925,800
			36,576,026
Internal Service Funds:			
Information Systems	Capital Project Funds:	General government projects	1,000,000
Trust and Agency Funds-			
Expendable Trusts:			
Housing Trust Social Equity	Special Revenue Funds:	Sustainability	1,000,000
Total Operating Transfers			$ 215,848,789

b -- Residual Equity Transfers

Residual equity transfers between funds are listed below. Proprietary fund transfers are reported in the financial statements as residual equity transfers or as contributions, as appropriate under generally accepted accounting principles.

	Residual Equity Transfers In	Residual Equity Transfers Out
Governmental funds		
General Fund	$ --	500,000
Special Revenue Funds:		
Other Special Revenue Funds:		
APD Incident Management	500,000	--
Disproportionate Share	--	65,143
Capital Projects Funds:		
Conservation Land	747,919	--
Balcones Canyonlands Conservation Plan	--	747,919
Proprietary funds		
Enterprise Funds:		
Water and Wastewater	197,978	--
Hospital	904,368	--
Trust and Agency funds		
Expendable Trust Funds:		
Penta Development	--	111,000
Fairway Ridge	--	197,978
Brackenridge Imaging	--	839,225
Town Lake Beautification	111,000	--
	$ 2,461,265	2,461,265

17 -- SEGMENT INFORMATION

a -- Enterprise Fund Activities

The City maintains ten enterprise funds, which provide electric, water and wastewater, hospital, solid waste services, airport, convention center, drainage, transportation, golf, and parks and recreation activities. Segment information for the year ended September 30, 2001, is as follows (in thousands of dollars):

	Electric Fund	Water & Wastewater Fund	Hospital Fund	Solid Waste Services Fund	Airport Fund	Convention Center Fund	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	$ 806,311	219,914	9,755	36,958	68,528	11,072	55,066	1,207,604
Depreciation and								
amortization expense	85,828	52,240	2,520	1,801	15,292	2,668	1,944	162,293
Operating income (loss)	262,516	65,720	5,010	991	13,978	(7,074)	2,741	343,882
Operating transfers in	--	--	--	1,999	--	33,198	1,379	36,576
Operating transfers out	(67,416)	(21,127)	(8,650)	(2,114)	(133)	(75)	(1,527)	(101,042)
Net income (loss)	103,425	1,696	(1,790)	1,310	16,169	24,198	6,431	151,439
Current assets	234,444	34,913	35,460	6,797	9,655	18,514	9,074	348,857
Current liabilities	74,535	19,119	61	4,074	8,620	982	3,480	110,871
Net working capital surplus	159,909	15,794	35,399	2,723	1,035	17,532	5,594	237,986
Property, plant and equipment:								
Additions	244,226	129,523	--	9,078	14,202	82,121	9,495	488,645
Retirements	(10,512)	(2,987)	--	(3,439)	(1,033)	(1,294)	(370)	(19,635)
Transfers from other funds	5	--	--	--	--	--	37	42
Net property, plant and equipment	1,935,789	1,657,341	41,040	43,218	608,609	199,448	64,419	4,549,864
Total assets	3,118,190	2,223,771	76,500	59,443	733,420	345,967	101,005	6,658,296
Bond, restricted, and								
other long-term liabilities	1,931,549	1,437,220	--	25,066	412,415	259,747	12,642	4,078,639
Current capital contributions	--	--	904	--	1	--	1	906
Total equity	1,112,106	767,432	76,439	30,303	312,384	85,238	84,884	2,468,786

17 -- SEGMENT INFORMATION, continued

b -- Proprietary Fund Contributed Capital

The following table summarizes activity in contributed capital for the year ended September 30, 2001:

	Balance September 30, 2000	(To) From Municipality	Depreciation Taken	Balance September 30, 2001
Enterprise Funds:				
Electric	$ 65,065,927	--	(3,335,183)	61,730,744
Water and Wastewater	350,855,981	--	(14,175,147)	336,680,834
Hospital	12,754,170	904,368	--	13,658,538
Solid Waste Services	1,372,233	--	--	1,372,233
Airport	152,302,895	1,366	(2,468,017)	149,836,244
Convention Center	21,606,204	--	(70,216)	21,535,988
Drainage	31,010,335	--	--	31,010,335
Transportation	331,206	--	--	331,206
Golf	848,680	--	(6,885)	841,795
Parks and Recreation	1,069,976	--	--	1,069,976
Internal Service Funds:				
Fleet Maintenance	27,468,252	3,731,702	--	31,199,954
Support Services	941,164	--	--	941,164
Information Systems	5,955,380	3,253,421		9,208,801
Employee Benefits	9,244,036	--	--	9,244,036
Workers' Compensation	2,443,283	--	--	2,443,283
Radio Communication	56,255	--	--	56,255
Infrastructure Support Services	343,005	--	--	343,005
Capital Projects Management	28,300	--	--	28,300
Total	$ 683,697,282	7,890,857	(20,055,448)	671,532,691

18 -- JOINT OPERATIONS

The City has entered into several participating agreements on joint projects. As required by generally accepted accounting principles, such joint operations have been evaluated to determine if they fall within the definition of the reporting entity. The following joint operations meet the criteria of an undivided interest as defined in GASB Statement 14 and, accordingly, the City's share of assets, liabilities, and expenses is included in the City's financial statements.

a -- Fayette Power Project

The Fayette Power Project (the "Project", Units I and II) is jointly owned by the City and the Lower Colorado River Authority (LCRA, Project Manager) -- each participant has an undivided interest in the Project. The Project is a joint operation of two coal-fired electric power generation units with a net capacity of 1,140 megawatts. Each participant's actual equity in the Project may vary from 50% depending on the percentage of kilowatt hours produced by the Project and used by each.

The Project is governed by a management committee whose four members are administratively appointed, two each, by the participants. As managing partner, LCRA is responsible for the operation of the Project and appoints the Project's management. However, the City has the ability to influence significantly the operation of the Project through approval of major contracts and new major expenditures by its appointees to the management committee. Each participant issued its own debt to finance its share of construction costs. The City's portion is financed through revenue bonds to be repaid by the Electric Fund. In addition, each participant has the obligation to finance its portion of any deficits that may occur.

18 -- JOINT OPERATIONS, continued

The following is a summary of financial information taken from the Project's audited financial statements, dated June 30, 2001, and 2000, the Project's fiscal year end (in thousands of dollars). These statements include Unit III, which is 100% owned by LCRA. These statements were not examined by the City's auditors.

	June 30, 2001			June 30, 2000		
	Total	**COA**	**LCRA**	**Total**	**COA**	**LCRA**
Assets	$ 58,227	22,105	36,122	62,897	26,536	36,361
Liabilities	8,005	2,930	5,075	14,412	5,275	9,137
Equity	50,222	19,175	31,047	48,485	21,261	27,224
Revenues	2,526	549	1,977	1,538	361	1,177
Expenses	154,339	53,905	100,434	150,069	52,712	97,357
Net expenses incurred	$ 151,813	53,356	98,457	148,531	52,351	96,180

Financial reports that include financial statements and supplementary information for the Fayette Power Project are publicly available at the LCRA, 3700 Lake Austin Blvd., Austin, TX 78703, (512) 473-3200.

b -- South Texas Project

The South Texas Project (STP) was formed for the purpose of licensing, constructing and operating two 1,250 megawatt nuclear generating units. The City was admitted to the STP in December 1973, with a 16% ownership in generating units and common facilities. The City is a tenant-in-common with Reliant Energy, Inc. (formerly Houston Lighting and Power Company or HL&P), City Public Service of San Antonio (CPS), and Central Power and Light Company (CP&L).

On October 1, 1997 the STP Nuclear Operating Company (OPCO) was formed by the owners of STP and replaced HL&P as the project manager. OPCO is a separate entity formed to manage STP. Each participant appoints one member to the board of directors of OPCO. There is also an owner's committee, and each participant appoints one 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. OPCO, serving as project manager, is responsible for the operation and maintenance of the project as well as capital improvements. Each participant is responsible for its debt related to STP. The City's portion is financed through revenue bonds or commercial paper, which are repaid by the Electric Fund (see Note 12). In addition, each participant has the obligation to finance any deficits that may occur.

The City's portion of Units 1 and 2 of the South Texas Project is classified as plant in service. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

The following is a summary of financial information taken from the South Texas Project's audited financial statements dated December 31, 2000 (in thousands of dollars). These statements were not examined by the City's auditors.

	Reliant	**CPS**	**CP&L**	**Austin**	**Total**
Operations	$ 91,029	82,754	74,519	47,288	295,590
Spent fuel	5,325	4,787	4,213	2,767	17,092
Total 2000 funding	$ 96,354	87,541	78,732	50,055	312,682

Financial reports that include financial statements and supplementary information for the STP are publicly available at the STP Nuclear Operating Company, P.O. Box 289, Wadsworth, TX 77483, (361) 972-7067.

18 -- JOINT OPERATIONS, 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 amount of funds that will be required to decommission the plant while demonstrating reasonable assurance that sufficient funds are being accumulated to provide the minimum amount at the time the plant is decommissioned. This minimum amount must be adjusted annually in accordance with an adjustment factor as required by the NRC. At September 30, 2001 and 2000, the City had funded its share of the estimated decommissioning liability as follows:

	2001	**2000**
Estimated cost to decommission STP	$210,784,554	$200,423,996
Restricted decommissioning fund assets	72,591,362	63,515,224

The City of Austin and other STP participants have provided the required information to the NRC, and the City of Austin has established an external irrevocable trust for decommissioning and has been collecting through its rates since 1989 sufficient amounts to provide for its share of the estimated decommissioning costs. For fiscal years 2001 and 2000, 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. Currently, the Sandhill Energy Center is governed by a management committee composed of a representative of each, with Austin Energy's representative serving as the Chair.

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 the issuance of 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.

f -- Brushy Creek

During fiscal year 2001, the City entered into a contract with the Lower Colorado River Authority and the Brazos River Authority for the Brushy Creek Regional Wastewater System. The City sold its assets in the system and is now a customer rather than an owner in the system. The Lower Colorado River Authority constructs the assets of the system and the Brazos River Authority operates the system.

18 -- JOINT OPERATIONS, continued

g -- Rivercrest Water Supply Corporation

Upon annexation, in December 1997, of Davenport Ranch Municipal Utility District ("Davenport MUD"), the City assumed a cost sharing agreement with Davenport MUD, Davenport Limited, Rivercrest Water Supply Corporation and Loop 360 Water Supply Corporation. The agreement allocates the costs, based on capacity allocations, of operating a private water treatment facility servicing the Davenport MUD and the other participants' service areas. ST Environmental is under contract to operate the water treatment facility. The City may amend this arrangement in the future to provide for facility improvements that will allow the customers to be served by the City's system. The City incurred expenses of $255,619 during the fiscal year.

19 -- LITIGATION

a -- Water and Wastewater Litigation

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

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 the 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, 2001. These liabilities include amounts for lawsuits settled subsequent to year end.

20 -- 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 long-term bonds and are recorded as a liability in the funds.

20 -- COMMITMENTS AND CONTINGENCIES, continued

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	$10,085,000	$7,450,000
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, with most funding from the Housing and Urban Development (HUD) Department, Health and Human Services (HHS) Department, and Department of Transportation. 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.

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, which will be rebated to the federal government. The estimated amounts payable at September 30, 2001 are $844,124 for the enterprise funds and $2,804,045 for the capital projects funds. The long-term payable related to the capital projects funds, in the amount of $2,601,957, has been recorded in the General Long-Term Debt Group.

d -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* that is an anticipated spending plan for projects in the upcoming year (a *Capital Budget*) as well as for future years. The City's 2002 Capital Budget includes new appropriations of $430,817,449 for the City's enterprise funds and $106,859,820 for general government projects and appropriation reductions of $37,351,005 for the enterprise funds and $6,263,334 for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

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 all residents of Austin regardless of their ability to pay. The City will fund these services through payments to Seton for three programs. Under the Charity Care Program, the City will reimburse Seton up to a maximum of $5.6 million annually for providing care to the medically indigent; provided, however, that Seton must first satisfy its requirement under State law to provide charity care in the amount of 4% of net revenues. Under the Medical Assistance Program, the City will pay Seton a maximum of approximately $7.5 million beginning February 2001 (adjusted annually for the next 4 years) for providing services to patients enrolled in the City's Medical Assistance Program. For fiscal year 2001, expenditures were $7.0 million. Under the Physician Services Program, the City paid Seton approximately $5.4 million during fiscal year 2001, for providing physician services to patients in the first two programs. This amount will be adjusted annually for the next four years.

20 -- COMMITMENTS AND CONTINGENCIES, continued

In June 2001, Seton formally notified the City that it would be unable to perform or permit others to perform certain reproductive services at Brackenridge Hospital. The notification was due to revisions in the *Ethical and Religious Directives for Catholic Health Care Services* to which Seton adheres. The City is in discussion with Seton in order to reach a mutually agreeable resolution.

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 FM812) 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 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 $6,904,024 reported as accrued landfill closure and postclosure costs at September 30, 2001, represents the cumulative amount reported to date based on the use of 77.9% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1,958,652 as the remaining estimated capacity is filled over the next ten years. The total estimated costs of $8,862,676 include costs of closure in 2010 of $2,298,015 and postclosure costs over the subsequent thirty years of $6,564,661. These amounts are based on what it would cost to perform all closure and postclosure care in 2001. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

State and federal laws to demonstrate financial assurance for closure, postclosure, and/or corrective action became effective in April 1997. 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	Approximately 13% of City employees use one of two HMOs; approximately 87% use the City's program, which is self-insured. In addition, retirees may choose from two HMOs and a PPO. Premiums are charged to other 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 self-funded Medical Plan. This stop loss insurance covers individual claims that exceed $150,000 per calendar year, up to a maximum of $1 million. During fiscal year 2001, two claims exceeded the stop loss limit of $150,000; four claims exceeded the stop loss limit in fiscal year 2000; and six claims exceeded the stop loss limit in fiscal year 1999. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

The City purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bond, and airport operations. The City also purchases a broad range of insurance coverage through the Rolling Owner Controlled Insurance Program (ROCIP). The program provides auto and commercial general liability coverage for the City and for contractors working at selected capital improvement sites; it also provides workers' compensation, employers' liability, and excess liability for contractors at these sites. The City purchases excess liability coverage for the Electric Fund and the Airport Fund. The City also purchases medical malpractice insurance coverage for physicians in the City's Health and Human Services Department and Primary Care Department clinics. None of the policies had claims settlements in excess of insurance coverage. The City does not participate in a risk pool. There are no significant reductions in insurance coverage in fiscal year 2001.

20 -- COMMITMENTS AND CONTINGENCIES, continued

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). Claim liabilities for the Employee Benefits Fund are calculated considering recent claim settlement trends; 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, 2001. The possible range of loss is $23.5 - $36.5 million. The City contributes amounts to an internal service fund based on an estimate of the cost of claims expected to be incurred each year.

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

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2001	2000	2001	2000	2001	2000
Liability balances, beginning of year	$ 3,737	3,021	12,042	12,497	6,347	4,154
Claims and changes in estimates	4,015	4,024	3,897	2,705	3,472	5,483
Claim payments	(3,282)	(3,308)	(3,239)	(3,160)	(3,472)	(3,290)
Liability balances, end of year	$ 4,470	3,737	12,700	12,042	6,347	6,347

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of $5.8 million discounted at 5.28% in 2001 and $6.2 million discounted at 5.74% in 2000.

h -- Environmental Remediation Contingencies

The Electric Fund may incur potential costs related to environmental remediation of certain sites including the Seaholm Power Plant, and the statements include a liability of $2 million at September 30, 2001. 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 2002.

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 improvements requiring capital investment for the repair and/or rehabilitation of the collection system infrastructure. When the studies are complete the utility will be able to estimate the cost of the improvements. Currently, the Utility is complying with all requirements of the Administrative Order.

The Airport Fund may also incur potential costs related to environmental remediation of certain sites, and has recorded in these financial statements an estimated liability of $3 million.

i -- Downtown Development Projects

The Austin Convention Center expansion is under way. The $110 million expansion will double the amount of space currently available. The expansion is scheduled to be completed in May 2002. In March 2001, the City Council approved payment of $15 million to Austin Convention Enterprises, Inc. for the City's share in the construction of a new Convention Center Headquarter Hotel; the payment is recorded as a deferred asset in the Convention Center Fund. The hotel will be financed by debt issued by Austin Convention Enterprises, Inc. The debt does not constitute a pledge of faith and credit of the City and accordingly has not been reported in the accompanying financial statements. The hotel is scheduled to open for business in January 2004.

The Lester E. Palmer Events Center and Parking Garage are also nearing completion. These facilities will replace the City Coliseum and Palmer Auditorium. The Lester E. Palmer Events Center and Parking Garage were approved through a bond proposition by Austin residents in 1998. The total project cost is approximately $48.3 million, which is funded by an increase in the vehicle rental tax of 5%. The parking garage is scheduled to open in November 2001; the events center is scheduled to open in June 2002.

20 -- COMMITMENTS AND CONTINGENCIES, continued

The 1998 election also authorized the City to lease the existing Palmer Auditorium and adjacent parkland for up to fifty years. Arts Center Stage, the lessee, will renovate the auditorium using privately-raised funds. The renovated auditorium will be known as the Long Center for the Performing Arts. The auditorium reverts to the City at the end of the fifty-year lease.

In August 2001, Computer Sciences Corporation (CSC) employees moved into the first of two new buildings. Employees are scheduled to move into the second building in November. CSC has not begun construction of a planned third building. See Footnote 22 for an update subsequent to September 30.

In December 2000, the City Council approved a resolution for a $25 million incentive package for Vignette Corp. to relocate in downtown Austin. Vignette announced in May 2001 that it was canceling the relocation plans due to the economic slowdown. Also, Intel Corporation has halted construction of a 10-story downtown center due to the economic slowdown. Any decision on the project has been postponed indefinitely. Intel was to have received up to $9 million in incentives for development in the downtown area.

j -- 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 for accounting purposes to be operating leases. Lease expense for the year ended September 30, 2001, amounted to $17,617,658. The City expects these leases to be replaced in the ordinary course of business with similar leases. Future minimum lease payments for these leases should be approximately the same amount.

The City has entered into certain lease agreements, including the certificates of participation, as lessee for financing the purchase of equipment used in the Electric Fund and Water and Wastewater Fund. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following summarizes utility assets recorded at September 30, 2001, under capital lease obligations:

	Electric	Water & Wastewater	Total
Assets			
Building	$ 21,604,300	12,750,000	34,354,300
Accumulated depreciation	(7,463,804)	(3,434,330)	(10,898,134)
Net assets	$ 14,140,496	9,315,670	23,456,166

20 -- COMMITMENTS AND CONTINGENCIES, continued

The following is an analysis of the future minimum lease payments under these capital leases and Certificates of Participation and the present value of the net minimum lease payments, as of September 30, 2001:

Fiscal Year Ended September 30		Electric	Water and Wastewater	Total
2002	$	2,210,065	1,406,194	3,616,259
2003		2,207,430	1,387,931	3,595,361
2004		2,206,730	1,389,216	3,595,946
2005		2,203,680	1,384,350	3,588,030
2006		2,202,930	1,373,437	3,576,367
Later years		4,301,059	2,758,000	7,059,059
Total minimum lease payments		15,331,894	9,699,128	25,031,022
Less:				
Amount representing interest		3,858,760	2,249,128	6,107,888
Present value of net minimum lease payments		11,473,134	7,450,000	18,923,134
Current portion		1,436,614	850,000	2,286,614
Long-term portion	$	10,036,520	6,600,000	16,636,520

The City guarantees certain energy improvement loans made by a bank. The maximum contingent liability of the RMD Loan Fund, a special revenue fund, is $3.7 million, which City management does not anticipate having to fulfill.

The City has entered into an agreement with the Federal Aviation Administration regarding the development of new facilities exclusively for the use of the State Aircraft Pooling Board of Austin-Bergstrom International Airport. The construction of these facilities was paid for from the Aviation Fund, which receives Federal airport grant assistance. The Aviation Fund was partially reimbursed for the $4.8 million in construction costs with $1.4 million that was received by the City from the Austin Museum of Art, Inc. for land conveyed to the City from the State of Texas. Additionally, land at the City's former airport site (Mueller) received Federal grant assistance. Repayment of these amounts will be made from the City to the Aviation Fund over a period of 5-7 years. The Aviation Fund has recorded a corresponding interfund receivable in the amount of $4.3 million.

To comply with Federal Aviation Administration (FAA) requirements, the City stopped sending household garbage to the City's landfill site near Austin-Bergstrom International Airport. The landfill site continues to accept nonbird attracting waste, and the FAA has agreed to this approach. With the closing of the City landfill for household garbage, the City has entered into long-term contracts for household waste disposal.

21 -- 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 19 (under age 24 if an eligible student) 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. 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.

21 -- 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	6% - 18%	4% - 11%
5 to 10 years	10% - 26%	5% - 17%
10 to 15 years	16% - 44%	9% - 28%
15 to 20 years	23% - 62%	14% - 39%
Greater than 20 years	32% - 88%	18% - 56%

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 2,090 retirees and 9,713 active employees in 2001 and 2,050 retirees and 9,320 active employees in 2000 is not separable and cannot be reasonably estimated. Total payments to the Employee Benefits Fund for retirees and active employees were $39,444,283 in 2001 and $31,479,028 in 2000.

As more fully described in Note 18, the City is a participant in the South Texas Project Nuclear Operating Company (OPCO) and as such is liable for certain post-employment benefits for OPCO employees. At December 31, 2000, the City's portion of this obligation, $5,899,126, is not reflected in the financial statements of the Electric Fund.

22 -- SUBSEQUENT EVENTS

a – General Obligation Bonds Issuance

In October 2001, the City issued Public Improvements Bonds, Series 2001, in the amount of $79,650,000. Of the proceeds from the issue, $6,310,000 will be used for land acquisition and libraries, $1,000,000 will be used for asbestos abatement, $35,555,000 will be used for street improvements, $8,920,000 will be used for park and recreation facilities, $4,565,000 will be used for emergency centers, and $2,300,000 will be used for the Carver Museum expansion, $15,000,000 will be used for ROW acquisition and utility relocation, and $6,000,000 will be used for police forensics. 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.

b – Public Property Finance Contractual Obligations Issuance

In October 2001, the City issued Certificates of Obligation, Series 2001, in the amount of $2,650,000. Of the proceeds from the issue, $1,385,000 will be used for police helicopter and $1,265,000 will be used for capital equipment. These certificates of obligation will be amortized serially 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.

22 -- SUBSEQUENT EVENTS, continued

c -- Certificates of Obligation Issuance

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 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.

d – Water and Wastewater System Revenue Bond Refunding Issue

In November 2001, the City issued $95,380,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2001C. Proceeds from the bonds were used to refund $96,660,000 of the par amount of the bonds. The refunding resulted in future interest requirements to service the debt of $25,419,181. An economic gain of $7,971,757 was recognized on this transaction. The change in net cash flows that resulted was $8,066,955. An accounting loss of $3,123,904, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on the refunding. The following bonds were refunded in this transaction (in thousands of dollars):

Series	Amount
1986 Revenue	$ 10,065
1990A Refunding	4,920
1990B Refunding	900
1990 Sub Lien	3,740
1991A Refunding	29,670
1991 Circle C MUD No. 3	14,200
1991 Southland Oaks MUD	18,155
1991 Village at Western Oaks MUD	15,010
	$ 96,660

e – Grant Liability

In October 2001, the Housing and Urban Development (HUD) Department directed the City to repay $1.25 million used to purchase land in a prior year. The City contracted with a subrecipient to develop the land with a housing project known as Vision Village. The subrecipient is under investigation by the City and FBI; in November 2001, the investigation was turned over to the county district attorney's office. HUD has agreed to allow the City to repay the amount in installments during fiscal years 2002 and 2003, and the City has reported this amount in the fiscal year 2001 financial statements.

f – Electric Retail Competition

Municipally owned utilities such as the City's electric utility system have the option of offering retail competition after January 1, 2002. The City Council has directed that the electric utility will not open its service area for retail competition ("opt in") at this time.

g -- Enron Bankruptcy

The electric utility (Austin Energy) and Enron Corporation have entered into a joint operation agreement (the Sandhill Power Project). Although Enron Sandhill is not in bankruptcy, its guarantor, Enron North America Corporation is currently under Chapter 11 protection. Prior to the bankruptcy filing, Austin Energy issued a notice of default to Enron Sandhill and Enron North America stating that Enron and Partnership were in anticipatory breach of their obligations under the Participation Agreement because of past due invoices. The letter also stated that Austin Energy would decline any requests to schedule delivery of energy from Sandhill Energy Center until payment of delinquent invoices have been received and authorized written assurances are given that future invoices will be paid in a timely manner. Austin Energy suspended all bilateral transactions with Enron in early November 2001 and no additional energy transactions are contemplated with Enron. Austin Energy does not anticipate that the Enron bankruptcy proceedings, in which Austin Energy is listed as an unsecured creditor, will have a material adverse effect on the operation of the Sandhill Energy Center.

22 -- SUBSEQUENT EVENTS, continued

Enron has not billed Austin Energy for all remaining construction costs of the Sandhill Energy Center, which are estimated at $1 million. Austin Energy considers these costs probable and, in accordance with generally accepted accounting principles, has accrued this amount. Other potential costs associated with Enron include recent payments to Austin Energy by Enron, which may be subject to preference challenge in bankruptcy court. Estimates of the costs range from $0 to $1.6 million.

h -- Conduit Debt

In December 2001, the City issued $11.5 million of housing revenue bonds for Austin Housing Finance Corporation. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly will not be reported in future financial statements.

i – Computer Sciences Corporation

In January 2002, the City Council voted to buy back from Computer Sciences Corporation (CSC) the right to develop a city-owned block that the City agreed in 1999 to lease to CSC. The City will pay $4 million to CSC in order to buy back the development rights. In addition to the $4 million payment, CSC will keep a $4 million deposit it originally paid into escrow, which was to be paid to the City at the inception of construction on this block. The City will avoid paying $2.6 million in incentives and will keep previously promised parking garage space beneath City Hall with an estimated value of $4 million. CSC has completed construction on two other city-owned blocks that constituted the original agreement.

ENTERPRISE FUNDS
COMBINING BALANCE SHEET
September 30, 2001
With comparative totals for September 30, 2000

	Electric	Water and Wastewater	Hospital	Solid Waste Services
ASSETS				
Current assets:				
Cash	$ 17,000	12,450	--	2,550
Pooled investments and cash	56,571,935	11,904,032	35,173,831	2,389,996
Working capital advances	2,890,794	--	--	--
Accounts receivable	103,809,396	22,912,691	3,675,901	4,516,165
Less allowance for doubtful accounts	(4,310,094)	(994,716)	(3,389,316)	(132,627)
Net accounts receivable	99,499,302	21,917,975	286,585	4,383,538
Receivable from other governments	--	--	--	--
Due from other funds	150,000	--	--	--
Inventories, at cost	47,649,254	1,078,454	--	--
Prepaid expenses and other assets	27,665,645	--	--	20,448
Total current assets	234,443,930	34,912,911	35,460,416	6,796,532
Restricted assets:				
Revenue note current debt service account	--	--	--	--
Revenue bond current debt service account	81,116,278	35,634,023	--	--
Revenue bond future debt service account	192,196,078	--	--	--
Revenue bond retirement reserve account	116,568,219	54,131,600	--	--
Construction account	67,543,721	99,448,693	--	9,217,149
Due from other funds	--	26,872	--	--
Advances to other funds	--	241,850	--	--
Decommissioning account	72,591,362	--	--	--
Capital improvement account	--	--	--	--
Operating reserve account	--	--	--	--
Hotel occupancy tax account	--	--	--	--
Renewal and replacement account	--	--	--	--
Investments and cash held by trustee	--	5,213,934	--	--
Nuclear fuel inventory acquisition account	31,898,253	--	--	--
Mueller disposition account	--	--	--	--
Customer and escrow deposits	4,073,789	2,137,203	--	170,800
Other restricted accounts	2,060,156	--	--	--
Total restricted assets	568,047,856	196,834,175	--	9,387,949
Fixed assets, at cost:				
Property, plant and equipment in service	2,823,080,198	2,095,315,953	74,793,203	52,979,101
Less accumulated depreciation	(1,131,860,735)	(592,992,200)	(33,753,688)	(22,483,056)
Net property, plant and equipment in service	1,691,219,463	1,502,323,753	41,039,515	30,496,045
Construction in progress	193,752,698	155,017,516	--	12,722,470
Nuclear fuel, net of amortization	19,438,007	--	--	--
Plant held for future use	31,378,983	--	--	--
Net property, plant and equipment	1,935,789,151	1,657,341,269	41,039,515	43,218,515
Investment in municipal utility districts	--	1,756,084	--	--
Intangible assets, net of amortization	--	95,101,582	--	--
Other long-term assets	3,969,980	--	--	--
Deferred costs and expenses, including bond issue cost, net of amortization	375,938,961	237,825,191	--	39,772
Total assets	$3,118,189,878	2,223,771,212	76,499,931	59,442,768

See accompanying independent auditors' report.

Airport	Convention Center	Drainage	Transportation	Golf	Parks and Recreation	Totals 2001	Totals 2000
7,500	2,000	700	800	1,300	--	44,300	42,050
5,012,442	17,981,848	1,230,766	2,749,555	651,968	190,825	133,857,198	80,318,516
--	123,841	--	--	--	--	3,014,635	2,548,202
4,783,960	363,618	2,615,113	1,575,880	--	--	144,252,724	167,850,654
(150,000)	(1,024)	(97,156)	(176,772)	--	--	(9,251,705)	(9,163,184)
4,633,960	362,594	2,517,957	1,399,108	--	--	135,001,019	158,687,470
--	--	--	--	--	--	--	698,954
--	--	--	--	--	--	150,000	--
--	--	--	263,723	--	--	48,991,431	46,401,728
1,200	43,500	67,230	--	--	--	27,798,023	64,184,961
9,655,102	18,513,783	3,816,653	4,413,186	653,268	190,825	348,856,606	352,881,881
392,997	--	--	--	--	--	392,997	441,867
11,390,843	5,948,142	--	--	--	--	134,089,286	118,709,645
--	--	--	--	--	--	192,196,078	221,753,105
--	6,914,551	--	--	--	--	177,614,370	168,178,520
27,241,407	94,096,467	26,321,922	26,405	1,136,641	--	325,032,405	374,192,036
--	--	--	--	--	--	26,872	384,424
4,318,000	--	--	--	--	--	4,559,850	4,586,722
--	--	--	--	--	--	72,591,362	63,515,224
34,547,866	--	--	--	--	--	34,547,866	15,485,262
6,900,950	--	--	--	--	--	6,900,950	17,509,286
--	572,788	--	--	--	--	572,788	2,076,499
10,000,000	1,063,999	--	--	--	--	11,063,999	11,043,578
--	--	--	--	--	--	5,213,934	20,393,686
--	--	--	--	--	--	31,898,253	33,473,935
5,778,587	--	--	--	--	--	5,778,587	2,616,040
196,301	747,219	--	--	--	--	7,325,312	12,199,305
12,093,434	--	--	--	--	--	14,153,590	10,156,981
112,860,385	109,343,166	26,321,922	26,405	1,136,641	--	1,023,958,499	1,076,716,115
724,642,522	114,992,716	28,705,631	10,070,022	12,913,309	173,018	5,937,665,673	5,630,759,243
(126,437,598)	(24,598,883)	(4,707,994)	(4,259,138)	(3,628,130)	(53,173)	(1,944,774,595)	(1,797,068,649)
598,204,924	90,393,833	23,997,637	5,810,884	9,285,179	119,845	3,992,891,078	3,833,690,594
10,403,624	109,054,206	23,631,480	--	1,573,647	--	506,155,641	354,580,793
--	--	--	--	--	--	19,438,007	17,862,325
--	--	--	--	--	--	31,378,983	31,378,983
608,608,548	199,448,039	47,629,117	5,810,884	10,858,826	119,845	4,549,863,709	4,237,512,695
--	--	--	--	--	--	1,756,084	2,107,665
--	--	--	--	--	--	95,101,582	97,500,000
--	--	--	--	--	--	3,969,980	1,326,942
2,295,702	18,662,165	5,974	1,129	20,906	--	634,789,800	641,812,260
733,419,737	345,967,153	77,773,666	10,251,604	12,669,641	310,670	6,658,296,260	6,409,857,558

(continued)

ENTERPRISE FUNDS
COMBINING BALANCE SHEET
September 30, 2001
With comparative totals for September 30, 2000

		Electric	Water and Wastewater	Hospital	Solid Waste Services
LIABILITIES AND FUND EQUITY					
Current liabilities:					
Accounts payable	$	60,116,489	1,221,671	35,554	565,580
Accrued payroll		1,811,695	1,070,686	3,109	361,718
Accrued compensated absences		4,967,011	2,861,904	2,105	895,528
Construction contracts payable		--	204,041	--	--
Contract revenue bonds payable		--	6,605,000	--	--
Due to other funds		--	--	--	--
Interest payable on other debt		1,004,687	4,029,558	--	113,938
Deferred revenue		--	959,058	19,873	--
General obligation bonds payable and other tax supported debt		--	--	--	1,962,116
Water improvement district bonds payable		--	250,000	--	--
Capital lease obligations payable		1,436,614	850,000	--	--
Other liabilities		5,198,430	1,066,943	--	175,153
Total current liabilities		74,534,926	19,118,861	60,641	4,074,033
Liabilities payable from restricted assets:					
Accounts and retainage payable		18,023,476	11,752,863	--	425,232
Accrued interest payable		34,686,964	22,553,515	--	--
General obligation bonds payable and other tax supported debt		336,624	4,709,229	--	--
Revenue bonds payable within one year		80,449,446	18,426,216	--	--
Capital lease obligations payable		--	--	--	--
Customer deposits		2,504,419	889,034	--	170,800
Escrow deposits		1,569,370	1,248,169	--	--
Decommissioning expense payable		72,591,362	--	--	--
Nuclear fuel expense payable		31,898,253	--	--	--
Other liabilities		--	--	--	--
Total liabilities payable from restricted assets	$	242,059,914	59,579,026	--	596,032

See accompanying independent auditors' report.

Airport	Convention Center	Drainage	Transportation	Golf	Parks and Recreation	Totals 2001	Totals 2000
6,882,391	447,032	265,164	681,130	73,538	60,446	70,348,995	74,328,647
350,862	133,092	266,640	166,567	58,812	37,591	4,260,772	3,411,366
852,867	295,941	480,684	386,075	117,971	28,132	10,888,218	11,409,500
--	--	--	--	--	--	204,041	1,074,032
--	--	--	--	--	--	6,605,000	6,930,000
--	--	--	--	--	--	--	30,825
8,341	--	11,141	8,176	34,490	--	5,210,331	6,301,865
380,433	--	--	--	--	--	1,359,364	1,386,130
132,009	55,766	187,477	116,934	499,305	--	2,953,607	2,700,523
--	--	--	--	--	--	250,000	366,000
--	--	--	--	--	--	2,286,614	2,100,001
13,728	49,970	--	--	---	--	6,504,224	5,909,229
8,620,631	981,801	1,211,106	1,358,882	784,116	126,169	110,871,166	115,948,118
1,684,794	13,943,756	810,897	--	5,836	--	46,646,854	40,191,049
8,586,936	5,196,840	--	--	--	--	71,024,255	62,027,168
--	--	--	--	--	--	5,045,853	3,688,803
3,255,000	3,090,000	--	--	--	--	105,220,662	104,302,365
--	--	--	--	--	--	--	7,500,000
196,301	747,219	212,380	--	--	--	4,720,153	3,803,624
--	--	--	--	--	--	2,817,539	3,608,061
--	--	--	--	--	--	72,591,362	63,515,224
--	--	--	--	--	--	31,898,253	33,473,935
3,432,722	--	--	--	--	--	3,432,722	4,542,323
17,155,753	22,977,815	1,023,277	--	5,836	--	343,397,653	326,652,552

(continued)

ENTERPRISE FUNDS
COMBINING BALANCE SHEET
September 30, 2001
With comparative totals for September 30, 2000

	Electric	Water and Wastewater	Hospital	Solid Waste Services
LIABILITIES AND FUND EQUITY, CONTINUED				
Long-term liabilities:				
Accrued compensated absences payable	$ 4,282,537	1,848,301	--	209,538
Construction contracts payable	--	75,000	--	--
Contract revenue bonds payable, net of discount	--	69,858,104	--	--
Capital appreciation bond interest payable	91,208,535	53,852,283	--	--
Commercial paper notes payable	150,242,720	78,226,000	--	--
Revenue notes payable	--	--	--	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	2,729,710	30,080,275	--	17,356,515
Revenue bonds payable, net of discount and inclusive of premium	1,425,918,901	1,102,148,563	--	--
Water improvement district bonds payable	--	--	--	--
Capital lease obligations payable	10,036,520	6,600,000	--	--
Decommissioning assessment payable	1,703,648	--	--	--
Accrued landfill closure and postclosure costs	--	--	--	6,904,024
Deferred revenue and other liabilities	3,366,279	34,952,501	--	--
Total long-term liabilities	1,689,488,850	1,377,641,027	--	24,470,077
Total liabilities	2,006,083,690	1,456,338,914	60,641	29,140,142
Fund equity				
Contributions from municipality	3,562,708	2,797,496	9,097,495	1,372,233
Contributions from State and Federal governments	670,509	27,460,799	874,135	--
Contributions in aid of construction	57,497,527	306,422,539	--	--
Contributions from the private sector	--	--	3,686,908	--
Total contributions	61,730,744	336,680,834	13,658,538	1,372,233
Retained earnings:				
Reserved for renewal and replacement	--	--	--	--
Reserved for passenger facility charge	--	--	--	--
Unreserved	1,050,375,444	430,751,464	62,780,752	28,930,393
Total retained earnings	1,050,375,444	430,751,464	62,780,752	28,930,393
Total fund equity	1,112,106,188	767,432,298	76,439,290	30,302,626
Total liabilities and fund equity	$3,118,189,878	2,223,771,212	76,499,931	59,442,768

See accompanying independent auditors' report.

Airport	Convention Center	Drainage	Transportation	Golf	Parks and Recreation	Totals 2001	Totals 2000
286,284	231,052	709,456	314,618	168,691	55,568	8,106,045	6,229,468
--	--	--	--	--	--	75,000	75,000
--	--	--	--	--	--	69,858,104	88,254,611
--	--	--	--	--	--	145,060,818	128,547,946
--	--	--	--	--	--	228,468,720	403,255,427
28,000,000	--	--	--	--	--	28,000,000	28,000,000
873,260	452,215	2,056,430	319,120	7,988,457	--	61,855,982	67,274,825
361,782,102	236,086,093	--	--	--	--	3,125,935,659	2,875,791,298
--	--	--	--	--	--	--	423,000
--	--	--	--	--	--	16,636,520	17,534,999
--	--	--	--	--	--	1,703,648	1,976,937
--	--	--	--	--	--	6,904,024	6,700,886
4,318,000	--	--	--	--	--	42,636,780	9,233,172
395,259,646	236,769,360	2,765,886	633,738	8,157,148	55,568	3,735,241,300	3,633,297,569
421,036,030	260,728,976	5,000,269	1,992,620	8,947,100	181,737	4,189,510,119	4,075,898,239
3,033,536	18,988,154	15,188,310	331,206	811,795	1,069,976	56,252,909	55,779,691
133,713,334	248,339	--	--	--	--	162,967,116	167,117,885
13,089,374	1,811,059	15,822,025	--	30,000	--	394,672,524	410,144,687
--	488,436	--	--	--	--	4,175,344	4,175,344
149,836,244	21,535,988	31,010,335	331,206	841,795	1,069,976	618,067,893	637,217,607
10,000,000	1,063,999	--	--	--	--	11,063,999	11,065,953
11,909,161	--	--	--	--	--	11,909,161	10,152,485
140,638,302	62,638,190	41,763,062	7,927,778	2,880,746	(941,043)	1,827,745,088	1,675,523,274
162,547,463	63,702,189	41,763,062	7,927,778	2,880,746	(941,043)	1,850,718,248	1,696,741,712
312,383,707	85,238,177	72,773,397	8,258,984	3,722,541	128,933	2,468,786,141	2,333,959,319
733,419,737	345,967,153	77,773,666	10,251,604	12,669,641	310,670	6,658,296,260	6,409,857,558

ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
Year ended September 30, 2001
With comparative totals for year ended September 30, 2000

	Electric	Water and Wastewater	Hospital	Solid Waste Services
REVENUES				
Utility services	$ 806,310,682	219,914,504	--	--
User fees and rentals	--	--	6,488,666	36,957,905
Operating revenues from other governments	--	--	3,266,054	--
Operating revenues	806,310,682	219,914,504	9,754,720	36,957,905
EXPENSES				
Operating expenses before depreciation	458,685,525	102,411,722	2,223,956	34,168,607
Depreciation and amortization	85,109,400	51,782,640	2,520,452	1,797,946
Total operating expenses	543,794,925	154,194,362	4,744,408	35,966,553
Operating income (loss) before nonoperating revenues (expenses) and operating transfers	262,515,757	65,720,142	5,010,312	991,352
NONOPERATING REVENUES (EXPENSES)				
Interest and other revenues	47,779,398	13,536,485	1,849,476	696,209
Interest on revenue bonds and other debt	(111,623,386)	(75,672,996)	--	(1,056,841)
Interest capitalized during construction	--	--	--	800,393
Capital contributions	3,366,279	30,996,387	--	--
Passenger facility charges	--	--	--	--
Amortization of bond issue cost	(718,676)	(456,791)	--	(3,091)
Other nonoperating expense	(909,855)	(149,075)	--	(3,394)
Total nonoperating revenues (expenses)	(62,106,240)	(31,745,990)	1,849,476	433,276
Cost (recovered) to be recovered in future years	(29,568,154)	(11,151,302)	--	--
Income (loss) before operating transfers	170,841,363	22,822,850	6,859,788	1,424,628
Operating transfers:				
Operating transfers in	--	--	--	1,999,247
Operating transfers out	(67,416,333)	(21,126,805)	(8,650,018)	(2,113,497)
Net income	103,425,030	1,696,045	(1,790,230)	1,310,378
Add depreciation transferred to contributions	--	--	--	--
Net increase (decrease) in retained earnings	103,425,030	1,696,045	(1,790,230)	1,310,378
Retained earnings at beginning of year, as previously reported	946,950,414	429,055,419	64,570,982	27,620,015
Prior period adjustment	--	--	--	--
Retained earnings at beginning of year, as restated	946,950,414	429,055,419	64,570,982	27,620,015
Retained earnings at end of year	$ 1,050,375,444	430,751,464	62,780,752	28,930,393

See accompanying independent auditors' report.

Airport	Convention Center	Drainage	Transportation	Golf	Parks and Recreation	Totals 2001	Totals 2000
--	--	--	--	--	--	1,026,225,186	1,023,207,762
68,528,440	11,071,836	25,885,542	19,089,514	6,300,537	3,790,441	178,112,881	159,972,993
--	--	--	--	--	--	3,266,054	3,278,280
68,528,440	11,071,836	25,885,542	19,089,514	6,300,537	3,790,441	1,207,604,121	1,186,459,035
39,362,751	15,645,795	23,135,527	18,074,757	5,311,793	3,861,117	702,881,550	639,978,856
15,187,731	2,500,508	761,164	749,149	420,936	10,243	160,840,169	156,647,504
54,550,482	18,146,303	23,896,691	18,823,906	5,732,729	3,871,360	863,721,719	796,626,360
13,977,958	(7,074,467)	1,988,851	265,608	567,808	(80,919)	343,882,402	389,832,675
6,083,184	10,040,917	1,273,325	178,319	142,866	18,791	81,598,970	71,129,441
(24,339,580)	(14,457,667)	(139,001)	(21,323)	(437,916)	--	(227,748,710)	(225,078,583)
1,237,475	3,090,193	106,500	--	--	--	5,234,561	1,852,527
9,568,393	--	2,912,379	--	--	--	46,843,438	--
9,999,244	--	--	--	--	--	9,999,244	9,407,652
(104,660)	(167,767)	(16)	(407)	(1,586)	--	(1,452,994)	(1,426,863)
(119,809)	(356,568)	(15,891)	--	(177,963)	--	(1,732,555)	(4,103,677)
2,324,247	(1,850,892)	4,137,296	156,589	(474,599)	18,791	(87,258,046)	(148,219,503)
--	--	--	--	--	--	(40,719,456)	25,711,965
16,302,205	(8,925,359)	6,126,147	422,197	93,209	(62,128)	215,904,900	267,325,137
--	33,198,475	1,378,304	--	--	--	36,576,026	25,108,879
(133,333)	(75,000)	(884,709)	(183,364)	--	(458,516)	(101,041,575)	(86,315,239)
16,168,872	24,198,116	6,619,742	238,833	93,209	(520,644)	151,439,351	206,118,777
2,468,017	69,168	--	--	--	--	2,537,185	2,342,835
18,636,889	24,267,284	6,619,742	238,833	93,209	(520,644)	153,976,536	208,461,612
146,410,574	39,434,905	35,143,320	7,688,945	2,787,537	(420,399)	1,699,241,712	1,488,280,100
(2,500,000)	--	--	--	--	--	(2,500,000)	--
143,910,574	39,434,905	35,143,320	7,688,945	2,787,537	(420,399)	1,696,741,712	1,488,280,100
162,547,463	63,702,189	41,763,062	7,927,778	2,880,746	(941,043)	1,850,718,248	1,696,741,712

ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year ended September 30, 2001
With comparative totals for year ended September 30, 2000

	Electric	Water and Wastewater	Hospital	Solid Waste Services
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 864,905,398	224,505,932	6,617,614	36,487,578
Cash payments to suppliers for goods and services	(345,410,122)	(50,075,244)	(2,137,996)	(16,420,811)
Cash payments to employees for services	(86,533,773)	(50,818,437)	(146,470)	(17,059,157)
Cash received from other governments	--	--	3,266,054	--
Taxes collected and remitted to other governments	(22,824,871)	--	--	--
Net cash provided (used) by operating activities	410,136,632	123,612,251	7,599,202	3,007,610
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers in	--	--	--	1,999,247
Operating transfers out	(67,416,333)	(21,126,805)	(8,650,018)	(2,113,497)
Interest paid on revenue notes and other debt	(170,966)	(8,186)	--	(9,916)
(Increase) decrease in deferred assets	(938,863)	--	--	--
Contributions from municipalities	--	--	904,368	--
Loan repayments to other funds	(150,000)	--	--	(22,610)
Loan repayments from other funds	--	--	--	--
Net cash provided (used) by noncapital financing activities	(68,676,162)	(21,134,991)	(7,745,650)	(146,776)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the sale of commercial paper notes	72,890,000	99,940,000	--	--
Proceeds from the sale of general obligation bonds and other tax supported debt	--	--	--	--
Proceeds from the sale of revenue bonds	--	--	--	--
Proceeds from long-term loans	1,405,340	--	--	--
Principal paid on long-term debt	(85,379,610)	(28,793,666)	--	(1,683,362)
Proceeds from the sale of fixed assets	--	--	--	--
Purchased interest received	928,590	1,782,096	--	--
Interest paid on revenue bonds and other debt	(96,290,708)	(63,413,727)	--	(1,007,893)
Passenger facility charges	--	--	--	--
Acquisition and construction of capital assets	(221,252,697)	(118,399,797)	--	(8,851,778)
Contributions from municipality	--	--	--	--
Contributions from State and Federal governments	--	--	--	--
Acquisition of intangible assets	--	(101,582)	--	--
Contributions in aid of construction	4,260,137	12,080,569	--	--
Bond discounts and issuance costs	(1,540,668)	(2,230,001)	--	(29,132)
Bond premiums	872,584	1,923,865	--	199,731
Cash paid for bond defeasance	--	(9,651,944)	--	--
Bonds issued for advanced refundings of debt	126,700,000	235,507,025	--	4,185,585
Cash paid for bond refunding escrow	(125,000,000)	(236,084,975)	--	(4,356,184)
Cash paid for nuclear fuel inventory	(10,571,733)	--	--	--
Net cash used by capital and related financing activities	$(332,978,765)	(107,442,137)	--	(11,543,033)

See accompanying independent auditors' report.

Airport	Convention Center	Drainage	Transportation	Golf	Parks and Recreation	Totals 2001	Totals 2000
68,869,789	12,084,084	25,390,755	19,284,517	6,300,537	3,790,841	1,268,237,045	1,092,020,136
(21,532,048)	(9,364,578)	(10,275,418)	(10,123,111)	(2,624,747)	(1,498,218)	(469,462,293)	(388,201,653)
(15,892,440)	(6,568,446)	(12,590,728)	(8,066,449)	(2,778,402)	(2,314,090)	(202,768,392)	(187,490,128)
--	--	--	--	--	--	3,266,054	2,785,271
--	--	--	--	--	--	(22,824,871)	(16,981,467)
31,445,301	(3,848,940)	2,524,609	1,094,957	897,388	(21,467)	576,447,543	502,132,159
--	33,198,475	1,378,304	--	--	--	36,576,026	25,108,879
(133,333)	(75,000)	(884,709)	(183,364)	--	(458,516)	(101,041,575)	(86,315,239)
--	--	--	--	--	--	(189,068)	(1,170,582)
--	--	--	--	--	--	(938,863)	135,567
--	--	--	--	--	--	904,368	139,155
--	--	(5,559)	--	--	--	(178,169)	--
--	--	--	--	--	--	--	21,222
(133,333)	33,123,475	488,036	(183,364)	--	(458,516)	(64,867,281)	(62,080,998)
--	--	--	--	--	--	172,830,000	170,149,960
--	--		--	--	--	--	7,695,000
--	--	--	--	--	--	--	40,000,000
--	--	--	--	--	--	1,405,340	--
(243,076)	(2,996,908)	(180,752)	(111,461)	(444,108)	--	(119,832,943)	(134,063,118)
--	--	--	20,000	--	--	20,000	930,246
--	--	4,405	--	--	--	2,715,091	815,775
(23,811,694)	(13,798,898)	(127,384)	(23,413)	(434,074)	--	(198,907,791)	(201,280,319)
9,999,244	--	--	--	--	--	9,999,244	9,407,652
(22,079,392)	(68,313,504)	(6,887,337)	(2,092,857)	(1,738,435)	(24,769)	(449,640,566)	(356,196,325)
1,366	--	--	--	--	--	1,366	621
8,943,294	--	--	--	--	--	8,943,294	10,931,313
--	--	--	--	--	--	(101,582)	(100,000,000)
1,506	(15,000,000)	2,912,379	--	--	--	4,254,591	16,594,929
(2,915)	--	(4,540)	--	(1,913)	--	(3,809,169)	(2,245,888)
19,986	--	31,129	--	13,119	--	3,060,414	240,583
--	--	--	--	--	--	(9,651,944)	--
418,838	--	652,345	--	274,917	--	367,738,710	100,000,000
(435,909)	--	(678,934)	--	(286,122)	--	(366,842,124)	(99,205,027)
--	--	--	--	--	--	(10,571,733)	(6,681,685)
(27,188,752)	(100,109,310)	(4,278,689)	(2,207,731)	(2,616,616)	(24,769)	(588,389,802)	(542,906,283)

(continued)

ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year ended September 30, 2001
With comparative totals for year ended September 30, 2000

	Electric	Water and Wastewater	Hospital	Solid Waste Services
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investment securities	$(544,087,681)	(99,397,105)	--	--
Proceeds from sale and maturities of investment securities	562,767,173	95,436,997	--	--
Interest on investments	31,263,718	10,841,010	1,849,476	788,099
Reverse repurchase agreement income	--	--	--	--
Reverse repurchase agreement expense	--	--	--	--
Net cash provided by investing activities	49,943,210	6,880,902	1,849,476	788,099
Net increase (decrease) in cash and cash equivalents	58,424,915	1,916,025	1,703,028	(7,894,100)
Cash and cash equivalents, October 1 (including $476,493,720 in restricted accounts)	106,146,753	116,240,426	33,470,803	19,646,329
Cash and cash equivalents, September 30 (including $431,935,471 in restricted accounts)	164,571,668	118,156,451	35,173,831	11,752,229
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	262,515,757	65,720,142	5,010,312	991,352
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	85,109,400	49,282,640	2,520,452	1,797,946
Amortization	10,346,051	2,500,000	--	--
Change in assets and liabilities:				
(Increase) decrease in working capital advances	(466,433)	--	--	--
(Increase) decrease in accounts receivable	14,857,960	6,830,026	308,517	436,180
Increase (decrease) in allowance for doubtful accounts	433,785	(67,003)	(179,569)	(3,886)
Decrease in due from other funds	--	--	--	--
(Increase) decrease in inventory	(2,154,651)	(383,983)	--	--
(Increase) decrease in prepaid expenses and deferred costs	20,639	608,733	--	(16,526)
(Increase) decrease in other regulatory assets	(100,068)	--	--	--
(Increase) decrease in other long-term assets	(2,643,038)	--	--	--
Increase (decrease) in accounts payable	(4,027,304)	(689,228)	(6,367)	(302,709)
Increase (decrease) in accrued payroll and compensated absences	803,897	525,833	3,587	79,311
Increase (decrease) in deferred revenue	--	(959,058)	(57,730)	--
Decrease in decommissioning assessment payable	(262,048)	--	--	--
(Increase) decrease in unrecovered fuel revenue	35,803,879	--	--	--
Increase in accrued landfill closure costs	--	--	--	203,138
Decrease in due to other governments	--	--	--	--
Increase (decrease) in other liabilities	9,135,820	(782)	--	(208,377)
Increase (decrease) in customer deposits	762,986	244,931	--	31,181
Total adjustments	147,620,875	57,892,109	2,588,890	2,016,258
Net cash provided (used) by operating activities	$ 410,136,632	123,612,251	7,599,202	3,007,610

See accompanying independent auditors' report.

	Airport	Convention Center	Drainage	Transportation	Golf	Parks and Recreation	Totals 2001	Totals 2000
	(29,467,016)	(34,900,083)	--	--	--	--	(707,851,885)	(652,344,315)
	38,214,351	34,831,359	--	--	--	--	731,249,880	668,174,899
	6,083,184	9,972,997	1,273,325	160,762	142,866	18,791	62,394,228	61,965,545
	--	--	--	--	--	--	--	4,398,582
	--	--	--	--	--	--	--	(4,157,670)
	14,830,519	9,904,273	1,273,325	160,762	142,866	18,791	85,792,223	78,037,041
	18,953,735	(60,930,502)	7,281	(1,135,376)	(1,576,362)	(485,961)	8,982,683	(24,818,081)
	70,453,852	175,394,823	27,546,107	3,912,136	3,366,271	676,786	556,854,286	581,672,367
	89,407,587	114,464,321	27,553,388	2,776,760	1,789,909	190,825	565,836,969	556,854,286
	13,977,958	(7,074,467)	1,988,851	265,608	567,808	(80,919)	343,882,402	389,832,675
	15,187,731	2,500,508	761,164	749,149	420,936	10,243	158,340,169	154,147,504
	--	--	--	--	--	--	12,846,051	11,549,749
	--	--	--	--	--	--	(466,433)	578,050
	319,059	1,126,143	180,745	195,003	--	400	24,254,033	(38,828,870)
	--	--	(1,805)	(50,150)	--	--	131,372	(364,004)
	--	--	--	--	--	--	--	24,766
	--	--	--	(51,069)	--	--	(2,589,703)	3,551,801
	--	(42,393)	(2,743)	--	--	--	567,710	(854,809)
	--	--	--	--	--	--	(100,068)	356,339
	--	--	--	--	--	--	(2,643,038)	123,674
	2,781,638	(381,219)	(627,743)	(90,142)	(165,597)	33,727	(3,474,944)	32,876,093
	263,384	136,415	226,140	76,558	74,304	15,271	2,204,700	(5,984,425)
	30,964	--	--	--	--	--	(985,824)	(770,921)
	--	--	--	--	--	--	(262,048)	(271,131)
	--	--	--	--	--	--	35,803,879	(51,725,251)
	--	--	--	--	--	--	203,138	233,505
	--	--	--	--	--	--	--	(493,009)
	(1,106,759)	(32)	--	--	(63)	(189)	7,819,618	7,207,980
	(8,674)	(113,895)	--	--	--	--	916,529	942,443
	17,467,343	3,225,527	535,758	829,349	329,580	59,452	232,565,141	112,299,484
	31,445,301	(3,848,940)	2,524,609	1,094,957	897,388	(21,467)	576,447,543	502,132,159

(continued)

ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year ended September 30, 2001
With comparative totals for year ended September 30, 2000

	Electric	Water and Wastewater	Hospital	Solid Waste Services
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
Increase in advances to other funds	$ --	--	--	--
Increase (decrease) in deferred assets/expenses	(31,523,876)	9,262,422	--	--
Unamortized bond discounts, premiums, and issue costs on refunded bonds	--	(783,202)	--	--
Increase in capital appreciation bond interest payable	(8,514,138)	(7,998,734)	--	--
Increase in deferred revenue	--	--	--	--
Increase in contributed facilities	--	18,229,303	--	--
Net increase in the fair value of investments	13,707,170	3,029,280	--	--
Amortization of bond discounts, premiums and issue costs	(2,507,444)	(1,458,953)	--	(3,091)
Amortization of deferred loss on refundings	--	--	--	(30,495)
Gain (loss) on disposal of assets	(320,455)	(149,075)	--	(3,394)
Costs (recovered) to be recovered in future years	(29,568,154)	(11,151,302)	--	--
Loss on extinguishment of debt	--	(116,807)	--	--
Due to other funds for fixed assets	--	--	--	--
Contributions from other funds	--	--	--	--
Deferred revenue and other liabilities	3,366,279	30,996,387	--	--

See accompanying independent auditors' report.

Airport	Convention Center	Drainage	Transportation	Golf	Parks and Recreation	Totals 2001	Totals 2000
--	--	--	--	--	--	--	4,318,000
--	--	--	--	--	--	(22,261,454)	9,720,597
(7,263)	--	--	--	--	--	(790,465)	--
--	--	--	--	--	--	(16,512,872)	(18,674,086)
--	--	--	--	--	--	--	(4,318,000)
--	--	--	--	--	--	18,229,303	14,918,520
660,584	207,806	--	--	--	--	17,604,840	990,517
(581,753)	(357,340)	(1,485)	(282)	(2,360)	--	(4,912,708)	(5,332,652)
(81,395)	(427,477)	(20)	--	--	--	(539,387)	(510,847)
(119,809)	(356,568)	(15,891)	17,557	--	--	(947,635)	(1,835,798)
--	--	--	--	--	--	(40,719,456)	25,711,965
--	--	--	--	--	--	(116,807)	(556,529)
--	--	--	--	--	--	--	(2,656)
--	--	--	--	--	--	--	63,750
--	--	--	--	--	--	34,362,666	--

ENTERPRISE FUNDS
COMBINING SCHEDULE OF CHANGES IN FIXED ASSETS AND ACCUMULATED DEPRECIATION
Year ended September 30, 2001

	Assets					
	Balance September 30, 2000	Additions	Retirements	Transfers from Construction in Progress	Transfers from (to) Other Funds (1)	Balance September 30, 2001
Property, plant and equipment in service:						
Electric	$2,642,600,458	3,535,337	(3,105,832)	180,044,934	5,301	2,823,080,198
Water	1,038,123,601	11,156,476	(1,358,037)	32,126,850	--	1,080,048,890
Wastewater	998,622,903	8,233,587	(1,628,797)	10,039,370	--	1,015,267,063
Hospital	74,793,203	--	--	--	--	74,793,203
Solid Waste Services	39,316,231	(25,995)	(3,438,539)	17,127,404	--	52,979,101
Airport	681,077,907	988,346	(1,033,176)	43,609,445	--	724,642,522
Convention Center	115,058,302	193,957	(1,294,349)	1,034,806	--	114,992,716
Drainage	21,240,331	86,507	(230,722)	7,609,515	--	28,705,631
Transportation	7,291,534	2,092,857	(129,830)	778,595	36,866	10,070,022
Golf	12,486,524	79,390	(8,841)	356,236	--	12,913,309
Parks and Recreation	148,249	24,769	--	--	--	173,018
	5,630,759,243	26,365,231	(12,228,123)	292,727,155	42,167	5,937,665,673
Construction in progress:						
Electric	151,085,316	230,118,939	(7,406,623)	(180,044,934)	--	193,752,698
Water	52,787,985	68,864,509	--	(32,126,850)	--	89,525,644
Wastewater	34,262,428	41,268,814	--	(10,039,370)	--	65,491,872
Solid Waste Services	20,745,445	9,104,429	--	(17,127,404)	--	12,722,470
Airport	40,800,037	13,213,032	--	(43,609,445)	--	10,403,624
Convention Center	28,161,630	81,927,382	--	(1,034,806)	--	109,054,206
Drainage	25,524,340	5,716,655	--	(7,609,515)	--	23,631,480
Transportation	778,595	--	--	(778,595)	--	--
Golf	435,017	1,494,866	--	(356,236)	--	1,573,647
	354,580,793	451,708,626	(7,406,623)	(292,727,155)	--	506,155,641
Electric-nuclear fuel inventory	138,479,330	10,571,732	--	--	--	149,051,062
Electric-plant held for future use	31,378,983	--	--	--	--	31,378,983
Total	$6,155,198,349	488,645,589	(19,634,746)	--	42,167	6,624,251,359

See accompanying independent auditor's report.

Accumulated Depreciation				
Balance September 30, 2000	**Current Depreciation & Amortization**	**Retirements**	**Transfers and Adjustments**	**Balance September 30, 2001**
1,048,947,313	85,109,400	(2,195,978)	--	1,131,860,735
242,395,336	23,250,115	(1,293,234)	--	264,352,217
304,151,983	26,032,525	(1,544,525)	--	328,639,983
31,233,236	2,520,452	--	--	33,753,688
24,120,255	1,797,946	(3,435,145)	--	22,483,056
112,163,234	15,187,731	(913,367)	--	126,437,598
23,036,156	2,500,508	(937,781)	--	24,598,883
4,161,661	761,164	(214,831)	--	4,707,994
3,600,510	749,149	(127,387)	36,866	4,259,138
3,216,035	420,936	(8,841)	--	3,628,130
42,930	10,243	--	--	53,173
1,797,068,649	158,340,169	(10,671,089)	36,866	1,944,774,595
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
120,617,005	8,996,050	--	--	129,613,055
--	--	--	--	--
1,917,685,654	167,336,219	(10,671,089)	36,866	2,074,387,650

(continued)

ENTERPRISE FUNDS
COMBINING SCHEDULE OF CHANGES IN FIXED ASSETS AND ACCUMULATED DEPRECIATION
Year ended September 30, 2001

	Electric	Water	Wastewater	Hospital	Solid Waste Services
Property, plant and equipment:					
Land and land rights	$ 34,352,298	111,199,423	23,954,778	759,502	10,461,629
Buildings	547,735,403	673,255,342	608,019,323	74,002,127	5,559,117
Improvements to grounds	14,011,739	24,148,080	18,223,947	14,580	4,567,919
Machinery and equipment	2,003,951,131	175,221,740	286,973,971	4,045	1,617,316
Vehicles	19,640,769	6,358,696	9,637,897	--	9,795,959
Completed assets not classified	203,388,858	89,865,609	68,457,147	12,949	20,977,161
	2,823,080,198	1,080,048,890	1,015,267,063	74,793,203	52,979,101
Less accumulated depreciation	(1,131,860,735)	(264,352,217)	(328,639,983)	(33,753,688)	(22,483,056)
Net property, plant and equipment in service	1,691,219,463	815,696,673	686,627,080	41,039,515	30,496,045
Construction in progress	193,752,698	89,525,644	65,491,872	--	12,722,470
Nuclear fuel, net of amortization	19,438,007	--	--	--	--
Plant held for future use	31,378,983	--	--	--	--
Total property, plant and equipment	1,935,789,151	905,222,317	752,118,952	41,039,515	43,218,515

(1) Transfers from (to) other funds and account groups are as follows:					
General Fixed Assets	5,301	--	--	--	--
	$ 5,301	--	--	--	--

See accompanying independent auditors' report.

Airport	Convention Center	Drainage	Transportation	Golf	Parks and Recreation	Total
58,690,308	26,089,465	2,435,911	--	324,266	--	268,267,580
574,379,745	83,644,609	511,963	--	3,042,324	--	2,570,149,953
64,634,140	130,155	4,749,395	--	7,952,456	2,999	138,435,410
15,051,253	1,384,819	9,718,945	187,336	503,475	52,032	2,494,666,063
1,615,577	358,880	2,191,142	4,314,727	256,134	329	54,170,110
10,271,499	3,384,788	9,098,275	5,567,959	834,654	117,658	411,976,557
724,642,522	114,992,716	28,705,631	10,070,022	12,913,309	173,018	5,937,665,673
(126,437,598)	(24,598,883)	(4,707,994)	(4,259,138)	(3,628,130)	(53,173)	(1,944,774,595)
598,204,924	90,393,833	23,997,637	5,810,884	9,285,179	119,845	3,992,891,078
10,403,624	109,054,206	23,631,480	--	1,573,647	--	506,155,641
--	--	--	--	--	--	19,438,007
--	--	--	--	--	--	31,378,983
608,608,548	199,448,039	47,629,117	5,810,884	10,858,826	119,845	4,549,863,709
--	--	--	36,866	--	--	42,167
--	--	--	36,866	--	--	42,167

APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

ORDINANCE NO. 010118-

AN ORDINANCE providing for the issuance of ELECTRIC UTILITY SYSTEM revenue obligations; making provision for the payment of such obligations from the revenues of the City's Electric Utility System; enacting provisions incident and related to the issuance, payment and security of such obligations, including covenants and agreements relating to the operation and management of the Electric Utility System, the revenues derived from its operation and ownership, the establishment and maintenance of funds and accounts for the payment of such obligations, specifying the terms and conditions for the issuance of parity revenue obligations and other matters incident and related to their issuance and security; suspending the rule requiring ordinances be read on three separate days; and declaring an emergency.

WHEREAS, the City of Austin, Texas (the "City" or the "Issuer"), a "home-rule" city operating under a home-rule charter adopted pursuant to Section 5 of Article XI of the Texas Constitution has heretofore financed improvements and extensions to the City's Electric Light and Power System (the "System") by the issuance and sale of revenue obligations payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Electric Light and Power System and the City's Water and Wastewater System; and

WHEREAS, the revenue obligations currently outstanding payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Electric Light and Power System and the City's Water and Wastewater System include:

(a) "Prior First Lien Obligations" more particularly identified as follows : (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986A", dated April 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986C", dated November 15, 1986, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (v) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993, (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue

Refunding Bonds, Series 1994", dated September 1, 1994, (xiv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xviii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, and (xix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997,

(b) “Prior Subordinate Lien Obligations” more particularly described as follows: (i) "City of Austin, Texas, Water, Sewer and Electric Refunding Revenue Bonds, Series 1982", dated March 15, 1982, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (iii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iv) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998, dated August 1, 1998, (v) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (vi) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998, and

(c) “Commercial Paper Obligations” more particularly described as follows: (i) City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A”, authorized for issuance pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A currently authorized up to an aggregate principal amount of $350,000,000 and (ii) "City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes", authorized for issuance pursuant to Ordinance No. 980513-B, as amended by Ordinance No. 000627-A, currently authorized up to an aggregate principal amount of $160,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No.980513-B, as amended; and

AND WHEREAS, in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations, the City retained the authority to issue “Separate Lien Obligations” payable solely from either the Net Revenues of the Water and Wastewater System or the Net Revenues of the Electric Light and Power System, but not both, without specifying any terms or limitations on the issuance of such “Separate Lien Obligations”; and

WHEREAS, the City has determined future financing of capital improvements for the City’s Electric Light and Power System and the City’s Water and Wastewater System should be undertaken and accomplished through the issuance of “Separate Lien Obligations” which will enable the City to restructure provisions governing the issuance of such obligations and relating to the operations of such systems and provide financing flexibility to both systems, particularly the

Electric Light and Power System in a more competitive market resulting from a change in laws affecting the regulation, generation, distribution and sale of electric energy, and

WHEREAS, in furtherance of its determination that future financing of capital improvements to the City's Electric Light and Power System shall be undertaken through the issuance of revenue obligations payable solely from and secured by a lien on and pledge of the Net Revenues of the City's Electric Light and Power System, the Council hereby finds a master ordinance governing and pertaining to their issuance should be adopted and enacted; and

WHEREAS, the terms used in this Ordinance and not otherwise defined shall have the meaning given Exhibit A to this Ordinance attached hereto and made a part hereof;

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN, TEXAS:

Section 1. REVENUE OBLIGATION FINANCING FOR THE CITY'S ELECTRIC UTILITY SYSTEM. From and after the date hereof, all revenue obligations, other than Commercial Paper Obligations, to finance capital improvements for the Electric Utility System shall be payable from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility System and from the funds and accounts hereinafter provided in this Ordinance and in any Supplement. This Ordinance is intended to provide for and govern the issuance of such Parity Electric Utility Obligations and establish the security for their payment, the agreements and covenants with the holders or owners of such obligations in regard to the management and operation of the Electric Utility System, the application and disbursement of revenues derived from its operation and ownership and other matters incident and related to the issuance of such revenue obligations. Each issue or series of Parity Electric Utility Obligations shall be issued, incurred or assumed pursuant to the terms of a Supplement, and each such Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, terms of payment and redemption, and any other related matters not inconsistent with the Constitution and laws of the State of Texas or the provisions of this Ordinance.

Section 2. PLEDGE OF REVENUES/SECURITY FOR PAYMENT. Subject to the prior claim on and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations, the Net Revenues of the Electric Utility System are hereby pledged to the payment of the Parity Electric Utility Obligations and such Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System in accordance with the terms of this Ordinance and any Supplement. Additionally, Parity Electric Utility Obligations shall be secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security to a Supplement and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of this Ordinance and any Supplement. Parity Electric Utility Obligations are and will be secured by and payable only from the Net Revenues of the Electric Utility System, and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, of the Electric Utility System. The owners of the Parity Electric Utility Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Ordinance or any Supplement.

Section 3. NO ADDITIONAL PRIOR FIRST LIEN /PRIOR SUBORDINATE LIEN COMBINED UTILITY SYSTEMS REVENUE OBLIGATIONS. From and after the date of the adoption of this Ordinance, the City hereby provides that no additional revenue obligations payable from the same sources and secured in the same manner as the Prior First Lien Obligations or the Prior Subordinate Lien Obligations shall be issued, and at such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations currently Outstanding and the Commercial Paper Obligations have been fully paid and discharged in a manner such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations of the Electric Utility System then Outstanding shall be Parity Electric Utility Obligations or obligations subordinate to the Parity Electric Utility Obligations then Outstanding, and payable only from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance, including this Ordinance with respect to Parity Electric Utility Obligations and any Supplement.

Section 4. RATE COVENANT. Subject to any rate regulation by any state or federal regulatory authority, the City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient:

(i) to pay all current Operating Expenses,

(ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and

(iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates and charges to be revised and adjusted to comply with this Section or obtain a written report from a Utility System Consultant after a review and study of the operations of the Electric Utility System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with this Section and such adjustments and revisions to electric rates and charges are promptly implemented and enacted in accordance with such Utility System Consultant's report. Notwithstanding anything herein to the contrary, the City shall be deemed to be in compliance herewith if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Section 5. GENERAL COVENANTS. Subject to the provisions contained in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations which may be in conflict herewith and control to the extent of any conflict, the City hereby covenants and agrees with the Holders of the Parity Electric Utility Obligations to the extent permitted by law as follows:

(a) **PERFORMANCE**. All covenants, undertakings, stipulations, and provisions contained in this Ordinance and any Supplement shall be duly performed and honored at all times; the principal amount of and interest on Parity Electric Utility Obligations shall be timely paid as the same shall become due and payable on the dates, at the places and in the manner prescribed in each Supplement and such Parity Electric Utility Obligations; and all deposits to the credit of the Funds and Accounts shall be made at the times, in the amounts and in the manner specified by this Ordinance and in any Supplement; and any Holder may require the City, its officials and employees to perform, honor or enforce the covenants and obligations of this Ordinance, or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City, its officials and employees.

(b) **CITY'S LEGAL AUTHORITY**. The City is a duly created and existing home rule municipality of the State of Texas, and is duly authorized under the laws of the State of Texas to issue the Parity Electric Utility Obligations; with the adoption of each Supplement, all action on the City's part for the issuance of the Parity Electric Utility Obligations shall have been duly and effectively taken; and the Parity Electric Utility Obligations upon issuance and delivery to the Holders shall and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) **OPERATION AND MAINTENANCE**. The Electric Utility System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Electric Utility System shall be maintained, preserved and kept in good repair, working order and condition, and proper maintenance, repairs and replacements of such property, facilities and plants shall occur to preserve and keep the Electric Utility System operating in a business like manner; provided, however, nothing herein is intended nor shall any statement herein be construed to prevent the City from ceasing to operate or maintain, or from leasing or disposing of, any portion or component of the Electric Utility System if, in the judgment of the governing body of the City having responsibility for the management and operation of the Electric Utility System, including the making of any final decision on the acquisition and disposal of Electric Utility System properties, determines (i) it is advisable to lease, dispose of or not operate and maintain the same, (ii) the operation thereof is not essential to the maintenance and continued operation of the remainder of the Electric Utility System and (iii) the lease, disposition or failure to maintain or operate such component or portion of the Electric Utility System will not prevent the City from complying with the requirements of Section 4 hereof.

(d) **TITLE**. The City has or will have lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Electric Utility System; the City warrants it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof against the claims and demands of all persons whomsoever; and the City is lawfully qualified to pledge the Net Revenues to the payment of the Parity Electric Utility Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(e) **LIENS**. All taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon the Electric Utility System, its properties or revenues, shall be paid before the same become delinquent; all lawful claims for rents, royalties, labor, materials and supplies shall be paid in a timely manner, which if unpaid might by law become a lien or charge on the revenues of the Electric Utility System or the Electric Utility System's properties prior to or interfere with the liens hereof, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the lien on and pledge of the Net Revenues of the Electric Utility System for the Parity Electric Utility Obligations granted by this Ordinance or any Supplement might or could be impaired; provided however, that no such tax, assessment or charge, and no such claims that might result in a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the City.

(f) **NO FREE SERVICE**. Save and except as provided by V.T.C.A., Government Code, Section 1502.057, as amended, no free service of the Electric Utility System shall be allowed.

(g) **FURTHER ENCUMBRANCE**. Save and except for the issuance of Parity Electric Utility Obligations, the Net Revenues of the Electric Utility System shall not hereafter be encumbered in any manner unless such encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance and any Supplement; but the right to issue Subordinated Debt payable in whole or in part from a subordinate lien on the Net Revenues is specifically recognized and retained.

(h) **SALE, LEASE OR DISPOSAL OF SYSTEM PROPERTY**. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property, facilities and assets of the Electric Utility System at any time and from time to time. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Electric Utility System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such special Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Electric Utility System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Electric Utility Obligations or for any other Electric Utility System purpose.

(i) **BOOKS, RECORDS AND ACCOUNTS**. Proper books, records and accounts pertaining to the operation and ownership of the Electric Utility System shall be established and maintained in accordance with generally accepted accounting principles, and such books, records and accounts shall be kept and maintained separate and apart from all other records and accounts of the City. Accurate and complete entries of all transactions relating to the Electric Utility System shall be recorded in such books, records and accounts, and such books and records relating to the financial operations of the Electric Utility System shall be kept current on a month to month basis.

(j) **INSURANCE**. Except as otherwise permitted below, insurance shall be obtained and maintained on the properties of the Electric Utility System in a manner and to the extent municipal corporations operating like properties carry and maintain such insurance, and such insurance shall be maintained with one or more responsible insurance companies and cover such risks, accidents or casualties customarily carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage caused by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times during regular business hours. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds available for such purpose as the City in its sole discretion shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance Account or Fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the Electric Utility System.

In lieu of obtaining policies for insurance as provided above, the City may self-insure against risks, accidents, claims or casualties described above, or such risks, accidents, claims or casualties may be covered under one or more blanket insurance policies maintained by the City. The annual audit hereinafter required shall contain a section commenting on whether the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing the areas of insurance for which the City is self-insuring, all policies carried, and whether all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(k) **AUDITS**. After the close of each Fiscal Year while any of the Parity Electric Utility Obligations are Outstanding, an annual audit of the books, records and accounts relating to the operations of the Electric Utility System shall be made by an Accountant as part of the City's overall annual comprehensive audit. After such annual audit has been completed and approved by the City, a copy thereof shall be sent to the Municipal Advisory Council of Texas and to any owner of $100,000 or more in Outstanding Principal Amount of Parity Electric Utility Obligations who shall request a copy of such annual audit in writing. A copy of such annual audit shall be available for the inspection at the administrative offices of the Electric Utility System by the owners of the Parity Electric Utility Obligations and their agents and representatives at all reasonable times during regular business hours.

(l) **GOVERNMENTAL AGENCIES**. Any and all franchises, licenses, permits and authorizations received or obtained from any governmental agency or department and applicable to or necessary with respect to the operations of the Electric Utility System shall be kept current and in effect, and no franchise, permit, license or authorization required or necessary for the acquisition, construction, equipment, operation and maintenance of the Electric Utility System shall be allowed to expire or terminate by a failure of the City to act or shall the City fail to comply with any terms or conditions that results in a forfeiture or early termination of any such franchise, permit, license, or authorization.

(m) **RIGHTS OF INSPECTION**. Subject to public safety and other restrictions as may be reasonably imposed, the owner of Parity Electric Utility Obligations shall have the right at all reasonable times during regular business hours to inspect properties of the Electric Utility System and all records, accounts and data relating thereto, and copies of such records, accounts and data will be furnished to such owner from time to time, upon the written request and at the payment of the cost of making such copies by the owner making such request.

Section 6. SYSTEM FUND. In accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Electric Utility Obligations are Outstanding a separate fund or account known and designated as the "Electric Light and Power System Fund" (herein called the "Electric Fund" or “System Fund”). All funds deposited to the credit of the System Fund and disbursements from such Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of Electric Utility System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable and (ii) the special Funds and Accounts maintain for the payment and security of the Parity Electric Utility Obligations pursuant to this Ordinance or a Supplement.

FOURTH: To pay Subordinated Debt, including amounts for the payment of the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

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

Section 7. DEBT SERVICE FUND. For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (other than Operating Expenses) incurred in connection with Parity Electric Utility Obligations, there is hereby created and there shall be established and maintained on the books of the City a separate fund designated as the "Electric Utility Revenue Obligation Debt Service Fund" (the "Debt Service Fund") and moneys to the credit of such Debt Service Fund shall be placed in a special fund or account maintained at an official depository of funds of the City.

The amount of the deposits to be made to the credit of the Debt Service Fund to pay the principal of and interest on the Parity Electric Utility Obligations as the same shall become due and payable and the manner for making such deposits shall be addressed and contained in each Supplement. In addition, the City reserves the right in any Supplement to establish within the Debt Service Fund various Accounts to facilitate the timely payment of Parity Electric Utility Obligations as the same become due and owing.

Section 8. ISSUANCE OF ADDITIONAL OBLIGATIONS. (a) Parity Electric Utility Obligations. The City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of this Ordinance and a Supplement hereafter adopted. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing::

(i) the City is in compliance with all covenants contained in this Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and

(ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility

System’s Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, exceed One Hundred Ten Per Cent (110%) the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Electric Utility Obligations.

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

(b) Short-Term Parity Electric Utility Obligations. The City may issue or incur Parity Electric Utility Obligations issued in the form of commercial paper and for purposes of this subsection, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Electric Utility Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

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

(d) Separately Financed Projects. The City expressly retains the right to issue or incur bonds, notes, or other obligations or evidences of indebtedness, other than Parity Electric Utility Obligations, for any project or purpose for goods or services other than the generation, transmission, distribution and sale of electric energy and capacity or related goods and services, which presently are or hereafter may be authorized or permitted to be provided or maintained by municipal electric systems generally or the City specifically under the laws of the State of Texas, federal law or the City’s home rule charter; provided the bonds, notes or other obligations issued or incurred for any such separately financed project are payable from and secured by other available funds derived from the ownership or operation thereof or excess Net Revenues remaining after satisfying, or making provision for the satisfaction of, the “First” through the “Fourth” priority of claims identified on such Net Revenues in Section 6 hereof and separate books and records for such separately financed project or activity are maintained by the City

(e) Credit Agreements. Payments to be made under a Credit Agreement may be treated as Parity Electric Utility Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then Outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

(f) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Electric Utility System for the period of time covered by his or her certification based on such change in rates and charges being in effect for the entire period covered.

Section 9. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS. (a) Any Parity Electric Utility Obligation shall be deemed to be paid, retired and cease to be Outstanding within the meaning of this Ordinance, and the Supplement pursuant to which it was issued, when payment of the principal amount of, redemption premium, if any, on such Parity Electric Utility Obligation, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either shall have been (i) made in accordance with the terms thereof or (ii) provided by irrevocably depositing with, or making available to, a Paying Agent (or escrow agent) therefor, in trust and set aside exclusively for such payment, in accordance with the terms and conditions of an agreement between the City and said Paying Agent (or escrow agent), (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such Paying Agent pertaining to the Parity Electric Utility Obligation with respect to which such deposit is made shall have been paid or the payment thereof duly provided (and irrevocable instructions shall have been given by the City to such Paying Agent to give notice of such redemption in the manner required by the Supplement authorizing the issuance of such Parity Electric Utility Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Electric Utility Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Electric Utility Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Electric Utility Obligation was issued. In addition, in connection with a defeasance, such Paying Agent shall give notice of redemption, if necessary, to the owners of any Parity Electric Utility Obligation in the manner provided in the Supplement for such Parity Electric Utility Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Electric Utility Obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or the Supplement pursuant to which it was issued or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys deposited with a Paying Agent (or escrow agent) may, at the direction of the City, also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Paying Agent pursuant to this Section which is not required for the payment of the principal of the Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City for deposit to the credit of the Debt Service Fund.

(c) Except as provided in clause (b) of this Section, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon, shall be applied solely to and used solely for the payment of such Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon.

Section 10. AMENDMENT OF ORDINANCE. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Electric Utility Obligations so as to:

(1) Make any change in the maturity of any of the Outstanding Parity Electric Utility Obligations;

(2) Reduce the rate of interest borne by any of the Outstanding Parity Electric Utility Obligations;

(3) Reduce the amount of the principal payable on the Outstanding Parity Electric Utility Obligations;

(4) Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Parity Electric Utility Obligations or impose any conditions with respect to such payment;

(5) Affect the rights of the owners of less than all of the Parity Electric Utility Obligations then Outstanding;

(6) Amend this subsection (a) of this Section; or

(7) Change the minimum percentage of the principal amount of Parity Electric Utility Obligations necessary for consent to any amendment;

unless such amendment or amendments be approved by the owners of all of the Parity Electric Utility Obligations affected by the change or amendment then Outstanding.

(b) Notice of Amendment Requiring Consent. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with each Paying Agent or Registrar, as the case may be, for the Parity Electric Utility Obligations for inspection by all Holders of Parity Electric Utility Obligations. Such publication is not required, however, if notice in writing is given by mail, first class postage prepaid, to each Holder of Parity Electric Utility Obligations.

(c) Time Period for Obtaining Consent If within one year from (i) the date of the first publication of said notice or (ii) the date of the mailing by the Paying Agent of written notice to the owners of the Parity Electric Utility Obligations, whichever date first occurs if both methods of giving notice are used, the City shall receive an instrument or instruments executed by the owners of at least a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations consenting to and approving such amendment in substantially the form of the copy thereof on file with each Paying Agent or Registrar, as the case may be, for the Parity Electric Utility Obligations, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Revocation of Consent. Any consent given by the owner of a Parity Electric Utility Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, and shall be conclusive and binding upon all future owners of the same Parity Electric Utility Obligation during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, such consent may be revoked by the owner who gave such consent, or by a successor in title, by filing written notice thereof with the Paying Agent or Registrar, as the case may be, for such Parity Electric Utility Obligation and the City, but such revocation shall not be effective if the owners of at least a majority in Outstanding Principal Amount of the then Outstanding Parity Electric Utility Obligations as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(e) Implementation of Amendment. Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations of the City under this Ordinance and all the owners of then Outstanding Parity Electric Utility Obligations and all future Parity Electric Utility Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(f) Amendment without Consent. The foregoing provisions of this Section notwithstanding, the City by action of its governing body may amend this Ordinance for any one or more of the following purposes:

(1) To vest the management and control of the Electric Utility System in an independent board of trustees or similar board pursuant to authority conferred by V.T.C.A., Government Code, Section 1502.070 et seq. or other law now or hereafter enacted;

(2) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the owners of the Parity Electric Utility Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(3) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this

Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the owners of the Parity Electric Utility Obligations then outstanding;

(4) To modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after all Parity Electric Utility Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(5) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Electric Utility Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Electric Utility Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the owners of the Parity Electric Utility Obligations;

(7) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Parity Electric Utility Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(8) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Electric Utility Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Electric Utility Obligations. Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Parity Electric Utility Obligations may be determined as provided in each Supplement and unless otherwise provided in a Supplement, the owners of the Parity Electric Utility Obligations insured as to the payment of principal of and interest thereon shall be deemed to be the insurance company providing the insurance coverage on such Parity Electric Utility Obligations; provided such amendment to this Ordinance is an amendment that can be made with the consent of a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations and such insurance company is not in default with respect to its obligations under its insurance policy.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Parity Electric Utility Obligations then Outstanding under such Supplement a priority over the owners of any other Parity Electric Utility Obligations then Outstanding.

Section 11. DEFICIENCIES. If on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Funds and Accounts established in accordance with this Ordinance and any Supplement, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other source available for such purpose.

Section 12. FUNDS SECURED. Moneys in all Funds and Accounts created in accordance with this Ordinance and any Supplement shall be secured in the manner prescribed by law for securing funds of the City.

Section 13. INVESTMENTS. Moneys in any Fund or Account established pursuant to this Ordinance and any Supplement may, at the option of the City, be placed or invested in Eligible Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually during the last month of each Fiscal Year. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Fund or Account from which moneys used to acquire such investment shall have come.

Section 14. BENEFITS OF ORDINANCE. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

Section 15. GOVERNING LAW. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 16. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 17. CONSTRUCTION OF TERMS. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

Section 18. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 19. PUBLIC MEETING. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

Section 20. EMERGENCY. The public importance of this measure and the fact that there is an urgent public need for the City to obtain the funds from the sale of the Bonds as soon as possible and without delay for the immediate preservation of the public peace, health and safety of the citizens of the City constitute and create an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

PASSED AND ADOPTED, this 18th day of January, 2001.

CITY OF AUSTIN, TEXAS

ATTEST:

____
KIRK WATSON
Mayor

____
SHIRLEY A. BROWN
City Clerk

APPROVED:

(City Seal)

____
ANDREW MARTIN
City Attorney

EXHIBIT "A"

DEFINITIONS

As used in the Ordinance, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"**Account**" means any account created, established and maintained on the books and records of the City under the terms of any Supplement.

"**Accountant**" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"**Annual Debt Service Requirements**" means, for any Fiscal Year, the principal of and interest on all Parity Electric Utility Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(i) Committed Take Out. If the City has entered into a Credit Agreement with a Credit Provider to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased by the Credit Provider shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(ii) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable by reason of any required purchase of such Funded Debt by the City) in any Fiscal Year is either (a) equal to 25%, or more, of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or (b) exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(iii) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer executes a certificate to the effect that such Balloon Debt (a) may be treated as being retired in installments (and the instrument creating such Balloon Debt expressly permits such Debt to be treated as being retired in installments), or (b) paid from the funding and accumulation of a sinking fund (and the instrument creating such Balloon Debt expressly permits the funding and accumulation of a sinking fund) according to a fixed schedule stated in such certificate, then the principal of (and, in the case of retirement, or to the extent provided for the funding and accumulation of a sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such fixed schedule, provided this clause (iii) shall apply only to Balloon Debt when installments due and payable prior to such certificate have been duly paid or all deposits to the sinking fund established for such Debt have been duly credited to the sinking fund on or before the times required by such schedule; and provided further this clause (iii) shall not apply when the City has elected to apply the rule set forth in clause (ii) above;

(iv) Prepaid Debt. Principal of and interest on Parity Electric Utility Obligations, or portions thereof, payable from capitalized interest, accrued interest and amounts deposited or set aside in trust for the payment thereof with a financial institution shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year;

(v) Variable Rate. As to any Parity Electric Utility Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the City, either (a) an interest rate equal to the average rate borne by such Parity Electric Utility Obligations (or by comparable debt in the event that such Parity Electric Utility Obligations has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be used for this purpose;

(vi) Commercial Paper. Any Parity Electric Utility Obligations issued in the form of commercial paper shall use an interest rate for such Parity Electric Utility Obligations calculated in the manner provided in clause (v) of this definition and the maturity schedule shall be calculated in the manner provided in clause (ii) of this definition; and

(vii) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (i) through (vi) above and any payments otherwise included above under (i) through (vi) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"**Bond Counsel**" means Messrs. Fulbright & Jaworski L.L.P. or other firm engaged by the City with legal experience and expertise in the issuance and sale of obligations by municipalities in the State of Texas and with respect to the exclusion of interest on obligations from federal income taxation under Section 103(a) of the Code.

"**City**" and "**Issuer**" mean the City of Austin, Texas.

"**Code**" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

"**Commercial Paper Obligations**" means those obligations identified and described in the preamble of the Ordinance. .

"**Credit Agreement**" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Electric Utility Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City in connection with the authorization, issuance, security, or payment of Parity Electric Utility Obligations and on a parity therewith.

"**Credit Facility**" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Electric Utility Obligations would rate the Parity Electric Utility Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Electric Utility Obligations would assign a rating to the Parity Electric Utility Obligations of one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Electric Utility Obligations and the interest thereon.

"**Credit Provider**" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

"**Debt**" of the City payable from Net Revenues means all:

(i) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Electric Utility System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(ii) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Net Revenues of the Electric Utility System, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (A) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (B) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"**Debt Service Fund**" means the "Electric Utility System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"**Designated Financial Officer**" shall mean the Director of Finance, Treasurer or such other official of the City having primary responsibility for the fiscal management and operations of the System.

"**Electric Utility System**" means all properties, facilities and plants currently owned, operated and maintained by the City for the generation, transmission, distribution and sale of electric energy and power, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing and to the extent now or hereafter authorized or permitted by law, the Electric Utility System, as defined herein, shall not include (i) properties and facilities owned in whole or in part by the City and under the management and control of the electric utility department of the City but provide a service or product apart from the generation, transmission, distribution or sale of electric energy and power such as a fiber optic system, chiller tower facilities, etc.; (ii) facilities of any kind which are declared not to be a part of the Electric Utility System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities; or (iii) separately financed projects or properties contemplated and authorized pursuant to Section 8(d) of the Ordinance.

"**Eligible Investments**" means those investments in which the City is now or hereafter authorized by law, including, but not limited to, the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), as amended, to purchase, sell and invest its funds and funds under its control.

"**Fiscal Year**" means the twelve month financial accounting period for the Electric Utility System which currently ends on September 30 of each calendar year.

"**Fund**" means any fund created, established and maintained under the terms of the Ordinance and any Supplement.

"**Funded Debt**" of the Electric Utility System means all Parity Electric Utility Obligations (and, for purposes of Section 9(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"**Government Obligations**" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent or (iv) such other obligations hereafter authorized by law to be acquired for defeasance and payment of outstanding indebtedness of the City.

"**Gross Revenues**" means those revenues, income, and receipts derived or received by the City from the operation and ownership of the Electric Utility System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Electric Utility System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code. The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts, grants in aid of construction or “transition charges” or similar charges imposed pursuant to V.T.C.A., Utilities Code, Subchapter G of Chapter 39 or similar law imposed for the payment of “transition bonds”.

"**Holder**" or "**Bondholder**" or "**owner**" means the registered owner appearing on the books and records of the Registrar of any Parity Electric Utility Obligation registered as to ownership and the holder of any Parity Electric Utility Obligation payable to bearer.

"**Maturity**" when used with respect to any Debt means the date the principal of such Debt or any installment thereof becomes due and payable, whether at its Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

"**Net Revenues**" and "**Net Revenues of the Electric Utility System**" with respect to any period of time means the Gross Revenues for such period less Operating Expenses incurred during such period.

"**Operating Expenses**" means the expenses of operation and maintenance of the Electric Utility System, including all salaries, labor, materials repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Electric Utility Obligations. Operating Expenses shall include the purchase of power, and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

"**Opinion of Counsel**" means a written opinion of counsel acceptable to the City.

"**Ordinance**" means this Ordinance No. 010118-__ pertaining to the issuance of Parity Electric Utility Obligations, and any amendments thereto.

“**Outstanding**" when used with respect to Parity Electric Utility Obligations means, as of the date of determination, all Parity Electric Utility Obligations theretofore delivered under this Ordinance and any Supplement, except:

(i) Parity Electric Utility Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

(ii) Parity Electric Utility Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;

(iii) Parity Electric Utility Obligations upon transfer of or in exchange for and in lieu of which other Parity Electric Utility Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and

(iv) Parity Electric Utility Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless acquired for purposes of cancellation, Parity Electric Utility Obligations owned by the City shall be deemed to be Outstanding as though owned by any other owner.

"**Outstanding Principal Amount**" means, with respect to all Parity Electric Utility Obligations or to a series of Parity Electric Utility Obligations, the outstanding and unpaid principal amount of such Parity Electric Utility Obligations paying interest on a current basis and the accreted value as of each compounding date for Parity Electric Utility Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Electric Utility Obligations

"**Parity Electric Utility Obligations**" means all Debt of the City issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

"**Paying Agent**" means bank, trust company or other entity selected by the City in a Supplement undertaking the duties and responsibilities for the payment to the Holders of the principal of and interest on the series or issue of Parity Electric Utility Obligations.

“**Prior First Lien Obligations**” means those obligations identified and described in the preamble of the Ordinance.

“**Prior Subordinate Lien Obligations**” means to obligations identified and described in the preamble of the Ordinance.

"**Prudent Utility Practice**" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act at the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the Electric Utility System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"**Rating Agency**" means a nationally recognized securities rating agency which has assigned a rating to the Parity Electric Utility Obligations.

"**Registrar**" means bank, trust company or other entity selected by the City in a Supplement to serve as the registrar for the registration and transfer of a series or issue of Parity Electric Utility Obligations issued in fully registered form as to the payment of principal of and interest thereon.

"**Stated Maturity**" when used with respect to Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"**Subordinated Debt**" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Electric Utility Obligations then Outstanding or subsequently issued.

"**Supplement**" or "**Supplemental Ordinance**" means an ordinance supplemental to, and authorized and adopted by the governing body of the City pursuant to the terms of, the Ordinance.

"**System Fund**" or “**Electric Fund**” means the "Electric Light and Power System Fund" affirmed in Section 6 of the Ordinance.

"**Term of Issue**" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term in any Supplement authorizing the issuance of commercial paper) or (ii) twenty-five years.

“**Utility System Consultant**” means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal electric light and power facilities and systems similar in size to the Electric Utility System.

"**Value of Investment Securities**" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

SECTION : Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues". Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993,(x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding

Bonds, Series 1995", dated June 1, 1995, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xiv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xv)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xvi)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, and (xvii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i)"City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998", dated August 1, 1998, (iv)"City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (v) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION Pledge. (a) Electric Light and Power System. Subject only to the prior lien on and pledge of the Net Revenues of the Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

SECTION : Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

(1) To pay the respective Maintenance and Operating Expenses thereof,

(2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,

(3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and

(4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

SECTION : <u>Electric Light and Power System Fund</u>. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

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

SECTION : Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Waterworks and Sewer System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

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

SECTION : Reserve Fund. The City agrees and covenants to maintain at its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the greater of (i) $85,000,000 or (ii) the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien

Bonds, as determined on the date the last series of Prior Lien Bonds or Subordinate Lien Bonds are delivered or incurred, as the case may be. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which may be withdrawn and transferred to the Interest and Redemption Fund required to be maintained for the payment of the Subordinate Lien Bonds during such periods as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds (including the Bonds), calculated as of the date the Bonds are to be delivered is $144,803,190, which amount is determined to be the Required Reserve by reason of the issuance of the Bonds and is greater than $85,000,000 and the amount currently calculated to be on deposit to the credit of the Reserve Fund is in excess of $150,000,000 (the "Current Reserve"). No additional deposits to the Reserve Fund shall be required by reason of the issuance of the Bonds as the Current Reserve exceeds the Required Reserve.

When and so long as the money and investments in the Reserve Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the issuance of Prior Lien Bonds or Additional Subordinate Lien Bonds as provided in the paragraph below), the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the deficiency in funds occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve.

As and when Prior Lien Bonds or Subordinate Lien Bonds are issued and delivered, the Required Reserve shall be increased, if required, and any additional amount to be maintained in said Fund by reason of the issuance of such Prior Lien Bonds or Additional Subordinate Lien Bonds shall be so accumulated by the deposit of all or any part thereof in cash immediately after the delivery thereof, or, at the option of the City, in monthly installments, made on or before the last day of each month following the delivery of the Prior Lien Bonds or Subordinate Lien Bonds, equal to not less than 1/60th of the additional amount required to be accumulated in the Reserve Fund by reason of the issuance of Prior Lien Bonds or Subordinate Lien Bonds then being issued (or 1/60th of the balance of such additional amount not deposited in cash immediately following the delivery of the Prior Lien Bonds or Subordinate Lien Bonds).

Notwithstanding the foregoing provisions contained in this Section pertaining to an increase in the Required Reserve, in the event Prior Lien Bonds are hereafter issued or incurred and the proceedings pertaining to the issuance or incurrence thereof provide for, or require, the creation and establishment, or reaffirm the creation and establishment, of a separate and special reserve or contingency fund for the benefit of Prior Lien Bonds, the amount to be accumulated and maintained in such separate and special reserve or contingency fund shall offset and be subtracted from the increase, if any, in the Required Reserve as hereinabove required.

During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the Interest and Redemption Fund.

SECTION : Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchasers of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

SECTION : Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

SECTION : Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

SECTION : Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Bonds are Outstanding, the City agrees to maintain insurance, for the benefit of the Holders of the Bonds, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

SECTION : Sale or Lease of Properties. (a) The City, to the extent and in the manner required by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property not necessary or required in the efficient operations of the Systems, either or both, or any equipment not necessary or useful in the operations thereof or which is obsolete, damaged or worn out or otherwise unsuitable for use in the operation of the Systems, either or both. Save and except as hereinafter provided, the proceeds of any sale of properties of the Waterworks and Sewer System shall be deposited in the Water and Sewer Fund and the proceeds of sale of properties of the Electric Light and Power System shall be deposited in the Electric Fund.

(b) The City may, to the event and in the manner permitted by law, sell, lease or otherwise dispose of all or part of its participating interest in the South Texas Project, as approved and authorized at an election held November 3, 1981; provided such sale, lease or other disposition is approved by a majority vote of the City Council of the City with a finding on the part of the City Council that the remaining available capacity of the Electric Light and Power System (including power and energy to be received under contracts) for furnishing power and energy is adequate and sufficient to satisfy current and foreseeable power and energy demands therefor taking into consideration any generating capacity then estimated to become available and that such disposal will not jeopardize the ability of the City to meet the rate covenants herein and in any other ordinance authorizing outstanding obligations secured by a lien on and pledge of the Electric Light and Power System. All proceeds derived from such sale or disposal, net of reasonable and necessary expenses incurred in connection therewith (including attorneys and engineers), shall be deposited in a special escrow account with the City's depository bank and expended only for the purposes of making Capital Additions to the Electric Light and Power System, or for cost effective projects or purposes which reduce the peak demand requirements of the Electric Light and Power System, or for the redemption or purchase (at a price not to exceed par) of outstanding Prior Lien Bonds or Subordinate Lien Bonds, all as shall be determined in the sole discretion and determination of the City Council of the City.

SECTION : Records and Accounts. The City hereby covenants and agrees that so longas any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

SECTION : Deficiencies; Excess Net Revenues. (a) If on any occasion there shall not be sufficient Net Revenues of the Systems to make the required deposits into the Interest and Redemption Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the Systems, or from any other sources available for such purpose.

(b) Subject to making the required deposits to (i) all special funds created for the payment and security of the Prior Lien Bonds (including the Reserve Fund) (ii) all special funds created for the payment and security of the Subordinate Lien Bonds (including the Interest and Redemption Fund) and (iii) all funds or accounts created for the benefit of Separate Lien Obligations, the excess Net Revenues of the Systems, either or both, may be used by the City for any lawful purpose.

SECTION : Final Deposits; Governmental Obligations. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

SECTION : Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION : Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

APPENDIX E

FORM OF BOND COUNSEL'S OPINION

APPENDIX F

SUMMARY OF REFUNDED BONDS

Bond Issue	Bond	Maturity Date	Coupon Rate	Par Amount	Call Date	Call Price
Combined Utility System Revenue	SERIAL	5/15/2013	5.00%	$12,845,000	4/30/2002	100.00
Refunding Bonds Series 1986	SERIAL	11/15/2013	5.00%	$11,580,000	4/30/2002	100.00
Combined Utility System Revenue	2006 Term	5/15/2006	7.15%	$ 2,770,000	4/30/2002	100.50
Refunding Bonds, Series 1990A	2008 Term	5/15/2008	7.00%	$ 2,415,000	4/30/2002	100.50
	2010 Term	5/15/2010	6.00%	$ 1,880,000	4/30/2002	100.00
	2015 Term	5/15/2015	6.00%	$ 5,885,000	4/30/2002	100.00
Combined Utility System Revenue	SERIAL	11/15/2002	7.05%	$ 100,000	4/30/2002	100.50
Refunding Bonds, Series 1990 B	2006 Term	11/15/2006	7.00%	$ 485,000	4/30/2002	100.50
	2009 Term	11/15/2009	7.00%	$ 285,000	4/30/2002	100.50
	2013 Term	11/15/2013	6.00%	$ 755,000	4/30/2002	100.00
Combined Utility System Revenue	SERIAL	5/15/2006	5.50%	$ 5,000,000	5/15/2005	100.00
Refunding Bonds, Series 1995	SERIAL	5/15/2007	5.50%	$ 3,000,000	5/15/2005	100.00
	SERIAL	5/15/2008	5.50%	$ 3,500,000	5/15/2005	100.00
	SERIAL	5/15/2009	5.50%	$ 3,500,000	5/15/2005	100.00
	SERIAL	5/15/2010	5.50%	$ 3,000,000	5/15/2005	100.00
	SERIAL	5/15/2011	5.50%	$ 3,500,000	5/15/2005	100.00
	SERIAL	5/15/2012	5.50%	$ 4,000,000	5/15/2005	100.00
	SERIAL	5/15/2013	5.50%	$ 4,000,000	5/15/2005	100.00
	SERIAL	5/15/2014	5.50%	$ 4,500,000	5/15/2005	100.00
	SERIAL	5/15/2015	5.50%	$ 5,000,000	5/15/2005	100.00
Total Par Amount				$78,000,000		

APPENDIX G

SPECIMEN BOND INSURANCE POLICY

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022
(212) 826-0100