OFFICIAL STATEMENT

CITY OF AUSTIN, TEXAS

$68,855,000
Public Improvement and Refunding Bonds, Series 2003

$4,450,000
Certificates of Obligation, Series 2003

$8,610,000
Public Property Finance Contractual Obligations, Series 2003

$2,530,000
Public Improvement Refunding Bonds, Taxable Series 2003A

Dated: September 9, 2003

(THIS PAGE INTENTIONALLY LEFT BLANK)

OFFICIAL STATEMENT DATED SEPTEMBER 9, 2003

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA+"
Fitch: "AA+"
(See "INSURANCE" and "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel"), interest on the Series 2003 Bonds is excludable from gross income for federal income tax purposes under existing law and the Series 2003 Bonds are not private activity bonds. See "TAX MATTERS RELATING TO THE TAX-EXEMPT OBLIGATIONS" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

$68,855,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)
Public Improvement and Refunding Bonds, Series 2003

Dated: September 1, 2003 | Due: September 1, as shown below

Interest on the $68,855,000 City of Austin, Texas (the "City") Public Improvement and Refunding Bonds, Series 2003 (the "Series 2003 Bonds"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2004, and will be calculated on the basis of a 360–day year of twelve 30–day months. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "OBLIGATION INFORMATION – Book-Entry-Only System").

The Series 2003 Bonds are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the Series 2003 Bonds (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Series 2003 Bonds will be used to finance various capital improvements, to finance certain payment obligations relating to the City's liability under a settlement agreement (see "OBLIGATION INFORMATION – Authority for Issuance"), and to pay certain costs of issuance of the Series 2003 Bonds.

FGIC. **Financial Guaranty Insurance Company**
FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

Payment of the principal of and interest on the Series 2003 Bonds maturing on September 1 in each of the years 2015 through 2020 when due will be guaranteed by a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Series 2003 Bonds. (See "INSURANCE" herein.)

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2004	$ 300,000	2.000%	1.050%	2014	$3,670,000	4.000%	4.070%
2005	xxx	xxx	xxx	2015	3,845,000	4.125%	4.190% (a)
2006	2,125,000	2.000%	1.850%	2016	4,230,000	4.125%	4.290% (a)
2007	2,235,000	4.000%	2.280%	2017	4,410,000	4.250%	4.390% (a)
2008	2,475,000	4.000%	2.640%	2018	4,605,000	4.375%	4.490% (a)
2009	2,595,000	4.000%	2.990%	2019	4,805,000	4.500%	4.590% (a)
2010	2,730,000	4.000%	3.350%	2020	5,010,000	4.500%	4.690% (a)
2011	2,300,000	3.750%	3.620%	2021	5,235,000	5.000%	4.790% (b)
2012	3,000,000	3.750%	3.810%	2022	5,470,000	5.000%	4.880% (b)
2013	3,155,000	4.000%	3.930%	2023	6,660,000	5.000%	4.950% (b)

(a) These maturities have been insured by FGIC at the request of the Purchaser.
(b) Priced to call date.

(Plus Accrued Interest from September 1, 2003)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yield shown above, less the insurance premium, will produce compensation to the Purchasers of $255,239.45.

The City reserves the right, at its option, to redeem Series 2003 Bonds having stated maturities on and after September 1, 2014, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on September 1, 2013, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. See "OBLIGATION INFORMATION – Redemption".

The Series 2003 Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Series 2003 Bonds (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Series 2003 Bonds will be delivered through the facilities of DTC on or about October 8, 2003.

[The remainder of this page is intentionally left blank.]

OFFICIAL STATEMENT DATED SEPTEMBER 9, 2003

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

NEW ISSUE – Book-Entry-Only

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

$4,450,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Certificates of Obligation, Series 2003

Dated: September 1, 2003 Due: September 1, as shown below

Interest on the $4,450,000 City of Austin, Texas (the "City") Certificates of Obligation, Series 2003 (the "Certificates"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2004, and will be calculated on the basis of a 360–day year of twelve 30–day months. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "OBLIGATION INFORMATION – Book-Entry-Only System").

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

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

MBIA Payment of the principal of and interest on the Certificates when due will be guaranteed by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Certificates. (See "INSURANCE" herein.)

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2004	$140,000	4.250%	1.100%	2014	$220,000	4.000%	4.050%
2005	145,000	4.250%	1.400%	2015	230,000	4.100%	4.150%
2006	150,000	4.000%	1.800%	2016	240,000	4.200%	4.250%
2007	160,000	4.000%	2.250%	2017	255,000	4.300%	4.350%
2008	165,000	4.000%	2.600%	2018	265,000	4.400%	4.450%
2009	175,000	4.000%	3.000%	2019	275,000	4.500%	4.550%
2010	180,000	4.000%	3.350%	2020	290,000	4.600%	4.650%
2011	190,000	4.100%	3.625%	2021	305,000	4.700%	4.750%
2012	200,000	4.100%	3.800%	2022	320,000	4.800%	4.830%
2013	210,000	4.100%	3.950%	2023	335,000	4.800%	4.900%

(Plus Accrued Interest from September 1, 2003)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above, less the insurance premium, will produce compensation to the Purchasers of $38,505.30.

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2014, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on September 1, 2013, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption.

The Certificates are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Certificates. See APPENDIX C – "Form of Bond Counsel's Opinions".

It is expected that the Certificates will be delivered through the facilities of DTC on or about October 8, 2003.

[The remainder of this page is intentionally left blank.]

OFFICIAL STATEMENT DATED SEPTEMBER 9, 2003

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA+"
Fitch: "AA+"
(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

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

$8,610,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Public Property Finance Contractual Obligations, Series 2003

Dated: September 1, 2003 — Due: May 1 and November 1, as shown below

Interest on the $8,610,000 City of Austin, Texas (the "City") Public Property Finance Contractual Obligations, Series 2003 (the "Contractual Obligations"), will accrue from the dated date as shown above and will be payable May 1 and November 1 of each year, commencing May 1, 2004, and will be calculated on the basis of a 360–day year of twelve 30–day months. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "OBLIGATION INFORMATION – Book-Entry-Only System").

The Contractual Obligations are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the Contractual Obligations (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Contractual Obligations will be used to purchase certain equipment for various City Departments and to pay costs of issuance of the Contractual Obligations.

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (May 1)	Amount	Interest Rate	Price or Yield	Maturity (November 1)	Amount	Interest Rate	Price or Yield
2004	$475,000	2.000%	1.000%	2004	$555,000	2.000%	1.150%
2005	565,000	2.000%	1.350%	2005	575,000	2.000%	1.500%
2006	590,000	2.000%	1.800%	2006	600,000	2.000%	1.900%
2007	610,000	2.250%	2.230%	2007	625,000	2.375%	2.330%
2008	635,000	2.625%	2.600%	2008	650,000	2.750%	2.690%
2009	660,000	3.000%	2.980%	2009	675,000	3.000%	3.030%
2010	690,000	3.375%	3.310%	2010	705,000	3.375%	3.360%

(Plus Accrued Interest from September 1, 2003)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yield shown above will produce compensation to the Purchasers of $28,130.15.

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

The Contractual Obligations are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Contractual Obligations (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Contractual Obligations will be delivered through the facilities of DTC on or about October 8, 2003.

(THIS PAGE INTENTIONALLY LEFT BLANK)

OFFICIAL STATEMENT DATED SEPTEMBER 9, 2003

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA+"
Fitch: "AA+"
(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel"), as of the date of issuance of the Series 2003A Bonds, the Series 2003A Bonds are not obligations described in Section 103(a) of the Internal Revenue Code of 1986. See "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS RELATING TO THE TAXABLE BONDS".

$2,530,000

CITY OF AUSTIN, TEXAS

(Travis and Williamson Counties)

Public Improvement Refunding Bonds, Taxable Series 2003A

Dated: September 1, 2003 Due: September 1, as shown below

Interest on the $2,530,000 City of Austin, Texas (the "City") Public Improvement Refunding Bonds, Taxable Series 2003A (the "Series 2003A Bonds"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2004, and will be calculated on the basis of a 360–day year of twelve 30–day months. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "OBLIGATION INFORMATION – Book-Entry-Only System").

The Series 2003A Bonds are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the Series 2003A Bonds (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Series 2003A Bonds will be used to finance certain payment obligations relating to the City's liability under a settlement agreement (see "OBLIGATION INFORMATION – Authority for Issuance") and to pay certain costs of issuance of the Series 2003A Bonds.

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2004	$205,000	4.000%	1.380%	2009	$280,000	4.100%	4.100%
2005	xxx	xxx	xxx	2010	295,000	4.500%	4.450%
2006	240,000	4.000%	2.650%	2011	315,000	4.750%	4.700%
2007	250,000	4.000%	3.250%	2012	330,000	5.000%	4.850%
2008	265,000	4.000%	3.800%	2013	350,000	5.000%	5.000%

(Plus Accrued Interest from September 1, 2003)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yield shown above will produce compensation to the Purchasers of $16,369.10.

The Series 2003A Bonds are not subject to redemption prior to their stated maturities.

The Series 2003A Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Series 2003A Bonds (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Series 2003A Bonds will be delivered through the facilities of DTC on or about October 8, 2003.

(THIS PAGE INTENTIONALLY LEFT BLANK)

No dealer, broker, salesman or other person has been authorized by the City or by the Purchasers to give any information or to make any representations, other than as contained in this Official Statement, and if given or made such other information or representations must not be relied upon as having been authorized by the City or the Purchasers. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Series 2003 Bonds, the Certificates, the Contractual Obligations, or the Series 2003A Bonds, (collectively referred to herein as the "Obligations"), by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

The information set forth herein has been furnished by the City and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Purchasers. The information and expressions of the opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the other matters described herein since the date hereof. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Obligations.

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2003 BONDS, THE CERTIFICATES, THE CONTRACTUAL OBLIGATIONS AND THE SERIES 2003A BONDS, THE PURCHASERS OF ANY OR ALL SERIES MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

[The remainder of this page is intentionally left blank.]

CITY OF AUSTIN

Elected Officials

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

Appointed Officials

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

BOND COUNSEL
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:

Dennis Waley, CPA
Treasurer
City of Austin
700 Lavaca, Suite 1510
Austin, Texas 78701
(512) 974–7883
dennis.waley@ci.austin.tx.us

Bill Newman
Public Financial Management
700 Lavaca
Suite 1500
Austin, Texas 78701
(512) 472–7194
newmanb@publicfm.com

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Series 2003 Bonds, the Certificates, the Contractual Obligations, and the Series 2003A Bonds (referred herein collectively as the "Obligations") to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this data page from this Official Statement or to otherwise use it without the entire Official Statement. The Series 2003 Bonds, the Certificates and the Contractual Obligations are referred to herein collectively as the "Tax-Exempt Obligations".

This data page was prepared to present the purchasers of the Series 2003 Bonds, the Series 2003A Bonds, the Certificates and the Contractual Obligations information concerning the Series 2003 Bonds, the Series 2003A Bonds, the Certificates and the Contractual Obligations, the description of the tax base and other pertinent data, all as more fully described herein.

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

The City is approximately 273.10 square miles in area (see APPENDIX A – "General Information Regarding the City").

The Series 2003 Bonds ...... The Series 2003 Bonds are being issued in the principal amount of $68,855,000 pursuant to the general laws of the State of Texas, particularly Chapters 1207 and 1331, Texas Government Code and an Ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").

The Certificates................ The Certificates are being issued in the principal amount of $4,450,000 pursuant to the general laws of the State of Texas, particularly Subchapter C, Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act") and an Ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").

The Contractual Obligations.......................... The Contractual Obligations are being issued in the principal amount of $8,610,000 pursuant to the general laws of the State of Texas, particularly Subchapter A, Chapter 271, Texas Local Government Code (the "Public Property Finance Act") and an Ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").

The Series 2003A Bonds ... The Series 2003A Bonds are being issued in the principal amount of $2,530,000 pursuant to the general laws of the State of Texas, particularly Chapters 1207, Texas Government Code and an Ordinance passed by the City Council of the City (see "OBLIGATION INFORMATION – Authority for Issuance").

Security................................. Each series of the Obligations constitutes a direct obligation of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenues (not to exceed $1,000) of the City's Solid Waste Disposal System.

Optional Redemption of Series 2003 Bonds and Certificates...........................	The City reserves the right, at its option, to redeem the Series 2003 Bonds and the Certificates having stated maturities on and after September 1, 2014, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2013, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "OBLIGATION INFORMATION – Redemption"). **The Contractual Obligations and the Series 2003A Bonds are not subject to redemption prior to their stated maturities.**
Tax Exemption	In the opinion of Bond Counsel, the interest on the Tax-Exempt Obligations is excludable from gross income for federal income tax purposes under existing law and the Obligations will not constitute private activity bonds. See "TAX MATTERS RELATING TO THE TAX-EXEMPT OBLIGATIONS" for a discussion of the opinion of Bond Counsel including the alternative minimum tax consequences for corporations. In the opinion of Bond Counsel, as of the date of issuance of the Series 2003A Bonds, the Series 2003A Bonds are not obligations described in section 103(a) of the Internal Revenue Code of 1986. See "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS RELATING TO THE TAXABLE BONDS".
Payment Record.................	The City has not defaulted since 1900 when all bonds were refunded at par with a voluntary reduction in interest rates.

Selected Issuer Indices

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
1994	507,468	$18,237,532,094	$35,938.29	$422,738	$ 833.03	2.32%	100.07%
1995	523,352	20,958,589,300	40,046.83	436,868	834.75	2.08%	100.10%
1996	541,889	23,303,015,047	43,003.30	443,247	817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.54	1.60%	99.23%
2003	674,382	51,141,723,679	75,834.95	702,209	1,041.26	1.37%	99.00% (3)
2004	683,149	49,199,408,526 (4)	72,018.56	746,290 (5)	1,092.43 (5)	1.52% (5)	N/A

(1) Source: City of Austin Planning/Growth Department.
(2) Excludes general obligation debt issued for enterprise funds, and general fund departments that transfer in from operating budgets.
(3) Estimated collections as of June 30, 2003.
(4) Certified Appraised Value, including $1,939,585,089 in property in the appeals process.
(5) Projected. Includes projected September 2004 issuance of approximately $107,415,000.

[The remainder of this page is intentionally left blank.]

OFFICIAL STATEMENT

Relating to

$68,855,000
CITY OF AUSTIN, TEXAS
Public Improvement and Refunding Bonds, Series 2003

$4,450,000
CITY OF AUSTIN, TEXAS
Certificates of Obligation, Series 2003

$8,610,000
CITY OF AUSTIN, TEXAS
Public Property Finance Contractual Obligations, Series 2003

$2,530,000
CITY OF AUSTIN, TEXAS
Public Improvement Refunding Bonds, Taxable Series 2003A

INTRODUCTION

This Official Statement, which includes the cover pages, the summary statement and the appendices hereto, provides certain information regarding the issuance by the City of Austin, Texas (the "City"), of $68,855,000 City of Austin, Texas, Public Improvement and Refunding Bonds, Series 2003 (the "Series 2003 Bonds"), $4,450,000 City of Austin, Texas, Certificates of Obligation, Series 2003 (the "Certificates"), $8,610,000 Public Property Finance Contractual Obligations, Series 2003 (the "Contractual Obligations") and $2,530,000 City of Austin, Texas, Public Improvement Refunding Bonds, Taxable Series 2003A (the "Series 2003A Bonds"). The Series 2003A Bonds are referred to herein as the "Taxable Bonds". The Series 2003 Bonds and the Series 2003A Bonds are collectively referred to herein as the "Bonds". The Bonds, the Certificates, and the Contractual Obligations are collectively referred to herein as the "Obligations". The Series 2003 Bonds, the Certificates and the Contractual Obligations are collectively referred to herein as the "Tax-Exempt Obligations". The Bonds, the Certificates, and the Contractual Obligations are being offered separately at competitive sales by the City, and delivery of each issue is not contingent upon the delivery of the other issues. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the respective ordinances authorizing the issuance of each series of the Bonds (collectively, the "Bond Ordinance"), the ordinance authorizing the issuance of the Certificates of Obligations (the "Certificate Ordinance"), and the ordinance authorizing the issuance of the Contractual Obligations (the "Contractual Obligation Ordinance") except as otherwise indicated herein. The Bond Ordinance, the Certificate Ordinance, and the Contractual Obligation Ordinance are collectively referred to herein as the "Ordinances".

There follows in this Official Statement descriptions of the Obligations and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

OBLIGATION INFORMATION

Authority for Issuance

The capital improvements to be financed with a portion of the proceeds of the Series 2003 Bonds were authorized at elections held on various dates, and passed by a majority of the participating voters in the City. The City is authorized to incur debt by voter authorization by Chapter 1331, Texas Government Code and by the Bond Ordinance as authorized in the City Charter adopted by voters on January 31, 1953, as amended.

The City was sued by the guardian of Richard Danziger in Federal District Court for the Western District of Texas, alleging federal constitutional and state common law torts against, among others, the City. Mr. Danziger was exonerated and found innocent after spending twelve years in prison for a crime he did not commit, and while imprisoned he suffered permanent and debilitating brain injuries. On August 18, 2003, the Probate Court No. 1 of Travis County, Texas, issued an order approving a "Compromise and Settlement Agreement and Full, Final and Complete Release and Indemnification Agreement" (the "Settlement Agreement"), whereunder the City agreed to pay costs in an amount equal to approximately $9 million in settlement and release of the claims against the City alleged in the lawsuit filed by the guardian of Mr. Danziger. The City is authorized by Chapter 1207, Texas Government Code, to issue the Bonds for the purpose of paying the financial obligations incurred by the City under the Settlement Agreement.

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

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

Settlement Agreement Obligations

Certain of the obligations of the City under the Settlement Agreement are to be paid on the future payment date for such obligations is due from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Deutsche Bank Trust Company Americas (the "Escrow Agent"). The ordinance authorizing the Series 2003 Bonds provides that certain of the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary to accomplish the payment of such obligations. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of such obligations.

By deposit of the cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into a firm banking and financial arrangement for the payment of the Settlement Agreement Obligations, in accordance with applicable law.

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

General

Each series of Obligations is dated September 1, 2003 and shall bear interest on the unpaid principal amounts from such date, at the respective per annum rates shown on the cover pages hereof. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the bondholder. The Obligations are issued only as fully registered obligations in denominations of $5,000 or any integral multiple thereof within a maturity.

The record date (the "Record Date") for the interest payable on any interest payment date is the 15th day of the month next preceding such interest payment date, as specified in the Ordinances. In the event of a nonpayment of interest on a scheduled interest payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, in accordance with the provisions of the Ordinances, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest, which shall be at least 15 days after the Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each bondholder appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Security

The Obligations constitute direct obligations of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property located within the City in an amount sufficient to pay the principal of and interest on all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenue (not to exceed $1,000) of the City's solid waste disposal system.

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

Bondholder Remedies

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

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

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

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

Redemption

Optional Redemption. The City reserves the right, at its option, to redeem the Series 2003 Bonds and Certificates having stated maturities on and after September 1, 2014, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2013, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. If less than all of the Series 2003 Bonds or all of the Certificates are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds and Certificates are in Book-Entry-Only form) shall determine by lot the Series 2003 Bonds or Certificates, or portions thereof, within such maturity to be redeemed.

The Contractual Obligations and the Series 2003A Bonds are not subject to optional redemption prior to their stated maturities.

At least thirty days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Series 2003 Bond or Certificate to be redeemed at the address shown on the registration books maintained by the Paying Agent/Registrar and subject to the terms and provisions relating thereto contained in the Ordinances. If a Series 2003 Bond or Certificate (or a portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Series 2003 Bond or Certificate (or the portion of its principal sum to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date thereof, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

Defeasance of Obligations

The Ordinances provide for the defeasance of the Obligations when the payment of the principal of and premium, if any on the Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agency, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Obligations. The Ordinances provide that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or it equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

Book-Entry-Only System

The City has elected to utilize the Book-Entry-Only System of DTC, as described under this heading. The obligation of the City is to timely pay the Paying Agent/Registrar the amount due under the Ordinances. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Obligations are described herein.

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

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

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

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

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

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

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

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

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

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

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

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

Paying Agent/Registrar

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

Transfer, Exchange and Registration

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

Limitation on Transfer of Bonds or Certificates Called for Redemption

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Series 2003 Bond or Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled principal of a Series 2003 Bond or Certificate.

INSURANCE

Financial Guaranty Insurance Company

Concurrently with the issuance of the Series 2003 Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the Series 2003 Bonds maturing in each of the years 2015 through 2020, inclusive (the "Insured Series 2003 Bonds"), described in the Policy (as used under the heading "INSURANCE"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Insured Series 2003 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Insured Series 2003 Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Insured Series 2003 Bonds or the Paying Agent/Registrar of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Insured Series 2003 Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of an Insured Series 2003 Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond 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.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Insured Series 2003 Bonds. The Policy covers failure to pay principal or accreted value (if applicable) of the Insured Series 2003 Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Insured Series 2003 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Insured Series 2003 Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Insured Series 2003 Bonds. Reference should be made to the description of the City for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

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

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2003, the total capital and surplus of Financial Guaranty was approximately $1.014 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

On August 4, 2003, General Electric Company ("GE") announced that its indirect, wholly owned subsidiary, FGIC Holdings, Inc. ("Holdings"), had entered into an agreement to sell the Corporation (and Financial Guaranty) to Falcons Acquisition Corp. ("Newco"), a newly-formed Delaware corporation owned by a consortium of investors consisting of The PMI Group, Inc. and private equity funds affiliated with Blackstone Group, Cypress Group and CIVC Partners, subject to receipt of regulatory approvals, written confirmations from Moody's, Standard & Poor's and Fitch that Financial Guaranty's insurance financial strength rating will remain at Aaa, AAA and AAA, respectively, immediately following the closing of the contemplated transactions, and satisfaction of other closing conditions. Immediately following the closing, it is expected that Newco will be merged with and into the Corporation and that GE (through its subsidiaries) will retain $234.6 million of preferred stock, and less than 5% of the common stock, of the Corporation.

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to APPENDIX D for a specimen of MBIA's policy.

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

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

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

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

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

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

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

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Certificates offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of $9.2 billion (audited), total liabilities of $6.0 billion (audited), and total capital and surplus of $3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2003 MBIA had admitted assets of $9.5 billion (unaudited), total liabilities of $6.1 billion (unaudited), and total capital and surplus of $3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

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

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

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

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

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

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

TAX INFORMATION

Ad Valorem Tax Law

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

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

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

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

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

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

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

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

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

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

The City may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has adopted criteria for granting tax abatements which establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The City has entered into several such abatement agreements in recent years.

Tax Valuation

January 1, 2003 Appraised Valuation (1)		$52,027,033,259
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead over 65	$1,094,290,969	
Homestead 10% Increase Cap	676,621,764	
Disabled Veterans	35,422,375	
Agricultural and Historical Exemptions	324,621,068	
Disability Exemption	95,526,542	
Freeport Exemption	601,142,015	2,827,624,733
January 1, 2003 Net Taxable Assessed Valuation (1)		$49,199,408,526

(1) 2003 Certified Appraised Value includes $1,939,585,089 in property in the appeals process.

(2) Exemptions or adjustments to assessed valuation granted in 2003 include (a) exemptions of $51,000 for resident homestead property of property owners over 65 years of age; (b) exemptions for residents homestead property exceeding a 10 percent increase in valuation from the previous year; (c) exemptions ranging from $5,000 to $12,000 for property of disabled veterans or certain surviving dependents of disabled veterans; (d) certain adjustments to productive agricultural lands; (e) exemptions to the land designated as historically significant sites by certain public bodies; (f) exemptions of $51,000 to disabled resident homestead property owners; (g) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

[The remainder of this page is intentionally left blank.]

Statement of Debt (As of September 30, 2003)

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

Public Improvement Bonds (1)	$650,920,000	
Certificates of Obligations (1)	125,510,000	
Contractual Obligations (1)	27,260,000	
Assumed Bonds (2)	13,637,420	
Contract Tax Bonds (3)	295,000	
The Series 2003 Bonds (4)	68,855,000	
The Series 2003A Bonds (4)	2,530,000	
The Certificates (4)	4,450,000	
The Contractual Obligations (4)	8,610,000	
Total		$902,067,420
Less Self-Supporting Debt:		
Assumed Bonds (2)	$ 11,544,469	
Contract Tax Bonds (3)	295,000	
Airport (5)	683,041	
Austin Energy (4) (5)	3,327,105	
City Hall	35,285,000	
CMTA Mobility (6)	26,380,000	
Communications and Technology Management (4) (5)	11,156,019	
Convention Center (5)	9,787,144	
Fleet Management (5)	8,438,456	
Golf (5)	8,370,394	
One Texas Center (5)	14,685,000	
Solid Waste (5)	17,781,904	
Transportation (5)	196,138	
Water and Wastewater (4)(5)	15,112,587	
Watershed Protection (4)(5)	14,333,483	$177,375,740
Interest and Sinking Fund, All Public Improvement Bonds (7)		13,199,149
Net Debt (8)		$711,492,531
Ratio Total Debt to 2003 Net Taxable Assessed Valuation		1.76%
Ratio Net Debt to 2003 Net Taxable Assessed Valuation		1.39%

2003 Population (Estimate) – 674,382 (9)
Per Capita Net Taxable Assessed Valuation – $75,834.95
Per Capita Net Debt Outstanding – $1,055.03

(1) Excludes the new money issuances and funding of the Settlement Agreement.
(2) Represents bonds of utility districts annexed by the City.
(3) Represents bonds of a district which the City has agreed to pay from the levy of an ad valorem tax sufficient to pay debt service if surplus water and wastewater revenues are not sufficient to meet debt service requirements.
(4) New money issued September 9, 2003 with delivery October 8, 2003.
(5) Airport, Austin Energy, Communications and Technology Management, Convention Center, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection represent a portion of the City's Outstanding Public Improvement Bonds, Certificates of Obligation and/or Contractual Obligations. Debt service for Airport, Austin Energy, Communications & Technology Mgmt., Convention Center, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection is paid from revenue of the respective enterprises. The City plans to continue to pay these

obligations from each respective enterprise. Communications and Technology Management, Fleet Management and One Texas Center are internal service funds, that generate revenue through charges to user departments.

(6) The City entered into an interlocal agreement with Capital Metro Transit Authority (CMTA), whereby CMTA will pay the required debt service to the City through a transfer of funds 30 days prior to each debt service payment date.

(7) Represents estimate of cash plus investments at cost on September 30, 2003.

(8) Various general fund departments have issued debt which is supported by a transfer into the debt service fund from the issuing department. These departments budget the required debt service which reduces the debt service tax requirement. If excluded, these obligations would lower net debt by $9,283,602.

(9) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

Revenue Debt

In addition to the above, on a pro forma basis, the City had outstanding (as of August 1, 2003) $1,528,449,123 Combined Utility Systems Revenue Bonds payable from a prior lien on the combined net revenue of the Electric System and the Water and Wastewater System; $556,430,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System; $673,955,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and $115,884,000 Combined Utility Systems Commercial Paper payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System.

The City also has outstanding (as of August 1, 2003) $393,560,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding (as of August 1, 2003) $241,595,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

Obligations Subject to Annual Appropriation

The City has entered into two subleases (the "Subleases") with respect to space to house the Electric Utility and the Water and Wastewater Utility, and $8,760,000 and $5,700,000, respectively, of Certificates of Participation are outstanding (as of August 1, 2003) and payable from payments made under such Subleases. The City anticipates funding the required lease payments from the revenue of the respective utility system, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenue of the Electric System and the Water and Wastewater System are not specifically pledged in such Subleases.

[The remainder of this page is intentionally left blank.]

Valuation and Funded Debt History

Fiscal Year Ended 9-30	Estimated City Population (1)	Net Taxable Assessed Valuation	Net Taxable Assessed Valuation Per Capita	(000's) Net Funded Tax Debt (2)	Ratio Net Funded Debt To Taxable Assessed Valuation	Per Capita Net Funded Tax Debt
1994	507,468	$18,237,532,094	$35,938.29	$422,738	2.32%	$ 833.03
1995	523,352	20,958,589,300	40,046.83	436,868	2.08%	834.75
1996	541,889	23,303,015,047	43,003.30	443,247	1.90%	817.97
1997	560,939	25,823,385,257	46,036.00	476,148	1.84%	848.84
1998	608,214	27,493,058,735	45,202.94	500,027	1.82%	822.12
1999	619,038	32,458,349,755	52,433.53	509,759	1.57%	823.47
2000	628,667	35,602,840,326	56,632.27	540,283	1.52%	859.41
2001	661,639	41,367,384,255	62,601.08	546,211	1.32%	825.54
2002	671,044	47,782,873,096	71,206.77	762,624	1.60%	1,136.54
2003	674,382	51,141,723,679	75,834.95	702,209	1.37%	1,041.26 (3)
2004	683,149	49,199,408,526 (4)	72,018.56	746,290 (5)	1.52% (5)	1,092.43 (5)

(1) Source: City of Austin Planning/Growth Department.
(2) Excludes general obligation debt issued for enterprise funds, and general fund departments which transfer in from operating budgets.
(3) Estimated collections as of June 30, 2002.
(4) Certified Appraised Value, including $1,939,585,089 in property in the appeals process.
(5) Projected. Includes projected September 2004 issuance of approximately $107,415,000.

Tax Rate, Levy and Collection History

Fiscal Year Ended 9-30	Tax Rate	Distribution: General Fund	Distribution: Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
1993	$0.6410	$0.3460	$0.2950	$108,824,534	98.03%	99.49%
1994	0.6225	0.3462	0.2763	113,528,637	98.76%	100.07%
1995	0.5625	0.3132	0.2493	117,892,065	99.00%	100.10%
1996	0.5446	0.3177	0.2269	126,908,220	99.03%	99.91%
1997	0.5251	0.3117	0.2134	135,598,596	98.96%	99.47%
1998	0.5401	0.3304	0.2097	148,490,010	98.80%	99.37%
1999	0.5142	0.3265	0.1877	166,900,834	98.89%	99.57%
2000	0.5034	0.3222	0.1812	179,224,698	99.08%	99.85%
2001	0.4663	0.3011	0.1652	193,138,262	98.98%	99.60%
2002	0.4597	0.3041	0.1556	219,657,867	98.81%	99.23%
2003	0.4597	0.2969	0.1628	235,098,504	98.15% (1)	99.00% (1)
2004 (2)	0.4928	0.3236	0.1692	242,454,685	N/A	N/A

(1) Estimated collections as of June 30, 2003.
(2) Approved Budget.

Ten Largest Taxpayers (1)

Name of Taxpayer	Nature of Property	January 1, 2003 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Motorola Corporation	Manufacturing	$ 797,390,919	1.62%
Advanced Micro Devices, Inc.	Manufacturing	355,863,041	0.72%
IBM Corporation	Manufacturing	294,206,662	0.60%
Southwestern Bell Telephone Company	Telephone Utility	281,203,762	0.57%
Applied Materials Inc.	Manufacturing	277,216,583	0.56%
Dell Computer Corporation	Manufacturing	181,646,642	0.37%
Samsung Austin Semiconductor (2)	Manufacturing	178,021,690	0.36%
State Street Bank and Trust	Banking	115,700,852	0.24%
Blue Star Austin Investments	Commercial	105,597,000	0.21%
Crescent Real Estate Funding	Real Estate	104,858,000	0.21%
TOTAL		$2,691,705,151	5.47%

(1) Taxable property valuations for the ten largest taxpayers from the July 2003 certified tax roll are lower than last year as a result of the slowdown in the local economy. Five of the companies represent computer technology manufacturers. The decline in the computer technology sector of the economy has resulted in substantial reductions in personal property inventory. The City does not anticipate an increase in taxable assessed valuation in the fiscal years 2004-2005, and taxable property valuations may be lower than the July 2003 certified tax roll.

(2) The Samsung Corporation received an abatement for $110,703,280 in real and personal property value.

Source: Travis Central Appraisal District.

Property Tax Rate Distribution

	Fiscal Year Ended September 30				
	2000	2001	2002	2003	2004 (1)
General Fund	$.3222	$.3011	$.3041	$.2969	$.3236
Interest and Sinking Fund	.1812	.1652	.1556	.1628	.1692
Total Tax Rate	$.5034	$.4663	$.4597	$.4597	$.4928

(1) July 24, 2003 Certified Tax Roll at the Effective Tax Rate.

[The remainder of this page is intentionally left blank.]

Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended 9-30	Valuation Date	Real Property Amount	Real Property % of Total	Personal Property Amount	Personal Property % of Total	Net Taxable Assessed Valuation	Total Tax Levy	% Current Collections	% Total Collections
1994	1-1-93	$14,828,873,350	81.30%	$3,408,658,744	18.70%	$18,237,532,094	$113,528,637	98.76%	100.07%
1995	1-1-94	17,350,805,301	82.79%	3,607,783,999	17.21%	20,958,589,300	117,892,065	99.00%	100.10%
1996	1-1-95	19,478,990,278	83.59%	3,824,024,769	16.41%	23,303,015,047	126,908,220	99.03%	99.91%
1997	1-1-96	21,488,717,069	83.21%	4,334,668,188	16.79%	25,823,385,257	135,598,596	98.96%	99.47%
1998	1-1-97	22,693,966,978	82.54%	4,799,091,757	17.46%	27,493,058,735	148,490,010	98.80%	99.37%
1999	1-1-98	27,225,077,724	83.88%	5,233,272,031	16.12%	32,458,349,755	166,900,834	98.89%	99.57%
2000	1-1-99	30,114,175,223	84.58%	5,488,665,103	15.42%	35,602,840,326	179,224,698	99.08%	99.85%
2001	1-1-00	35,257,000,679	85.23%	6,110,383,576	14.77%	41,419,314,286	193,138,262	98.98%	99.60%
2002	1-1-01	40,775,710,666	85.34%	7,007,162,430	14.66%	47,782,873,096	219,657,867	98.81%	99.23%
2003	1-1-02	44,578,140,737	90.61%	6,563,582,942	13.34%	51,141,723,679	235,098,504	98.15% (1)	99.00% (1)
2004	1-1-03	43,038,451,926	87.48%	6,160,956,600	12.52%	49,199,408,526	242,454,685 (2)	N/A	N/A

(1) Estimated collections through June 30, 2003.
(2) July 24, 2003 Certified Tax Roll.

[The remainder of this page is intentionally left blank.]

Tax Rate Limitation

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

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

Under the Tax Code, the City Council is prohibited from adopting a tax rate that will result in any increase in total tax revenue from the preceding fiscal year until it has held a public hearing on the proposed increase following notice to the taxpayers.

Each year the City must calculate and publicize certain information concerning its proposed tax rate, including its "rollback tax rate." The rollback tax rate is the rate that will produce last year's maintenance and operation tax levy multiplied by 1.08 plus a rate that will produce the current year's debt service, with such rates being adjusted to take into account new exemptions and property additions to the tax roll. If the adopted rate exceeds the rollback tax rate, the qualified voters of the City may petition the City Council to call an election to determine whether to reduce the tax rate adopted for the City to the rollback tax rate.

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

[The remainder of this page is intentionally left blank.]

DEBT INFORMATION*

Fiscal Year Ending 09/30	Public Improvement Bonds	Certificates of Obligation	Contractual Obligations	Contract Tax Bonds	Assumed MUDs	The Bonds, Certificates and Contractual Obligations (a)	Grand Total Requirements	Less Self-Supporting Requirements (b)	Net Total Requirements	Percent Principal Payout
2004	$ 73,646,606	$ 12,265,406	$ 9,638,598	$ 160,705	$ 3,453,944	$ 4,522,980	$ 103,688,239	$ 24,325,258	$ 79,362,982	
2005	74,702,394	12,141,951	7,699,600	148,553	2,805,925	4,705,261	102,203,684	24,631,634	77,572,049	
2006	76,646,314	11,728,156	5,163,500	-	2,353,724	7,091,499	102,983,193	21,698,410	81,284,783	
2007	71,274,255	11,789,506	2,753,914	-	1,261,653	7,184,849	94,264,176	19,279,951	74,984,226	
2008	65,799,730	11,797,369	1,897,630	-	1,111,385	7,361,902	87,968,016	18,676,311	69,291,705	33.16%
2009	60,942,018	11,856,789	1,689,187	-	991,463	7,407,674	82,887,129	17,892,497	64,994,632	
2010	62,185,286	11,909,049	742,410	-	997,573	7,456,531	83,290,849	17,729,972	65,560,877	
2011	59,936,411	11,959,289	-	-	1,001,480	6,221,547	79,118,727	15,975,976	63,142,751	
2012	55,442,622	12,016,810	-	-	1,003,240	6,120,648	74,583,319	14,930,257	59,653,063	
2013	51,267,738	11,269,790	-	-	1,017,960	6,168,448	69,723,935	13,753,837	55,970,098	62.91%
2014	48,032,663	8,610,538	-	-	1,214,635	6,191,138	64,048,973	10,780,175	53,268,797	
2015	44,193,485	8,637,393	-	-	1,213,546	6,220,538	60,264,961	10,583,289	49,681,672	
2016	39,606,906	8,705,063	-	-	1,229,024	6,447,501	55,988,494	10,357,363	45,631,131	
2017	35,882,129	8,764,894	-	-	1,011,643	6,457,934	52,116,599	9,996,336	42,120,263	
2018	30,555,263	8,640,906	-	-	716,688	6,464,544	46,377,400	7,744,839	38,632,561	87.16%
2019	29,017,525	6,665,513	-	-	-	6,461,415	42,144,453	6,202,252	35,942,200	
2020	22,882,994	6,191,338	-	-	-	6,452,815	35,527,146	5,910,603	29,616,543	
2021	16,204,888	4,528,238	-	-	-	6,454,025	27,187,150	4,786,039	22,401,111	
2022	8,142,944	2,723,500	-	-	-	6,427,940	17,294,384	3,040,808	14,253,576	
2023	-	-	-	-	-	7,344,080	7,344,080	299,656	7,044,424	100.00%

* As of September 30, 2003

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

(b) Includes principal and interest on all self-supporting debt (see "Statement of Debt", p. 12).

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-02) (in 000's)

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

Taxing Jurisdiction	Total Funded Debt	Estimated % Applicable (2)	Overlapping Funded Debt
City of Austin	$762,624 (1)	100.00%	$ 762,624
Austin Independent School District	504,997	77.06%	389,151
Travis County	461,434	72.00%	332,232
Round Rock Independent School District	368,449	5.39%	19,859
Leander Independent School District	343,254	0.91%	3,124
Pflugerville Independent School District	207,634	3.50%	7,267
Eanes Independent School District	85,035	3.88%	3,299
Williamson County	383,210	2.56%	9,810
Del Valle Independent School District	94,790	3.37%	3,194
Manor Independent School District	34,256	1.80%	617
Austin Community College	55,220	80.10%	44,231
North Austin Municipal Utility District No. 1	13,774	100.00%	13,774
Northwest Austin Municipal Utility District No. 1	13,221	100.00%	13,221
Northwest Travis County Road District No. 3	5,710	100.00%	5,710
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT			$1,608,113

Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (3) 3.37%

Per Capita Overlapping Funded Debt (4) $2,396.43

(1) Excludes general obligation debt for enterprise funds and general fund departments that transfer in from operating budgets.
(2) Source: Taxing jurisdiction.
(3) Based on assessed valuation of $47,782,873,096.
(4) Based on 2002 estimated population of 671,044.

[The remainder of this page is intentionally left blank.]

Authorized General Obligation Bonds

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Brackenridge 2000	10-22-83	$ 50,000,000	$40,785,000	$ 0	$ 9,215,000
Parks Improvements	09-08-84	9,975,000	9,648,000	0	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	0	5,395,000
Street and Traffic Signals	11-03-98	152,000,000	95,582,000	20,915,000	35,503,000
Park and Recreation Facilities	11-03-98	75,925,000	40,250,000	14,475,000	21,200,000
Public Safety Facilities	11-03-98	54,675,000	46,170,000	8,505,000	0
Library, Cultural Arts and Museum	11-03-98	46,390,000	34,845,000	0	11,545,000
Street Improvements	11-07-00	150,000,000	30,000,000	15,000,000	105,000,000
Land Acquisition	11-07-00	13,400,000	10,000,000	3,400,000	0
TOTAL					$188,185,000

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2004. The City continues to review opportunities for refunding certain previously issued general obligation bonds and assumed debt.

Funded Debt Limitation

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

FISCAL MANAGEMENT

The Capital Improvements Program Plan and Capital Budget

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

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

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

2003–2004 Capital Budget

The 2003-2004 five-year Capital Improvement Program (CIP) plan was reviewed by the Planning Commission, the Bond Oversight Committee and other boards and commissions. Public input was received at a public hearing held by the Planning Commission and the Bond Oversight Committee. The plan estimates citywide capital spending in 2003-2004 of $414.0 million in enterprise funds and $164.6 million in general government funds.

The first year of the five-year plan was used to determine the new appropriations required for inclusion in the 2003-04 Capital Budget. Total new proposed appropriation for General Government CIP Funds is $72.2 million and total new proposed appropriation for Enterprise CIP Funds is $401.1 million. Appropriation by department is listed below.

Summary of 2003-2004 Proposed Capital Budget (millions):	
Austin Energy	$126.9
Aviation	10.0
Austin Water Utility	247.3
Community Care Services	1.3
Convention Center	2.5
Golf	0.3
Solid Waste Services	3.0
Watershed Protection	9.8
Enterprise Appropriations	$401.1
Communications & Technology Management	$ 9.1
Economic Growth & Redevelopment Services	2.5
Emergency Medical Services	0.8
Fire	1.1
Financial & Administrative Services	1.3
Health and Human Services	0.4
Library	1.4
Neighborhood Housing & Community Development	1.8
Parks and Recreation	13.4
Public Works	12.7
Transportation, Planning & Sustainability	27.7
General Government Appropriations	$ 72.2
TOTAL PROPOSED NEW APPROPRIATIONS	$473.3

Operating Budget

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

In June 1989, the City Council approved Financial Management Policies, which were last amended in September 2002. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least $15,000,000 shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than $2,000,000, shall be budgeted annually. The 2003-2004 proposed budget complied with these requirements.

2003–2004 Budget (Amounts are in thousands)

The 2003-2004 operating budget was adopted on September 9, 2003, and was prepared in accordance with guidelines provided by the City Council. The adopted budget includes a tax rate of $0.4928 per $100 assessed valuation, which is the effective tax rate. The following is a summary of the adopted 2003-2004 General Fund Budget.

Due to the general economic downturn, and the resulting decrease in assessed valuation, the City Council approved an increase of the effective tax rate for 2003-2004. In addition, expenditures for 2003-2004 were decreased through reductions in departmental budgets. Examples include the elimination of vacant positions and a reduction in administrative costs.

Beginning Balance, October 1, 2003 (Budget Basis) (000's omitted)		$ 29,556
Summary of Budgeted General Fund Resources		
Revenue:		
General Property Taxes	$158,780	
City Sales Tax	111,255	
Other Taxes	3,716	
Gross Receipts/Franchise Fees	27,132	
Miscellaneous	63,145	
Total Revenue		$364,028
Transfers In:		
Electric Light and Power System	$ 76,674	
Water and Wastewater System	19,220	
Other Transfers	1,185	
Total Transfers In		$ 97,079
Total General Fund Resources		$461,107
Summary of Budgeted General Fund Requirements		
Departmental Appropriations:		
Administrative Services	$ 8,713	
Urban Growth Management	10,844	
Public Safety	265,592	
Public Works	9,436	
Public Health and Human Services	26,833	
Public Recreation and Culture	43,375	
Total Departmental Appropriations		$364,793
Transfers Out:		
Support Services Fund	$ 12,722	
Fleet and Vehicle Acquisition Funds	2,386	
Other Funds	68,501	
Total Transfers Out		$ 83,609
Other Requirements		$ 12,705
Total General Fund Requirements		$461,107
Use of Beginning Balance		$ 0
Ending Balance		$ 29,556
Budgeted Reserve Requirements		
Emergency Reserve	$ 15,000	
Contingency Reserve	4,358	
Budget Stabilization Reserve Fund	33,000	
Total Budgeted Reserve Requirements		$ 52,358

Deficit Budgeting

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

Accounting System

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

Article VII, Section 15 of the City's Charter requires an annual audit of all accounts of the City by an independent certified public accountant. This charter requirement has been complied with and the accountant's report is included herein.

Short–Term Borrowing

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

GASB Statement No. 34

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

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, including letters of credit; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corp. or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) local government investment pools organized in accordance with the Interlocal Corporation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract.

Effective September 1, 2003, a political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

Investment Policies

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

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

Current Investments

As of June 30, 2003, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	16.5%
U. S. Agencies	60.2%
Money Market Funds	0.1%
Local Government Investment Pools	23.2%

The dollar weighted average maturity for the combined City investment portfolios is 1.33 years. The City prices the portfolios weekly utilizing a market pricing service.

[The remainder of this page is intentionally left blank.]

GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

	Fiscal Year Ended September 30				
	1998	1999	2000	2001	2002
Revenues:					
Taxes (1)	$190,949	$215,886	$240,664	$251,750	$262,190
Franchise Fees	16,861	19,671	23,699	31,453	29,589
Fines, Forfeitures and Penalties	14,493	16,205	16,040	17,000	17,704
Licenses, Permits and Inspections	15,540	17,252	18,174	17,631	14,670
Charges for Services	10,261	11,534	11,758	14,984	15,579
Interest and Other	13,076	6,362	9,410	10,584	6,028
Total Revenues	$261,181	$286,910	$319,745	$343,402	$345,760
Expenditures:					
Administration	$ 6,697	$ 7,850	$ 8,976	$ 9,426	$ 9,282
Urban Growth Management	8,380	9,129	10,189	11,569	10,882
Public Safety	162,733	173,963	191,592	210,281	237,590
Public Services and Utilities	10,128	11,099	6,098	9,520	9,191
Public Health	37,060	40,678	41,032	41,437	43,655
Public Recreation and Culture	35,862	40,929	44,205	47,460	46,696
Social Services Management	8,205	8,627	9,387	8,071	10,448
Nondepartmental Expenditures	41,130	49,142	53,489	57,857	62,493
Total expenditures	$310,195	$341,417	$364,938	$395,621	$430,237
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	$ (49,014)	$ (54,507)	$ (45,193)	$ (52,219)	$ (84,477)
Other Financing Sources (Uses):					
Transfers from Other Funds	$ 72,721	$ 74,204	$ 78,352	$ 86,283	$ 137,084
Transfers to Other Funds	(9,847)	(26,592)	(31,294)	(29,992)	(9,424)
Net Other Financing Sources	$ 62,874	$ 47,612	$ 47,058	$ 56,291	$127,660
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	$ 13,860	$ (6,895)	$ 1,865	$ 4,072	$ 43,183
Residual Equity Transfer In (Out)	0	0	251	(500)	0
Fund Balances at Beginning of Year, as Restated for Accounting Changes	35,429	49,289	42,394	44,510	50,435 (2)
Fund Balances at End of Year	$ 49,289	$ 42,394	$ 44,510	$ 48,082	$ 93,618

(1) Consists of property, sales and mixed drinks tax.
(2) See "Fiscal Management – GASB Statement No. 34".

[The remainder of this page is intentionally left blank.]

CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

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

Fiscal Year Ended 9–30	Per Capita Sales and Use Tax	(in 000's) Sales and Use Tax	% of Ad Valorem Tax Levy
1993	140.21	$ 67,054	61.62%
1994	149.33	75,780	66.75%
1995	153.77	80,475	68.26%
1996	154.43	83,681	65.94%
1997	157.15	88,150	65.01%
1998	160.44	97,581	65.72%
1999	172.59	106,839	64.01%
2000	194.31	122,157	68.16%
2001	186.23	123,218	63.80%
2002	172.03	115,441	52.55%
2003 (1)	162.29	109,448	46.55%
2004 (2)	162.86	111,255	45.89%

(1) Estimate.
(2) Estimate used in approved Budget.

Transfers From Utility Funds

The City owns and operates a Waterworks and Wastewater System and an Electric Light and Power System, the financial operations of which are accounted for in the Utility Funds. Transfers from the Utility Funds to the General Fund have historically provided a significant percentage of the receipts for operation of the General Fund. The following sets forth the amount of such transfers.

Fiscal Year Ended 9–30	(in 000's) Transfers	% of General Fund Requirements
1993	$68,582	31.9%
1994	67,914	29.9%
1995	71,111	28.5%
1996	73,583	26.0%
1997	71,450	24.6%
1998	72,721	23.4%
1999	74,204	21.7%
2000	78,352	21.5%
2001	85,824	19.9%
2002	88,924	20.0%
2003 (1)	92,417	20.2%
2004 (2)	95,894	20.8%

(1) Estimate.
(2) Estimate used in approved Budget.

ENTERPRISE FUNDS

Summary of Income, Expenses and Changes in Retained Earnings

The Enterprise Funds account for the activities of the City which render services on a user charge basis to the general public. Set forth on pages B-28 and B-29 of APPENDIX B, attached hereto, is a condensed summary of the revenues, expenses, transfers and retained earnings of the City's enterprise funds for the year ended September 30, 2002.

THE ELECTRIC UTILITY SYSTEM

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") which provides the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric services. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The City constructed a new 180 MW gas fired peaking facility in partnership with Enron North America Corporation which became commercial in June 2001. Under the Agreement with Enron, the City will have complete ownership of the plant in November 2003. The Electric Utility System had approximately 1,376 full-time regular employees as of September 30, 2002.

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 ®".

Conventional System Improvements

In September 2003, the 2004-2008 Capital Improvements Spending Plan will be proposed to the City Council. Austin Energy's Fiscal Year 2003-2004 proposed Capital Improvement Spending Plan is $174,700,000. Austin Energy's five year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is provided from current revenues and commercial paper.

Rate Regulation

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

In 1995, PURA was amended as it pertains to the PUCT's original jurisdiction over the City's provision of wholesale transmission service. The PUCT now has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, discriminatory, predatory, or anti-competitive. The PUCT adopted rules relating to wholesale transmission service. The City participated in the rulemaking. The current rules have been challenged in two original petitions filed by Reliant (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 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. However, because the City's ratio of transmission investment has decreased over time, as compared to other transmission providers, the net income received on an annual basis has decreased.

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.

Austin Energy's load represents approximately 4.0% of ERCOT and Austin Energy's transmission cost of service is approximately 4.1% of ERCOT's total transmission cost of service. For 2002, this resulted in net income of $1.2 million dollars from Transmission Cost of Service ("TCOS").

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

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

MOUs Which *Do Not* Choose Retail Competition
– There is no retail choice for MOU customers. MOU cannot sell at retail outside its area.
– Current regulatory scheme continues.
– Continued MOU access to buy and sell power in the wholesale market.

MOUs Choosing Retail Competition On or After January 1, 2002
(City councils or governing boards make an affirmative choice to bring retail competition to their MOU)
– Retail competitors can sell "generation" to MOU customers. MOU provides "wires" access to its distribution system for Retail Electric Providers, other MOUs and Electric Cooperatives. MOU has an "obligation to connect" and provides wire services and local reliability. Wires are not subject to competition.
– MOU can sell at retail outside its service area, per prevailing market rules.

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

Participation By MOU In Markets Outside Its Area
– Limited PUCT jurisdiction over terms and conditions for access not rates.
– Subject to market power limits and PUCT anti-competitive code of conduct.

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

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

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

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

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

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

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

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

On December 20, 1999, the FERC issued "Order No. 2000" (the "Order") related to the formation of voluntary Regional Transmission Organizations (RTOs). The Order requires all utilities subject to the FERC's authority under section 205 (Rates and Charges; Schedules; Suspension of New Rates) and 206 (Fixing Rates and Charges; Determination of Cost of Production or Transportation) of the Federal Power Act to file by October 2000 a proposal to participate in an RTO or an alternative describing plans to participate in an RTO. The essential characteristics of an

RTO are its independence from individual market participants, a regional scope, operational authority of transmission facilities under the RTO's control, and authority over short-term system reliability. The essential functions of an RTO are tariff administration, congestion management, parallel path flow, administering ancillary services, operating Open Access Scheduling Information System ("OASIS"), market monitoring, planning and expansion, and interregional coordination. In their October 2000 compliance filings, utilities proposed RTOs across the country incorporating a wide variety of organizational forms. RTO proposals will be reviewed by the FERC for approval.

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

Environmental

General . . . Austin Energy's Environmental Policy commits that Austin Energy shall maintain its status as a leader in environmental stewardship and continually improve its environmental performance. Austin Energy's operations are subject to environmental regulation by Federal, State and local authorities. Austin Energy has processes in place for assuring compliance with applicable environmental regulations. Austin Energy maintains a staff of educated and trained environmental compliance professionals that are responsible for establishing and maintaining compliance programs throughout the utility. Environmental Services has determined the existing Federal, State and local regulations and routinely track changes to regulations, which affect Austin Energy processes. Austin Energy has prepared documentation which details roles and responsibilities for environmental compliance throughout the organization. Environmental Services staff and facility personnel monitor conformance with the environmental requirements and report deficiencies to facility management. Environmental Services is also responsible for conducting environmental training for the organization.

Air Emissions . . . Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power production facilities. All of Austin Energy's generating units are required to have Federal Operating Permits and Federal Acid Rain Permits, with the exception of the new Sand Hill Energy Center (which is currently being permitted), and all such Austin Energy generating units have been issued Federal Operating Permits and Federal Acid Rain Permits by the Texas Commission on Environmental Quality ("TCEQ"). References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

In 1999, as part of SB 7, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 TAC 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). Austin Energy's units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. SB 7 instituted a "cap and trade" program for NOx emissions. "Grandfathered" units were allocated allowances of NOx based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit. SB 7 permitted units must have enough SB 7 emission allowances available to cover the actual emissions from these units on a yearly basis. If the total NOx emissions from these plants exceed the total system allocation, Austin Energy must purchase the additional allowances needed to cover its emissions. The emission-trading program will also allow Austin Energy to sell in the open market emission allowances derived from excess NOx reductions.

The TCEQ has implemented further NOx reduction rules under 30 TAC 117 which will primarily impact Austin Energy's coal burning Fayette Power Plant Units 1 and 2, in each of which Austin Energy owns a 50% interest. The TCEQ is requiring that "grandfathered units" such as these units reduce NOx to 0.165 lb/mmbtu by 2005. Modifications are currently being made to the units so that they will achieve these emission rates before the compliance deadline. Furthermore, Austin Energy and the co-owner, LCRA, have agreed under a flexible permit arrangement with the TCEQ and EPA to place scrubbers on Units 1 and 2 within the next 10 years. In return, Fayette Power Plant is allowed to make modifications and perform maintenance on the units without having to first obtain permission from TCEQ.

Water

Wastewater discharges are regulated pursuant to the Clean Water Act National Pollution Discharge Elimination System ("NPDES"). Storm water run-off is similarly regulated. The EPA has granted the TCEQ authority to implement these programs in Texas. All of Austin Energy's power generation facilities have NPDES and Storm water Permits, which require monitoring and limitations of discharges. EPA has also developed proposed regulations for cooling water intake structures on existing facilities. These proposed regulations will affect all Austin Energy power plants, but the extent cannot be determined at this time due to litigation between utilities and EPA on the rulemaking.

Other

Austin Energy has implemented a program for removing distribution electrical equipment at risk for having polychlorinated biphenyls (PCBs) from its service area. Austin Energy crews are testing electrical equipment for PCBs and removing equipment found to have PCBs. Furthermore, substation equipment and soils are routinely tested prior to construction activities in the event that there is contamination from historical activities. Austin Energy will complete the decommissioning of the Seaholm Power Plant in the next year, which includes the removal of power plant equipment and contaminated concrete.

Austin Energy will continue to make the necessary changes to assure future compliance with the evolving regulatory requirements. Non-compliance with environmental standards or deadlines could result in reduced operating levels. Further compliance with environmental standards or deadlines could increase capital and operating costs.

Nuclear

The City owns 16% of the two-unit South Texas Project ("STP") nuclear power plant. The other STP participants are Texas Genco, L.P. (30.8% ownership), City Public Service of San Antonio (28% ownership) and AEP Texas Central Company (25.2% ownership).

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

STP is still protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors expired on August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $9.34 billion per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $83.9 million, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $400 million for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers' compensation system as sole remedy and bring suit against another party.

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

The owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses. The $2.75 billion of nuclear property insurance consists of $500 million in primary property damage insurance and $2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $12.9 million during any one-policy year.

Finally, the NRC maintains its regulations setting forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the required report to the NRC and determined that the minimum amount for decommissioning 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, National Association. The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at September 30, 2002 was $81,726,716. For Fiscal Year 2003, Austin Energy estimates that it will continue to collect approximately $4,958,221 for decommissioning expense.

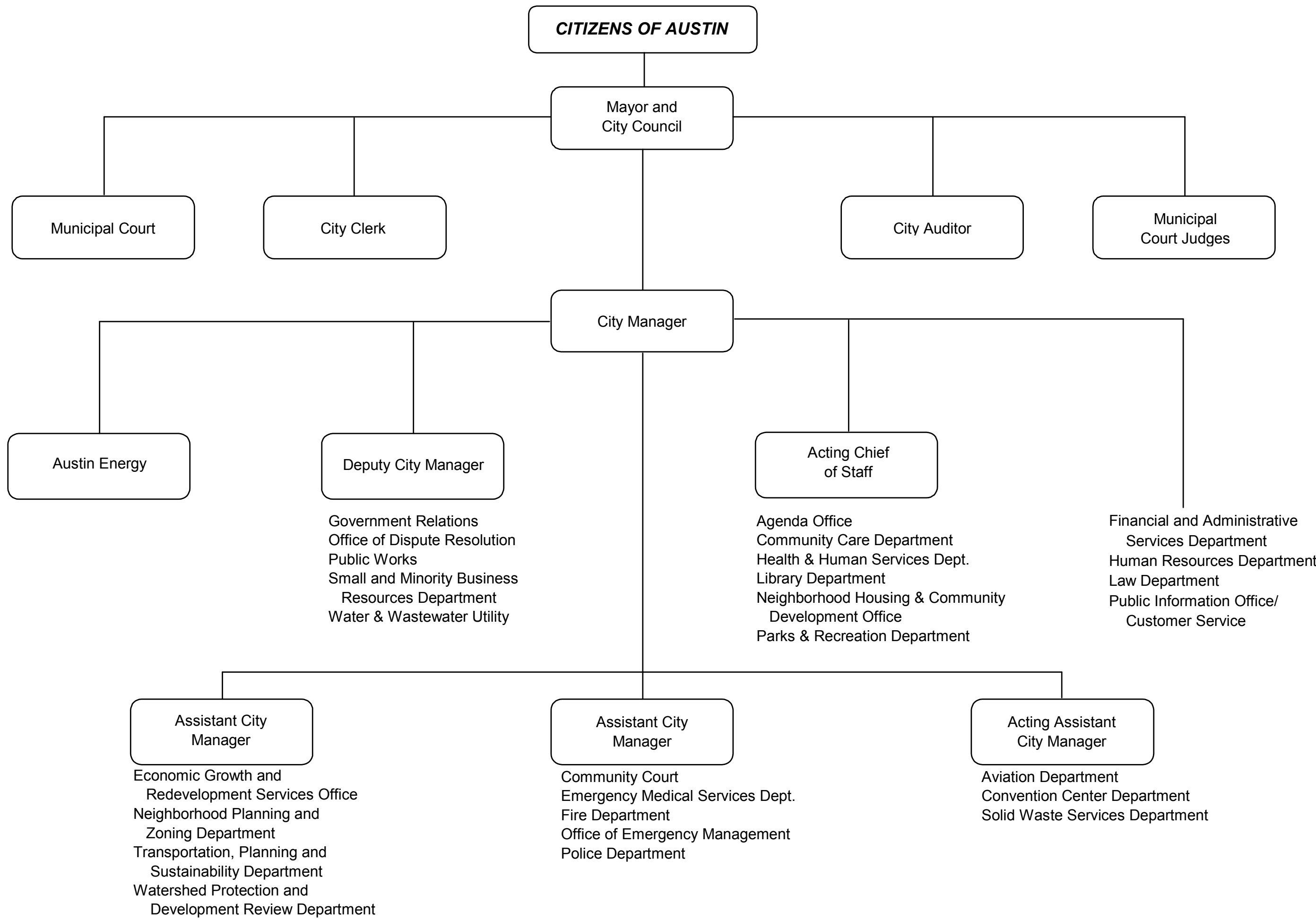
Recent Developments

During a routine refueling and maintenance outage for Unit 1 (1RE11), on April 12, 2003, a visual inspection of the bottom-mounted instrumentation (BMI) sleeves on the bottom of the reactor pressure vessel identified a small amount of white residue around penetration number 46. A subsequent inspection found residue on penetration number 1 as well. A team of engineers and chemists reexamined all of the instrument guide tubes, and no additional residue was found. The South Texas Project Nuclear Operating Co. (STPNOC), which runs the plant, developed a corrective plan for the repair, which was reviewed and approved by the Nuclear Regulatory Commission (NRC). In order to assure that the repairs were completed in a safe and effective manner, Unit 1 was shutdown. The STPNOC got approval from the NRC to restart the reactor after repairs were completed in July 2003 and the unit was at full power on August 14, 2003. The outage costs did not have materially adverse effects on the financial position or operations of Austin Energy.

[The remainder of this page is intentionally left blank.]

CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

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

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

City Manager – Toby Hammett Futrell

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

Acting Director of Financial Services – Vickie Schubert, CPA

Ms. Schubert received her Bachelor of Business Administration from the University of Texas at Austin. Ms. Schubert has served as Deputy City Auditor, Controller, Chief Financial Officer for Infrastructure Support Services and Deputy Director of Financial Services during her tenure with the City of Austin. Ms. Schubert also worked as Director of Administration for the State Public Utility Commission. She was appointed Acting Director of Financial Services in April 2002.

Services Provided by the City

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

Employees

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

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

Annexation Program

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

If the annexation service plan for an annexation area includes a schedule for the provision of full municipal services, the City has two and one-half years from the date of the annexation to substantially complete the capital improvements necessary to provide services to the area. However, if necessary, the City may propose a longer schedule. A wide range of services – police and fire protection, sanitation, and maintenance of public facilities such as water and wastewater facilities, 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.

Some of the areas which may be considered for annexation will include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes. Existing utility districts, as well as those that may be created from time to time, may issue bonds for their own improvements.

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

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

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

The following table sets forth (in acres) the annual results of the City's annexations since 1993. Negative numbers reflect disannexations in excess of acreage annexed.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
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	15
2002	2,019	1,957

(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

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

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

The 1998 re-annexation of the Harris Branch MUDs added $50.4 million in 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. Some of the 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. There are no longer any challenges to the 1997 annexations of the Circle C MUDs.

Future Annexation

In the next few years a number of areas previously annexed for limited purposes will be converted to full purpose status. Areas covered by strategic partnership agreements ("SPAs") will also be annexed as well as areas included in the City's Municipal Annexation Plan. In December 2002, the City and Springwoods MUD amended the SPA that previously scheduled full purpose annexation of the area in 2002. The most significant of the identified future annexation areas are shown below:

- Avery Ranch – sections of limited purpose area will continue to be converted to full purpose status;
- Motorola Campus – limited purpose area with conversion in September 2003;
- Onion Creek Annexation Area – December 2003;
- Anderson Mill MUD and adjacent areas – Current SPA anticipates annexation in September 2004. The agreement may be renegotiated.;
- Wildhorse Ranch – limited purpose area with conversions to full purpose expected to begin in 2004;
- Walnut Creek Area – Petitioned to be annexed by December 2005; and
- Springwoods MUD and adjacent areas – annexation postponed until December 2007 per terms of the amended SPA (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects).

Pension Plans

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

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

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund over 18.8 years and the Firefighter's Fund over 26.5 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2002, was $1,440,198,646. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2001, was $347,548,000. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2001, was $406,266,000. Actuarial studies were performed for the Police Officer' Fund and Firefighter's Pension Fund as of December 31, 2001, and the Municipal Employees Fund as of December 31, 2002. The Municipal Employees Fund had an infinite funding period at year end 2002, and various methods of restoring actuarial soundness are currently being evaluated. See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees. Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these benefits. Post retirement benefits include health insurance and $1,000 of life insurance for the retired employee only. The City pays a portion of the retiree's medical insurance premiums and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection and years of service.

The City recognizes the cost of providing these benefits to employees and retirees by expensing the City contributions to the Health Benefits Fund in the year in which the contributions are made. Total contributions were $49,954,176 in 2002 and $39,444,283 in 2001. The cost for providing those benefits for 2,135 retirees and 9,928 active employees in 2002 and 2,090 retirees and 9,713 active employees in 2001 is not separable.

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 $21.9 million for claims and damages at the end of fiscal year 2002. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Employee Benefits Fund.

CONTINUING DISCLOSURE OF INFORMATION

In each of the Ordinances, the City has made the following agreement for the benefit of the respective holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports – The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all the quantitative financial information and operating data with respect to the City of the general type included (i) in the portions of the financial statements of the City appended to the Official Statement as APPENDIX B, but for the most recently concluded fiscal year end and (ii) in the main text of the Official Statement under the subcaptions: "Tax Valuation" with respect to the appraised value as of January 1 during the fiscal year as to which such annual report relates, "Valuation and Funded Debt History," "Tax Rates, Levy and Collection History," "Ten Largest Taxpayers," "Property Tax Rate Distribution," "Current Investments," "General Fund Revenues and Expenditures and Changes in Fund Balance," "Municipal Sales Tax," and "Transfers From Utility Funds". The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year ending in or after 2003 unless otherwise noted above. The City will provide the update information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2–12 (the "Rule"). The update information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial statements by that time and will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year is October 1 to September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notice – The City will also provide timely notices of certain events relating to the Bonds 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 Tax-Exempt Obligations; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasance; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes with respect to the Bonds. 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 to NRMSIRs and any SID only. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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

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

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

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

TAX MATTERS RELATING TO THE TAX-EXEMPT OBLIGATIONS

Opinion

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE ANY OF THE TAX-EXEMPT OBLIGATIONS.

Interest on the Tax-Exempt Obligations will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding $175,000), of the taxpayer’s “alternative minimum taxable income,” if the amount of such alternative minimum tax is greater than the taxpayer’s regular income tax for the taxable year.

Interest on the Tax-Exempt Obligations may be subject to the “branch profits tax” imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

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

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

State, Local and Foreign Taxes

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

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS RELATING TO THE TAXABLE BONDS

General

The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Series 2003A Bonds (referred to herein as the "Taxable Bonds"). It is based in part on an opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, and on the Code, the regulations promulgated thereunder, published revenue rulings and court decisions currently in effect, all of which are subject to change. The Internal Revenue Service has not yet issued regulations or rulings relating to the treatment of obligations such as the Taxable Bonds, and as such said opinion and this summary of federal income tax consequences are subject to modification by the eventual issuance of regulations or rulings or by subsequent administrative or judicial interpretation, which could apply retroactively.

The following discussion is applicable to investors other than those investors who are subject to special provisions of the Code, such as life insurance companies, tax-exempt organizations, foreign taxpayers and taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code. This summary is further limited to investors who will hold the Taxable Bonds as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. **INVESTORS WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TAXABLE BONDS IN THEIR PARTICULAR CIRCUMSTANCES BEFORE DETERMINING WHETHER TO PURCHASE THE TAXABLE BONDS**.

Periodic Interest Payments and Original Issue Discount

On the date of issue, Bond Counsel will render an opinion that the Taxable Bonds are not obligations described in section 103(a) of the Code. Accordingly, the stated interest paid on the Taxable Bonds or original issue discount, if any, accruing on the Taxable Bonds will be included in "gross income" within the meaning of section 61 of the Code of the owners and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to the owner thereof.

Disposition of Taxable Bonds

An owner will recognize gain or loss on the redemption, sale or exchange of a Taxable Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the Taxable Bond. Generally, the owner's tax basis in the Taxable Bond will be the owner's initial cost. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Taxable Bond has been held for more than one year.

Under current law, purchasers of the Taxable Bonds who do not purchase the Taxable Bonds in the initial public offering at the initial public offering price (a "subsequent purchaser") will generally be required, on the disposition of a Taxable Bond, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount". Market discount is the amount by which the price paid for a Taxable Bond by a subsequent purchaser is less than the Taxable Bond's "stated redemption price at maturity" (or, in the case of a Taxable Bond issued at an original issue discount, if any, the Taxable Bond's "revised issue price"). In such instances, section 1277 of the Code also may apply so as to defer the deductibility of all or a portion of the interest incurred by a subsequent purchaser with respect to amounts borrowed to acquire a Taxable Bond with market discount.

Required Reporting to Internal Revenue Service

Subject to certain exceptions, interest payments made to the owners with respect to the Taxable Bonds will be reported to the Internal Revenue Service. Such information will be filed each year with the Internal Revenue Service on Form 1099 which will reflect the name, address and taxpayer identification number of the registered owner. A copy of Form 1099 will be sent to each registered owner of a Taxable Bond for federal income tax reporting purposes.

Other Federal Income Tax Consequences

The Code requires debt obligations, such as the Taxable Bonds, to be issued in registered form and denies certain tax benefits to the issuer and the holders of obligations failing this requirement. The City shall issue the Taxable Bonds in registered form.

Interest paid to an owner of a Taxable Bond ordinarily will not be subject to withholding of federal income tax if such owner is a United States person. A United States person, however, will be subject to withholding of such tax at a rate set forth in section 3406 of the Code. This withholding generally applies if the owner of a Taxable Bond (i) fails to furnish to the issuer such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the issuer an incorrect TIN, (iii) fails to report properly interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the issuer or such owner's broker with a certified statement, signed under penalty or perjury, that the TIN provided to the issuer is correct and that such owner is not subject to backup withholding.

Holders of the Taxable Bonds should be aware that for federal income tax purposes, the deposit by the City of monies or Defeasance Obligations (see "OBLIGATION INFORMATION" – Defeasance of Obligations") with a paying agency, in trust (a "defeasance") could result in the recognition by the holder of taxable income (or loss), without any corresponding receipt of monies by the holder. In addition, for federal income tax purposes, the character and time of receipt of payments on the Taxable Bonds subsequent to any such defeasance also could be affected. Holders are advised to consult their own tax advisors with respect to the tax consequences resulting from such events.

State and Local Taxes and Foreign Persons

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

OTHER RELEVANT INFORMATION

Ratings

The Obligations have received ratings of "AA+" by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies ("S&P"), "AA+" by Fitch Ratings, Inc. ("Fitch") and "Aa2" by Moody's Investors Service, Inc. ("Moody's"). The Series 2003 Bonds maturing in each of the years 2015 through 2020, inclusive, will be rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch as a result of the FGIC Insurance Policy. See "INSURANCE". The Certificates will be rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch as a result of the MBIA Insurance Policy. See "INSURANCE". The presently outstanding tax supported debt of the City is rated "Aa2" by Moody's, "AA+" by S&P and "AA+" by Fitch. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Obligations. The City will undertake no responsibility to notify the owners of the Obligations of any such revisions or withdrawal of ratings.

Litigation

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

Registration and Qualification

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Obligations (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Obligations are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Obligations may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

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

Legal Opinions and No–Litigation Certificate

The City will furnish complete transcripts of proceedings had incident to the authorization and issuance of the Obligations including the unqualified approving legal opinions of the Attorney General of the State of Texas approving the issuance of each series of the Obligations, and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Tax-Exempt Obligations will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS RELATING TO THE TAX-EXEMPT OBLIGATIONS" herein, including the alternative minimum tax consequences for corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Obligations or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Obligations will also be furnished. Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Obligations in the Official Statement to verify that such description conforms to the provisions of the Ordinances. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of each series of the Obligations are contingent on the sale and delivery of the Obligations. In connection with the transactions described in this Official Statement, Bond Counsel represents only the City. Bond Counsel expresses no opinion with respect to the insurance policies issued in support of the Certificates and certain maturities of the Series 2003 Bonds.

Financial Advisor

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

Authenticity of Financial Data and Other Information

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

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Ordinances adopted by the City Council on September 9, 2003.

/s/Will Wynn
Mayor
City of Austin, Texas

ATTEST:

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

APPENDIX A

General Information Regarding the City

The following information has been presented for informational purposes only.

Austin's Government, Economy and Outlook

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six Councilmembers. The Mayor and Councilmembers are elected at large for three-year staggered terms, with a maximum of two consecutive terms. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs.

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

Austin is frequently recognized as a great place to live and/or work, with one of the most recent commendations in *Money* magazine's 16th Annual "Ten Best Places to Live in America," where Austin is ranked eighth. Austin has long attracted a variety of people, and the reasons that draw people to the City are varied. The area has a natural beauty and a first-rate parks department that administers a number of public outdoor recreational facilities, including neighborhood parks, greenbelts, athletic fields, golf courses, tennis courts, a veloway for bicyclists and in-line skaters, miles of hike and bike trails and striped bike lanes, a youth entertainment complex and swimming pools.

Residents of Austin enjoy many outdoor events, including art, music, and food and wine festivals; races and bicycle rides; and the nightly flights of the world's largest urban bat colony. Indoor events vary from music to museums to ice hockey, art galleries, an opera facility and a wide variety of restaurants and clubs. Long recognized as the "live music capital of the world," Austin boasts more than 100 live music venues, and is home to the annual South by Southwest (SXSW) music and film festivals each Spring.

The educational opportunities in Austin have long drawn people to the City. Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with more than 30% of its adults having a college degree and over 88% of the workforce having some college education. With its seven institutions of higher learning and more than 94,000 students, education is a significant aspect of life in the Austin area. The University of Texas at Austin (UT), the largest public university in the nation, is known as a world-class center of education and research.

During the 1990s, over 280,000 jobs were created in Austin; unemployment dropped to less than 2 percent in 2000. Since then, Austin and the Central Texas area have been hit hard by the technology slump. Unemployment in the area has increased sharply over the last two years. Austin's unemployment rate averaged nearly 5% during 2002, with almost 24,000 people unemployed. Statewide unemployment was almost 6 percent.

Layoffs and the nationwide slump in tourism have negatively impacted both sales tax and hotel tax revenues. Sales tax revenue for the City in 2002 declined by 6 percent from the prior year and hotel occupancy taxes declined by 20 percent. Early 2003 collections show a decline in sales tax revenues, and an increase in hotel occupancy tax revenues. Property taxes for 2003 may be negatively impacted by lawsuits filed against the appraisal district; the suits challenge the appraisal district's property valuations for many businesses. If the challenges are successful, they could result in decreased tax revenue next year for all local taxing jurisdictions, including the City.

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

With these experiences, City management implemented savings efforts early in 2002, and successfully reduced expenditures during the year, with a focus on reducing administrative costs. The savings efforts concentrated on holding vacant positions open and on identifying savings opportunities. As part of the 2003 budget, over 300 vacant positions were cut from the budget. Early economic forecasts indicated 2003 to be a transition year, with the Austin area expected to experience a modest recovery. Early 2003 indicators, however, show a delay in the recovery. Moving into 2003, sales taxes continued to drop. City management is taking steps to reduce expenditures for 2003 by implementing a hiring freeze and developing plans to achieve operational efficiencies.

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

Major Initiatives and Achievements

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

Health and Safety Projects . . . Brackenridge Hospital is operated by the Daughters of Charity under a lease agreement with the City. The City is constructing and will operate a hospital on the fifth floor of Brackenridge Hospital. The new hospital will maintain access for anyone in need of reproductive health care services; maintain seamless delivery of services; and maintain the high quality of care available at Brackenridge Hospital. The facility is expected to open in October 2003.

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

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

Convention and Cultural Projects . . . The Convention Center expanded facilities during 2002, with three additions: the Austin Convention Center expansion that doubled the size of the Center; the Palmer Events Center that is a new facility with 131,000 square feet, including 70,000 square feet of exhibit space; and the Palmer Events Parking Garage that is a four-story parking structure. The Events Center and parking garage were funded by a 5% rental car tax. An 800 room Convention Center Hotel is scheduled for completion in January 2004.

Hotel Occupancy Tax collections are affected by the number of rooms available, the level of occupancy and the average room rate charged. The Austin Convention and Visitor's Bureau reports that city-wide occupancy for the January 2003 through May 2003 period was 59.5% with an average room rate for the period of $79.74. Several hotels were built in the City during the 1990s. There are approximately 22,500 rooms available city-wide with another 800 projected to become available in early 2004 due to opening of the new Hilton Hotel adjacent to the Austin Convention Center.

The City continues with building a new City Hall and Public Plaza scheduled for completion in the Fall of 2004, which will be Austin's newest landmarks. The City Hall will overlook lovely Town Lake. New State legislation in 2001 allowed for use of the Construction Manager At-Risk model, in which the construction manager selection is based on qualifications and experience, and is not limited to the low-bid method of selection. The City has selected Hensel Phelps Construction Co. of Austin as the construction manager for the City Hall. Construction of the City Hall parking garage was completed in 2002.

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

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

Utility Projects . . . Austin Energy, the City's electric utility, continues to prepare for possible deregulation. Deregulation allows Texas residents and businesses served by utilities participating in deregulation to choose the supplier from which they purchase their electricity. The local electric utility continues to deliver the electricity. Deregulation began in Texas on January 1, 2002 for all private electric utilities. These utilities, owned by stockholders, are called investor-owned utilities (IOUs). Electric cooperatives (Co-ops) and city-owned electric utilities (called municipally owned utilities or MOUs) such as Austin Energy can participate, or "opt-in," by a vote of their board or City Council. Once the City Council votes to participate in deregulation, it cannot later withdraw. The City has not "opted-in", but does continue to prepare for that possibility. A key step in preparation for deregulation was to begin moving from issuing combined utility debt (combined electric and water and wastewater) to issuing debt specific to the electric utility. To proceed towards that goal, Austin Energy issued $182.1 million Electric Utility System revenue refunding bonds and refunded $87.3 million Combined Utility System revenue bonds during 2003.

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

Status of City Services . . . Since 1997, the City has conducted two surveys: Citizen Satisfaction and Survey of City Priorities. Highlights of the most recent surveys are as follows:
- 97% of citizens express satisfaction with the services provided by Fire and EMS;
- 91% of citizens are satisfied with 911 services;
- 85% of citizens are satisfied with the services and programs provided by the Parks and Recreation Department;
- 87% of citizens are satisfied with the recycling services provided and 81% are satisfied with the garbage pickup;
- Based on the most current information, Austin has the lowest infant mortality rate of the major cities in Texas;
- 75% of citizens are satisfied with the health care available in Austin for low-income individuals; and
- Austin has the lowest property tax rate of the five major Texas cities.

[The remainder of this page is intentionally left blank.]

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

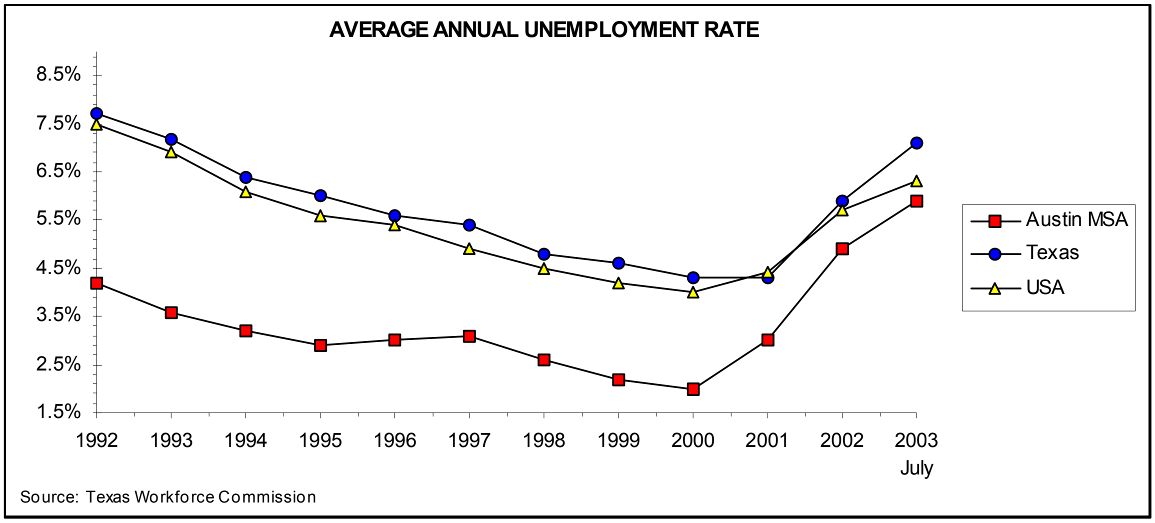
Industrial Classification	1980	% of Total	1990	% of Total	2001	% of Total	2002	% of Total	June 30, 2003	% of Total
Manufacturing	31,014	12.8%	49,300	12.6%	86,500	12.9%	71,200	10.6%	60,100	9.0%
Government	78,263	32.3%	110,400	28.8%	140,700	20.9%	147,900	22.1%	146,700	22.1%
Trade	51,852	21.4%	78,400	20.4%	154,600	22.9%	153,100	22.8%	101,200	15.2%
Services and Miscellaneous	44,826	18.5%	97,200	25.3%	207,900	28.9%	201,800	30.1%	247,600	37.2%
Finance, Insurance and Real Estate	14,296	5.9%	23,400	6.1%	33,000	4.9%	34,100	5.1%	38,100	5.7%
Contract Construction	14,053	5.8%	12,000	3.1%	39,700	6.0%	39,800	5.9%	36,700	5.7%
Transportation, Communications and Utilities	7,269	3.0%	12,100	3.2%	22,440	3.3%	20,700	3.1%	32,100	4.8%
Mining	727	0.3%	700	0.2%	1,600	0.2%	1,700	0.3%	1,700	0.3%
Total	242,300	100.0%	383,500	100.0%	686,400	100.0%	670,300	100.0%	665,400	100.0%

(a) Austin MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided. Numbers for 2003 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of June 30, 2003.

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

[The remainder of this page is intentionally left blank.]

Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1992	4.2%	7.7%	7.5%
1993	3.6%	7.2%	6.9%
1994	3.2%	6.4%	6.1%
1995	2.9%	6.0%	5.6%
1996	3.0%	5.6%	5.4%
1997	3.1%	5.4%	4.9%
1998	2.6%	4.8%	4.5%
1999	2.2%	4.6%	4.2%
2000	2.0%	4.3%	4.0%
2001	3.0%	4.3%	4.4%
2002	4.9%	5.9%	5.7%
2003 July	5.9%	7.1%	6.3%

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

City Sales Tax Collections (In Millions)

Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount
1-1-99	$ 7.596	1-1-00	$ 9.115	1-1-01	$ 9.298	1-1-02	$ 8.723	1-1-03	$ 8.249
2-1-99	12.450	2-1-00	12.565	2-1-01	13.733	2-1-02	13.405	2-1-03	11.463
3-1-99	7.581	3-1-00	9.078	3-1-01	9.169	3-1-02	8.345	3-1-03	8.218
4-1-99	7.507	4-1-00	8.363	4-1-01	9.243	4-1-02	8.322	4-1-03	7.981
5-1-99	10.290	5-1-00	11.500	5-1-01	12.091	5-1-02	10.746	5-1-03	10.644
6-1-99	8.253	6-1-00	9.344	6-1-01	9.199	6-1-02	9.253	6-1-03	8.519
7-1-99	8.008	7-1-00	9.651	7-1-01	9.605	7-1-02	9.287	7-1-03	7.845
8-1-99	11.046	8-1-00	11.768	8-1-01	11.456	8-1-02	10.289	8-1-03	10.414
9-1-99	8.375	9-1-00	9.220	9-1-01	9.279	9-1-02	8.695		
10-1-99	9.853	10-1-00	9.938	10-1-01	8.974	10-1-02	8.884		
11-1-99	11.987	11-1-00	10.463	11-1-01	10.260	11-1-02	10.157		
12-1-99	9.713	12-1-00	9.746	12-1-01	9.142	12-1-02	8.859		

Source: City of Austin, Budget Office.

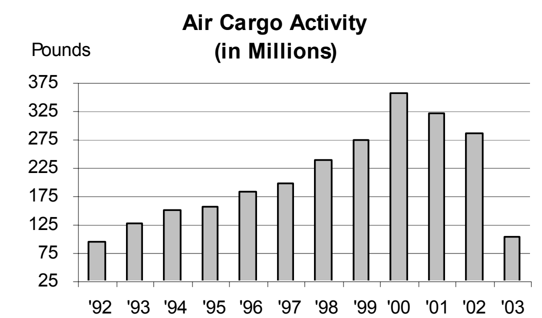
Ten Largest Employers (As of September 30, 2002)

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

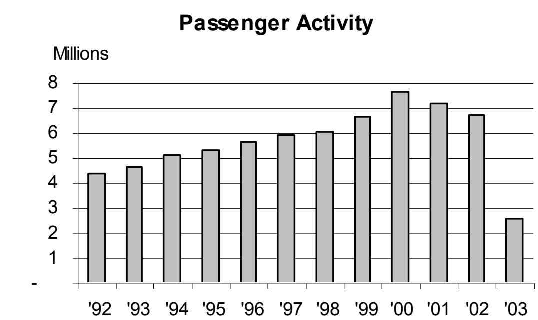
Source: 2002 Comprehensive Annual Financial Report.

Transportation - Austin-Bergstrom International Airport

The following charts reflect enplaned and deplaned passengers.



Source: City of Austin Aviation Department. 2003 through May.



Source: City of Austin Aviation Department. 2003 through May.

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 (includes Mesa Airlines), Continental (includes Express Jet), Delta (includes SkyWest and Atlantic Southwest Airlines), Frontier (includes Frontier West), Mexicana (includes Aerocaribe), Northwest, Southwest and United. Direct service is available to 28 major U.S. destinations.

Growth Indicators

Austin has experienced considerable growth as evidenced by the following utility connection, building permit and population statistics, though the rate is currently declining.

Population

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

(1) All years are estimates from the City's Department of Development and Review based on full purpose area as of December 31. Census years are modified to conform to U.S. Bureau of the Census data.
(2) U.S. Bureau of the Census official estimates as of July 31, except for census years; 2000 data available April 2001.

Connections and Permits

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

Source: 2002 Comprehensive Annual Financial Report.

Wealth and Income Indicators

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

Effective Buying Income and Retail Sales

Area	Median Household EBI	Per Capita EBI	% of Households by EBI Group* A	B	C	D	Per Capita Retail Sales
City of Austin	$47,089	$25,109	16.7%	19.8%	17.1%	46.4%	$32,073
Austin MSA	49,077	24,227	16.1%	18.7%	16.4%	48.8%	23,819
Texas	38,669	18,279	22.8%	22.7%	18.0%	36.5%	13,236
USA	38,365	18,491	22.0%	23.5%	19.3%	35.3%	12,646

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

Housing Units

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

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1992	8,503	$ 887,249,588	$104,345
1993	9,926	1,139,100,456	114,759
1994	10,571	1,272,585,426	120,385
1995	11,459	1,439,915,043	125,658
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,712	3,695,349,201	197,486
2003 (June)	8,703	1,717,401,491	194,334

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

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
1992	82.6%
1993	86.3%
1994	87.9%
1995	88.4%
1996	92.2%
1997	94.7%
1998	93.4%
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.0%
2003 (2nd Quarter)	76.3%

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

Education

The Austin Independent School District had an enrollment of 78,308 for the Fall of 2002. This reflects an increase of 0.28% in enrollment from the Spring of 2001. The District includes 107 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	77,050	72,076
2001/02	77,265	72,115
2002/03 (1)	77,009	72,494

(1) Sixth Six Weeks.
Source: Austin Independent School District.

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

The University of Texas at Austin had an enrollment of 52,261 for the fall semester of 2002 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were $2.4 billion in 2001. There are more than 22,000 hotel rooms available within the Austin Metropolitan Area, as of June 2002. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. Through the first half of 2003 the citywide occupancy rate for the Austin area was nearly 60 percent, with an average room rate of $80.00.

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

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX B

Excerpts From the Annual Financial Report

[This page intentionally blank.]

KPMG

111 Congress Avenue
Suite 1100
Austin, TX 78701

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Austin, Texas ("City"), as of and for the year ended September 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents under "Basic Financial Statements". These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis on pages 3 through 14 and the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - Budget Basis on pages 94 through 95 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
January 31, 2003

This page intentionally blank.

This section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

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

FINANCIAL HIGHLIGHTS

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, which consist of three components:

- government-wide financial statements,
- fund financial statements and
- notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statement, including information on individual funds.

a -- Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner comparable to a private-sector business. The two government-wide financial statements are, as follows:

- The ***statement of net assets*** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

- The ***statement of activities*** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; transportation, planning and sustainability; public health; public recreation and culture and urban growth management. The business-type activities of the City include electric utility, water and wastewater utility, airport, convention and others.

The government-wide financial statements include the City as well as blended component units, the Austin Housing Finance Corporation (AHFC) and the Austin Industrial Development Corporation (AIDC). The operations of AHFC and AIDC are included within the governmental activities of the government-wide financial statements. AHFC is reported as the Housing Assistance Fund. Although legally separate from the City, these component units are blended with the City because of their governance or financial relationships to the City.

b -- Fund Financial Statements
The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental, proprietary and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds, which focus on how cash and other financial assets can readily be converted to available resources and on the available balances left at the year-end. This information may be useful in determining what financial resources are available in the near future to finance the City's programs. Other funds are referred to as nonmajor funds and are presented as summary data.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance separate statements are provided that reconcile between the government-wide and fund level statements.

The City's General Fund is considered a major fund, and information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances. In addition, the City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Data from these governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers —either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the City's three major funds, Electric, Water and Wastewater and Austin-Bergstrom International Airport (Airport), as well as the nonmajor enterprise funds.

- Internal Service funds are used to report activities that provide supplies and services for many City programs and activities. The City uses internal service funds to account for Capital Projects Management, Employee Benefits, Fleet Maintenance, Information Systems, Liability Reserve, Support Services, Wireless Communication and Workers' Compensation. Because these services benefit governmental operations more than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The nonmajor enterprise funds and the internal service funds are combined into two aggregated presentations in the proprietary fund financial statements. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Comparison of Government-wide and Fund Financial Components. The following chart compares how the City's funds are included in the government-wide and fund financial statements:

Fund Types / Other	Government-wide	Fund Financials
General Fund	Governmental	Governmental
Special revenue funds	Governmental	Governmental - Nonmajor
Debt service funds	Governmental	Governmental - Nonmajor
Capital project funds	Governmental	Governmental - Nonmajor
Permanent funds	Governmental	Governmental - Nonmajor
Internal service funds	Governmental	Proprietary
Assets previously reported in General Fixed Asset Group	Governmental	Excluded
Infrastructure assets	Governmental	Excluded
Liabilities previously reported in General Long-Term Debt Group	Governmental	Excluded
Electric	Business-type	Proprietary
Water and wastewater	Business-type	Proprietary
Airport	Business-type	Proprietary
Other enterprise funds	Business-type	Proprietary - Nonmajor
Fiduciary funds	Excluded	Fiduciary

Basis of Reporting - The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and on full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

c -- Notes to the Financial Statements
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net Assets
Combined net assets of the City were, as follows (in thousands):

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

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $3.4 billion at the close of the current fiscal year. However, the largest portion of the City's net assets are restricted as to use or are invested in capital assets (e.g. land, building, and equipment - 68%), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net assets, $231 million (7%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $865 million (25%), may be used to meet the government's ongoing obligations to citizens and creditors.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets

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

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

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

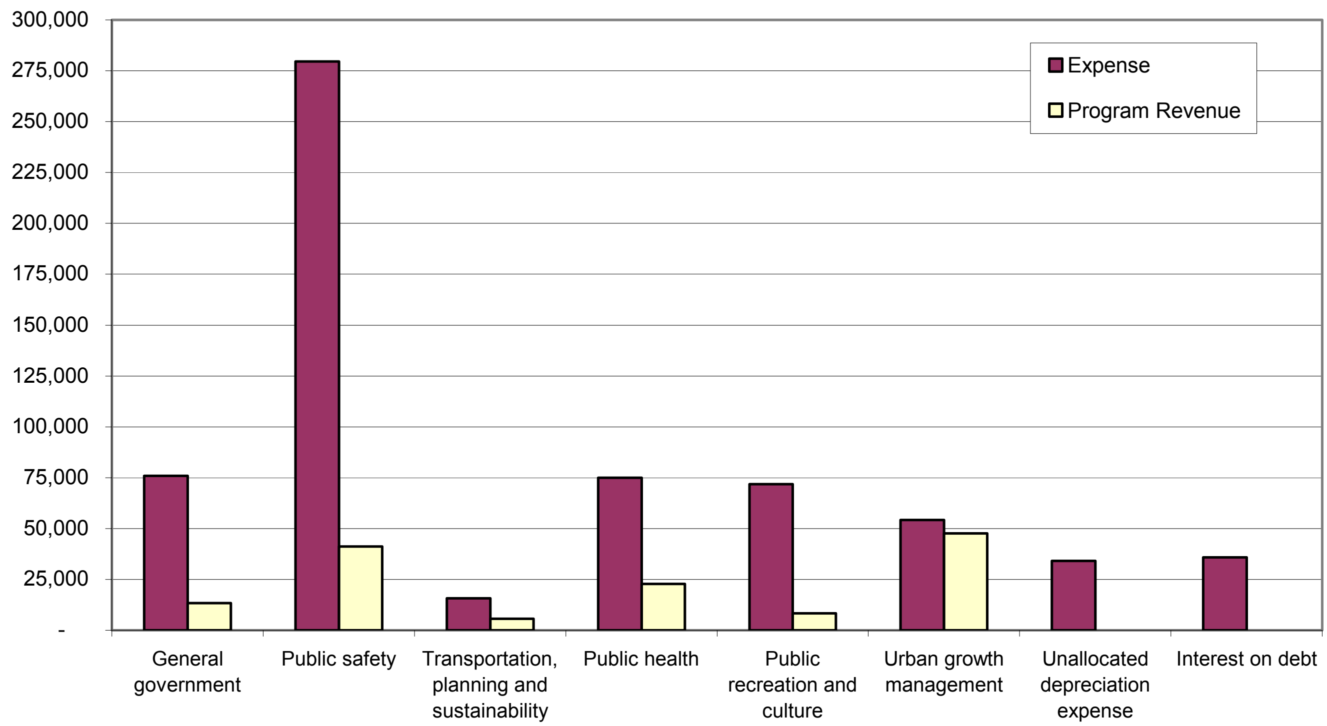
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

c -- Program Revenues and Expenses– Governmental Activities
Governmental activities increased the City's net assets by $42.5 million, thereby accounting for 34% of growth in the net assets of the City. Key factors of this increase are as follows:

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

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

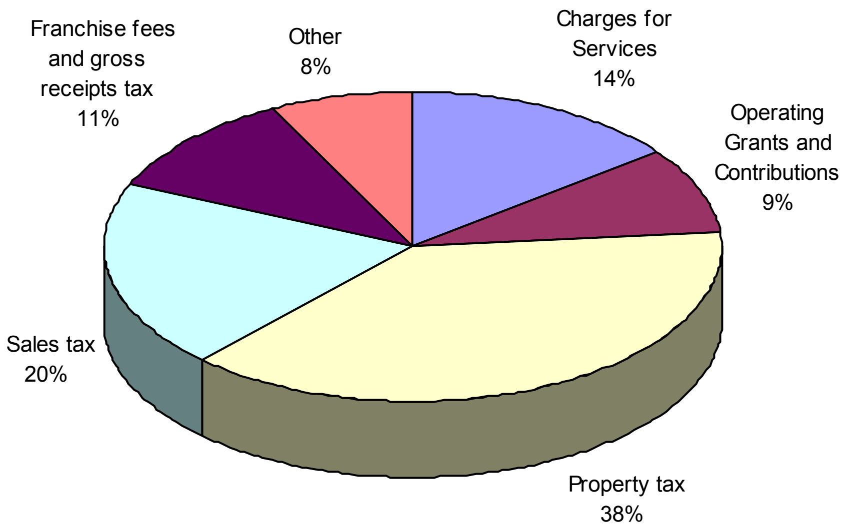
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

General revenues such as property taxes, sales taxes and franchise fees are not shown by program, but are used to support program activities citywide. For governmental activities, without regard to program, property taxes are the largest source of revenue, followed by sales taxes and charges for services.

Government-wide Revenues by Source -- Governmental Activities



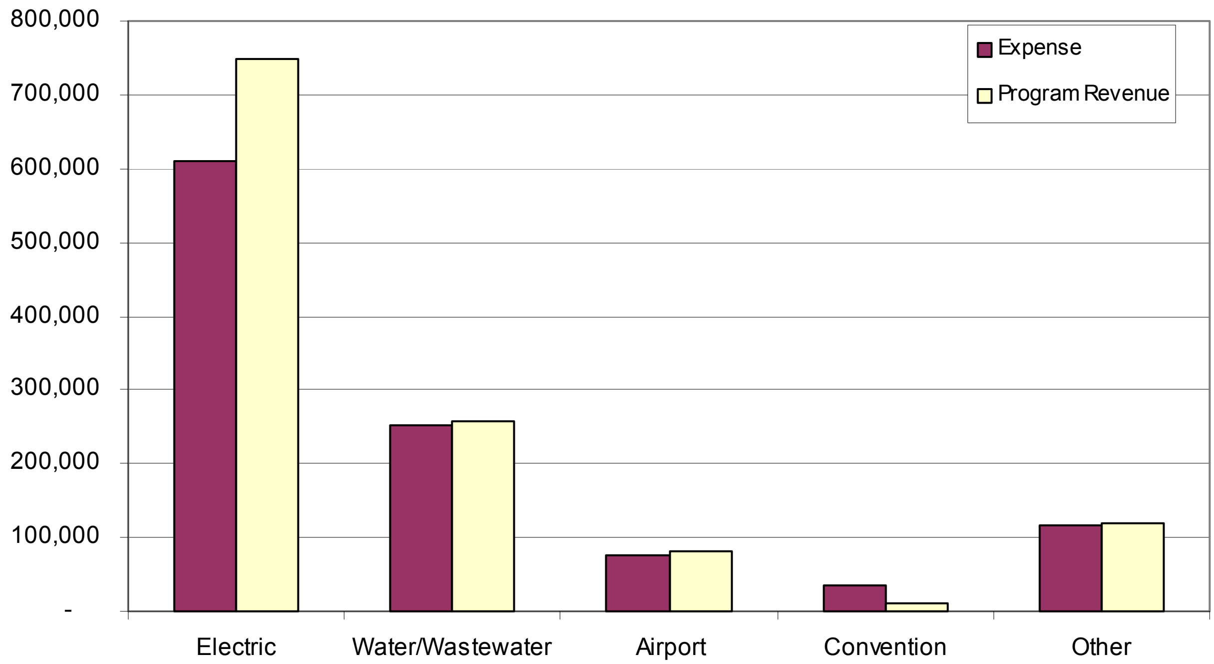
d – Program Revenues and Expenses -- Business-type activities
Business-type activities increased the City's net assets by $82 million, accounting for 66% of the total growth in the City's net assets. Net program expenses and revenues are, as follows:

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

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

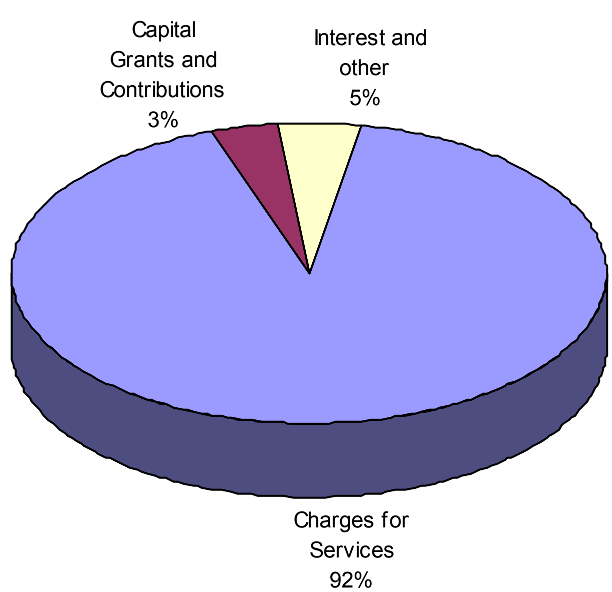
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



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

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds
The City reports the following types governmental funds: the General Fund, special revenue funds, debt service funds, capital project funds and permanent funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $88 million, while total fund balance was $94 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20% of total General Fund expenditures of $430 million, and total fund balance represents 22% of expenditures. Fund balance amounts may also be designated by City Council for specified uses for the future; the unreserved and undesignated fund balance is $36 million.

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

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

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

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

b -- Proprietary funds
The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

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

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

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

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

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

OTHER INFORMATION

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

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

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

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

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

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

b -- Capital Assets
The City's capital assets for governmental and business-type activities as of September 30, 2002, amount to $6.5 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, assets not classified, construction work in progress, nuclear fuel and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $319 million (5 percent), with an increase of almost 6 percent for governmental activities and an increase of almost 5 percent for business-type activities. Capital asset balances are, as follows:

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

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

OTHER INFORMATION, continued

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

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

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

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

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

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

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

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

OTHER INFORMATION, continued

The City continues to maintain excellent credit ratings on debt issues, with ratings remaining unchanged during the year. The following are ratings at September 20, 2002 of the City's obligations for various debt instruments, as follows:

Debt	Moody's Investors Service, Inc	Standard and Poor's	Fitch, Inc.
General obligation bonds and other tax supported debt	Aa2	AA+	AA+
Revenue bonds - prior lien	A2	A	A+
Revenue bonds - subordinate lien	A2	A-	A+
Commercial paper notes	P-1	A-1	F1+
Commercial paper notes - taxable	P-1	A-1+	F1+

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

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

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

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

e -- Requests for Information

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

(In thousands)

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

(Continued)

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

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

(In thousands)

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

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

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

(In thousands)

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

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

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

(In thousands)

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

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

Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2002
(In thousands)

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

(In thousands)

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

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities **Exhibit B-2.1**

For the Year Ended September 30, 2002

(In thousands)

Net change in fund balances - Governmental funds	$	151,609
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		98,531
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		28,160
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		(14,011)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(216,864)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		2,623
The net revenue of certain activities of internal service funds is reported with governmental activities.		(7,503)
Change in net assets - Governmental activities	$	42,545

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

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

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

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

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

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

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

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

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

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

Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the year ended September 30, 2002
(In thousands)

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

(In thousands)

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Charter of the City of Austin requires an annual audit by an independent certified public accountant. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City has implemented GASB Statement No. 1 through Statement No. 38 and GASB Interpretation No. 6. The more significant accounting and reporting policies and practices used by the City are described below.

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

a -- Reporting Entity

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

Blended Component Units -- The Austin Housing Finance Corporation (AHFC) and Austin Industrial Development Corporation (AIDC) are legally separate entities from the City. AHFC and AIDC serve all the citizens of Austin and are governed by a board composed of the City Councilmembers. The activities are reported in the Housing Assistance Fund and Austin Industrial Development Corporation Fund, nonmajor special revenue funds.

Related Organizations -- The following entities are related organizations to which the City Council appoints board members, but for which the City has no significant financial accountability. The City appoints certain members of the board of the Capital Metropolitan Transit Authority (Capital Metro), but the City's accountability for this organization does not extend beyond making the appointments. City Councilmembers appoint themselves as members of the board of the Austin-Bergstrom International Airport (ABIA) Development Corporation; their function on this board is ministerial rather than substantive. The City Council appoints the members of the board of Austin-Bergstrom Landhost Enterprises, Inc., and Austin Convention Enterprises, Inc.; the functions of these boards are ministerial rather than substantive. These entities are separate from the operating activities of the City, i.e., the Airport (ABIA operations) and Convention Center. Related organizations are not included in the City’s reporting entity.

The City retirement plans (described in Note 8) and the City of Austin Deferred Compensation Plan for City employees are not included in the City’s reporting entity because the City does not exercise substantial control over the entities.

b -- GASB Statement No. 34 and Related Statements

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

The new reporting model includes the following:

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

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Internal service fund asset and liability balances that are not eliminated in the statement of net assets are reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The fund level statements focus on the governmental, proprietary and fiduciary funds. The accounts of the City are organized on the basis of funds. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available. Revenues, other than grants, are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period (defined by the City as collected within 60 days of year end). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed and when all eligibility requirements of the provider have been met and are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is incurred. However, expenditures related to compensated absences and arbitrage are recorded when the liability is matured. Debt service expenditures are recognized when payment is matured. The reported fund balance of governmental funds is considered a measure of available spendable resources.

Property taxes, sales taxes, franchise taxes, EMS charges, Municipal Court fines and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

> General Fund: The primary operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund. It includes the following activities: public safety; transportation, planning and sustainability; public health; public recreation and culture; urban growth management; and general government.

Proprietary and fiduciary fund financial statements are accounted for on the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric or water-wastewater services. Other revenues or expenses are nonoperating items.

The City reports the following major enterprise funds:

> Electric Fund: Accounts for the activities of the City-owned electric utility, doing business as Austin Energy ™.
>
> Water and Wastewater Fund: Accounts for the activities of the City-owned water and wastewater utility.
>
> Airport Fund: Accounts for the operations of the Austin-Bergstrom International Airport (ABIA).

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

Capital Projects Funds account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds and private purpose funds) and funded primarily by general obligation debt, other tax supported debt, interest income and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.

Permanent Funds account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the City's programs. Permanent funds account for the public recreation and culture activity.

The City reports the following proprietary and fiduciary funds:

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

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

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

Private-purpose trust funds account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments. Private-purpose trust funds account for various purposes: general government, transportation, public recreation and culture and urban growth management.

Agency funds account for net assets held on behalf of others and are purely custodial (assets equal liabilities).

d -- Budget

The City Manager submits a proposed budget to City Council no later than thirty days prior to the beginning of the new fiscal year. The City Council holds public hearings, modifies the City Manager's recommendations, and adopts a final budget no later than the twenty-seventh day of September. The City Council passes an appropriation ordinance and a tax levying ordinance.

Annual budgets are legally adopted for the General Fund, certain special revenue funds and debt service funds. Annual budgets are adopted for enterprise and internal service funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment. Certain charges to ending fund balance are budgeted as nondepartmental expenditures.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

e -- Financial Statement Elements

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

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2002. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

Accounts Receivables -- Balances of accounts receivables, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivables balances as of September 30, 2002 (in thousands):

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

Municipal Court fines in the governmental activities, because of the nature of the fines, have a collection period greater than one year. Fines recognized that will not be collected during the subsequent year are estimated to be approximately $8.5 million.

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

Interfund Receivables, Payables -- During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the fund-level statements when they are expected to be liquidated within one year. If receivables or payables are expected to be liquidated after one year, they are classified as “advances to other funds” or “advances from other funds.”

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

Fund	Inventory Valuation Method
General Fund	Average cost (predominantly); some first-in, first-out
Electric:	
Fuel oil and coal	Last-in, first out
Other inventories	Average cost
All others	Average cost

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

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

Restricted assets -- Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital assets -- Capital assets, which include land, facilities and improvements, machinery and equipment and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets, and related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of $1,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed or annexed capital assets are recorded at estimated fair market value at the time received, or at historical cost, if historical cost is available. Capital outlay is recorded as an expenditure in the General Fund and other governmental funds, and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of capital assets are capitalized.

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

Interest is not capitalized on governmental capital assets. For enterprise funds, interest paid on long-term debt in the enterprise funds is capitalized when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project.

Capital assets are depreciated using the straight-line method over the following estimated useful lives (in years):

		Business-type Activities			
Assets	**Governmental Activities(1)**	**Electric**	**Water and Wastewater**	**Airport**	**Nonmajor Enterprise**
Buildings	40	30	40-50	40	40
Equipment	12-15	12-40	12-40	10-12	7-40
Vehicles	3-15	3-15	3-15	3-15	3-15
Improvements to grounds	15	30	40-50	15	15
Communication equipment	7	7	7	7	7
Furniture and fixtures	12	12	12	12	12
Computers and EDP equipment	7	7	7	7	7
Infrastructure					
Streets and roads	30	--	--	--	--
Bridges	50	--	--	--	--
Drainage systems	50	--	--	--	--
Pedestrian facilities	20	--	--	--	--
Traffic signals	25	--	--	--	--

(1) Includes internal service funds

Depreciation of assets is classified by functional components. The City considers library collections, art treasures and land to be inexhaustible; and therefore, these assets are reported as nondepreciable. The true value of library collections and art treasures is expected to be maintained over time and, thus, not depreciated. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure assets ($34.1 million).

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

Long-Term Debt -- The debt service for general obligation bonds and other general obligation debt, including loans, issued to fund general government capital projects is paid from tax revenues, interfund transfers and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to fund proprietary fund capital projects is normally paid from net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principles and in view of the expectation that the proprietary fund will provide resources to service the debt.

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

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

Other Long-Term Liabilities -- Capital appreciation bonds are recorded at net accreted value. Annual accretion of the bonds is recorded as interest expense during the life of the bonds. The cumulative accretion of capital appreciation bonds, net of interest payments on the bonds, is recorded as capital appreciation bond interest payable.

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Interfund Revenues, Expenses and Transfers -- Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds.

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

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

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

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

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

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

Cash and Cash Equivalents -- For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investments and cash accounts.

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

Risk Management -- The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts, including medical malpractice; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. The City continues to be self-insured for liabilities for most health benefits, third-party and workers' compensation claims.

The City purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bonds, and airport operations. In addition, the City purchases a broad range of insurance coverage for contractors working at selected capital improvement project sites. The City does not participate in a risk pool. The City complies with GASB Statement 10, *Accounting and Reporting for Risk Financing and Related Insurance Issues* (see Note 16).

f -- Comparative Data

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

g -- Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balances of the City's governmental funds, $383 million, differ from the net assets of governmental activities, $1,247 million, reported in the statement of net assets. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

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

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

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

The net change in fund balances of governmental funds, $151.6 million, differs from the change in net assets for governmental activities, $42.5 million, reported in the statement of activities. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ 151,609
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets are depreciated over the estimated useful life of the asset.		
Capital outlay	164,523	
Depreciation expense	(58,101)	
Loss on disposal of capital assets	(7,891)	
Total		98,531
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	8,068	
Charges for services	8,116	
Interest and other	(675)	
Capital assets contribution	12,651	
Total		28,160
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		
Intergovernmental revenue	(14,011)	
Total		(14,011)
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(254,505)	
Principal repayment on long-term debt	44,382	
Deferral of debt issue costs	(6,741)	
Total		(216,864)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	4,944	
Interest and other	(2,321)	
Total		2,623
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		(7,503)
Change in net assets - Governmental activities		$ 42,545

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

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

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

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

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

4 – POOLED INVESTMENTS AND CASH

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

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

5 – INVESTMENTS AND DEPOSITS

a -- Investments

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

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

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

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

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

b -- Deposits

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

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

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

6 – PROPERTY TAXES

The City’s property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2001, upon which the 2002 levy was based, was $47,782,873,096.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2002, 98.81% of the current tax levy (October 1, 2001) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statute. The statutes provide for a property tax code, county-wide appraisal districts, a State property tax board, and certain exemptions from taxation, such as intangible personal property, household goods, and family-owned automobiles.

6 – PROPERTY TAXES, continued

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District. The appraisal district is required under the Property Tax Code to assess all real and personal property within the appraisal district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may require more frequent reviews of appraised values at its own expense. The Travis Central Appraisal District has chosen to review the value of property every two years. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2002, was $.3041 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.6959 per $100 assessed valuation, and could levy approximately $332,521,014 in additional taxes from the assessed valuation of $47,782,873,096 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

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

The City anticipates the need for numerous additional utility-related projects over the next several years. However, specific projects and related funding have not been identified or authorized.

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Components of capital assets (in thousands):

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

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

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

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

<u>Governmental activities:</u>

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

(1) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Activities

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

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

(1) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Activities

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

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

(1) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Activities

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

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

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 16,210
	$ 16,210

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Activities

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

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

(1) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

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

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

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

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

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

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are City-wide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2001. Membership in the plans at December 31, 2001 is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,204	289	363	3,856
Current employees	7,713	1,277	915	9,905
Total	10,917	1,566	1,278	13,761

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

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

Plan	Address	Telephone
Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752	(512)458-2551
Police Officers' Retirement and Pension Fund	P.O. Box 684808 Austin, Texas 78768-4808	(512)416-7672
Fire Fighters' Relief and Retirement Fund	3301 Northland Drive, Suite 215 Austin, Texas 78731	(512)454-9567

8 – RETIREMENT PLANS, continued

b -- Funding Policy

	City of Austin Employees' Retirement and Pension Fund	City of Austin Police Officers' Retirement and Pension Fund	Fire Fighters' Relief and Retirement Fund
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	8.0%	9.0%	13.70%
City's contribution (percent of earnings)	8.0% (1)	18.0%	18.05%

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary of each plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2002, are as follows (in thousands):

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

c-- Annual Pension Cost and Net Pension Obligation

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

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

8 – RETIREMENT PLANS, continued

Actuarial valuations of the plans are performed every two years. Actuarial updates are done in each year following the full valuation. The latest actuarial valuations were completed as of December 31, 2001. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	City Employees	Police Officers	Fire Fighters
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	4%	4%	5.0%
Projected Annual Salary Increases	4.5% to 14.5%	6.8% average	6.5%
Post retirement benefit increase	None	None	3.5% effective January 1, 2003 through January 1, 2004 and, 1% annually thereafter
Assumed Rate of Return on Investments	8%	8%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	17 years	18.8 years	26.5 years

d -- Trend Information (Unaudited)

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

Valuation Date, December 31st	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(1)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1995	$ 707,300	623,000	(84,300)	113.5%	221,000	(38.1%)
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
Police Officers						
1995	$ 127,572	164,865	37,293	77.4%	36,211	103.0%
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
Fire Fighters						
1995	$ 213,403	236,994	23,591	90.0%	32,496	72.6%
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%

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

9 – SELECTED REVENUES

a -- Major enterprise funds

Electric and Water and Wastewater

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

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

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

Airport

The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2002, the Airport Fund revenues included minimum concession guarantees of $8,768,614.

b – Nonmajor enterprise funds

Hospital

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton") to operate City-owned Brackenridge Hospital. The lease term is 30 years. This lease agreement qualifies as an operating lease for accounting purposes. The lease agreement specifies a minimum lease payment in addition to a supplemental rent payment based on approximately 46% of net disproportionate share revenue proceeds. In fiscal year 2002, the Hospital Fund revenues included minimum lease payments of $1.85 million and additional rent of $8.1 million.

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

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

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

9 – SELECTED REVENUES, continued

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

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

10 – DEBT AND NON-DEBT LIABILITIES

a – Short-Term Debt

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

b – Long-Term Liabilities

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

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

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

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

Internal Service Funds predominately serve the governmental funds. Accordingly, long-term liabilities for these funds are included in governmental activities.

10 – DEBT AND NON-DEBT LIABILITIES, continued

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2002 are (in thousands):

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

(continued)

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

c – Governmental Activities Long-Term Liabilities

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2002, including those reported in certain proprietary funds (in thousands):

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

(1) Interest is paid semiannually on March 1 and September 1.
(2) Interest is paid semiannually on May 1 and November 1.
(3) Interest is paid four times a year on March 1, May 15, September 1, and November 15.

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

d – Business-Type Activities Long-Term Liabilities

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

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

The total Combined Utility Systems revenue bond obligations at September 30, 2002, exclusive of discounts and premiums, consist of $1,350,330,069 prior lien bonds and $256,944,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $1,169,271,532 at September 30, 2002. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2002 for the prior lien and subordinate lien bonds were, respectively, A2 and A2 (Moody's Investor Services, Inc.), A and A- (Standard & Poor's), and A+ and A+ (Fitch).

Combined Utility Systems Debt -- Revenue Bond Refunding Issues - The Combined Utility Systems have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund. The prior lien bonds are subordinate only to the prior lien revenue bonds outstanding at the time of issuance, while the subordinate lien bonds are subordinate to prior lien revenue bonds and to subordinate lien revenue bonds outstanding at the time of issuance.

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2002 were P-1 (Moody's Investor Services, Inc.), A-1 (Standard & Poor's), and F1+ (Fitch). The notes will be in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2002, the Electric Fund had outstanding commercial paper notes of $113,584,000 and the Water and Wastewater Fund had $157,842,000, of commercial paper notes outstanding. Interest rates on the notes range from 1.20% to 2.05%, adjusted daily, and subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes, (the "taxable notes"), in an aggregate principal amount not to exceed $160,000,000 outstanding at any one time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2002 were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+ (Fitch).

The taxable notes will be in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the taxable notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2002, the Electric Fund had outstanding taxable notes of $86,925,276 (net of discount of $363,724), and the Water and Wastewater Fund had no taxable notes outstanding. Interest rates on the taxable notes range from 1.76% to 1.81%, adjusted daily, and subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing long-term debt.

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

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

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

Airport -- Revenue Bonds - The City's Airport Fund issues Airport System revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. The total Airport System obligation for prior lien bonds is $370,990,000, exclusive of discount and loss on refunding, at September 30, 2002. Aggregate interest requirements for all prior lien bonds are $336,678,901 at September 30, 2002. Revenue bonds authorized and unissued amount to $735,795,000 at that date.

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

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

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue Airport System variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A adopted by the City Council on February 5, 1998. At September 30, 2002, the Airport System had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $378,499, including accrued interest at September 30, 2002 and was restricted within the Airport System. During fiscal year 2002, interest rates on the notes ranged from 1.10% to 2.40%, adjusted weekly at market rates, and subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the Airport System.

Nonmajor fund:
Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues Convention Center revenue bonds and Hotel Occupancy Tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. The total Convention Center obligation for prior and subordinate lien bonds is $244,850,000, exclusive of discounts, premiums and loss on refunding, at September 30, 2002. Aggregate interest requirements for all prior and subordinate lien bonds are $216,225,017 at September 30, 2002. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2002.

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements (in thousands)

Governmental Activities

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Electric Business-Type Activities

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Water and Wastewater Business-Type Activities

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

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

(continued)

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Water and Wastewater Business-Type Activities

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Airport Business-Type Activities

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Nonmajor Business-Type Activities

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Business-Type Activities

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

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

(continued)

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Business-Type Activities

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

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

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

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997 the City issued several series of bonds; the aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Since 1997, the City has issued various series of bonds, with the original issues totaling $84.4 million; and $84.2 million is outstanding at September 30, 2002.

The City has issued various facility revenue bonds to provide for facilities located at the airport and convention center. These bonds are special limited obligations, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The original issues totaled $367.4 million, with $364.4 million outstanding at September 30, 2002.

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2002, are as follows (in thousands):

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

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

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

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

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund operating transfers are authorized through City Council approval. Significant transfers include the Electric and Water and Wastewater transfers to the General Fund, which are comparable to a return on investment to owners. The transfers above include a nonroutine transfer from the Hospital Fund of $33 million to establish a public health reserve in the General Fund.

13 – SEGMENT INFORMATION

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

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

14 – PARTICIPATION AGREEMENTS

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

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with City funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was $23.7 and $19.3 million as of September 30, 2002 and 2001, respectively. The increase in equity indicates that the FPP is accumulating additional financial resources. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

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

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

b -- South Texas Project

Austin Energy is one of four participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Reliant Energy, formerly known as Houston Lighting and Power Company, Central Power and Light Company and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2002 Austin Energy's investment in the STP was approximately $637 million, net of accumulated depreciation.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its own funding for STP. The City's portion is financed through operations, revenue bonds or commercial paper, which are repaid by the Electric Fund (see Note 10). In addition, each participant has the obligation to finance any deficits that may occur.

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the owner's committee. A member of the owner's committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

14 – PARTICIPATION AGREEMENTS, continued

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant operating license submit information to the NRC indicating the minimum funding required to decommission the plant. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2002 and 2001, the City had funded its share of the estimated decommissioning liability as follows:

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

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

d -- Sandhill Power Project

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

e -- Municipal Utility Districts

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

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

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

15 – LITIGATION

a -- Water and Wastewater Litigation

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

15 – LITIGATION, continued

b -- Other Litigation

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2002. These liabilities include amounts for lawsuits settled subsequent to year-end, which is reported in the government-wide statement of net assets.

16 – COMMITMENTS AND CONTINGENCIES

a -- Certificates of Participation

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

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

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

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

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

The following table presents information regarding these certificates:

Description	Electric Fund Office Project (1)	Water and Wastewater Fund Office Project (1)
Date issued	February 1987	August 1987
Amount issued	$23,060,000	$14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and September 15	May 15 and November 15
Maturity dates	September 15 1988 - 2007	November 15 1989 - 2007
Present value of lease payments	$8,670,000	$6,600,000
Reserve Fund (2)	$ 2,000,000	$1,250,000

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

b -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and State grant programs, financed primarily by the U.S. Housing and Urban Development (HUD) Department, U.S. Health and Human Services (HHS) Department, and U.S. Department of Transportation (DOT). The City's programs are subject to program compliance audits by the granting agencies. Management believes that no material liability will arise from any such audits. In 2002, the City was required to repay HUD $1.25 million, with payments due in 2002 and 2003. At September 30, 2002, the City owed HUD $500,000, as reported in the statement of net assets.

16 – COMMITMENTS AND CONTINGENCIES, continued

c -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate funds to the federal government. The estimated amounts payable at September 30, 2002 are as follows (in thousands):

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

d -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* (Capital Budget) that is an anticipated spending plan for projects in the upcoming and future years. The City's 2003 Capital Budget includes new appropriations of $369.1 million for the City's enterprise funds and $105.9 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

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

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Parks development and improvements	$ 116,219	59,448
Street and bridge reconstructions	85,829	37,471
Transportation improvements	282,689	152,885
Other governmental	143,290	45,601
Business-type activities:		
Electric system improvements	1,005,644	233,694
Water and wastewater system improvements and annexations	1,087,085	547,478
Airport improvements	73,723	152,287
Nonmajor enterprise	234,477	86,921
Total	$ 3,028,956	1,315,785

e -- Operating lease with Daughters of Charity Health Services of Austin

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton"). Under the terms of the lease, Seton will operate City-owned Brackenridge Hospital and will provide all necessary medical services for residents of Austin regardless of their ability to pay. The City will reimburse Seton for services provided through three programs. Under the Charity Care Program, the City will reimburse Seton a maximum of $5.6 million annually for providing medical care to the medically indigent; provided however, that Seton must first provide charity care in the amount of 4% of net revenues as required by State law. Under the Medical Assistance Program (MAP), the City paid Seton approximately $8.6 million in fiscal year 2002 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately $5.5 million during fiscal year 2002 for providing physician services to patients in the first two programs. The amounts for MAP and Physician Services Programs will be adjusted annually for the next three years.

16 – COMMITMENTS AND CONTINGENCIES, continued

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

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

f -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports in the Solid Waste Services Fund, a nonmajor enterprise fund, a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The $7.2 million reported as accrued landfill closure and postclosure costs at September 30, 2002, represents the cumulative amount reported to date based on the use of 79.2% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.9 million as the remaining estimated capacity is filled over the next ten years. The total estimated costs of $9.1 million include costs of closure in 2012 of $2.4 million and postclosure costs over the subsequent thirty years of $6.7 million. These amounts are based on what it would cost to perform all closure and postclosure care in 2002. Actual costs may be higher due to inflation, changes in technology or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

g -- Risk-Related Contingencies

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

Fund name	Description
Employee Benefits	City employees and retirees may choose between a self-insured PPO or an HMO. Approximately 18% of City employees and 37% of retirees use the HMO option; approximately 82% of City employees and 63% of retirees use the PPO, which is self-insured. Costs are charged to City funds through a charge per employee per pay period.
Liability Reserve	Self-insured. Includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	Self-insured. Premiums are charged to other City funds each year based on historical costs.

The City purchases stop loss insurance for the City's PPO. This stop loss insurance covers individual claims that exceed $500,000 per calendar year in calendar year 2002 and $150,000 per calendar year prior to calendar year 2002, up to a maximum of $1 million. During fiscal year 2002, no claims exceeded the increased stop loss limit of $500,000. During fiscal year 2001, two claims exceeded the stop loss limit of $150,000; and four claims exceeded the stop loss limit in fiscal year 2000. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

16 – COMMITMENTS AND CONTINGENCIES, continued

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. Due to the tragic event of September 11th, significant reductions in insurance coverage have occurred. Deductibles and self-insured retention amounts have increased and terrorism and flood coverage provisions have been reduced or eliminated. There have been no claims settlements in excess of the insurance coverage that has been procured. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund; liabilities for the Liability Reserve Fund and Workers' Compensation Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 2002. The possible range of loss is $33.3 to $52.6 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

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

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

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

h -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Seaholm Power Plant. The financial statements include a current liability of $3.4 million at September 30, 2002. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2003.

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

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

i -- Downtown Development Projects

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

16 – COMMITMENTS AND CONTINGENCIES, continued

j -- Enron Bankruptcy

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

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

k -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2002 was $19.8 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

The City has entered into certain lease agreements, including the certificates of participation, as lessee for financing equipment purchases for Electric and Water and Wastewater Utilities. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

The following summarizes utility assets recorded at September 30, 2002, under capital lease obligations (in thousands):

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

17 – OTHER POST-EMPLOYMENT BENEFITS

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

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

17 – OTHER POST-EMPLOYMENT BENEFITS, continued

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

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

Years of Service	Retiree only	Dependent only
Less than 5 years	5% - 20%	1% - 18%
5 to 9 years	14% - 28%	4% - 24%
10 to 14 years	32% - 43%	15% - 38%
15 to 20 years	50% - 58%	26% - 54%
Greater than 20 years	77% - 81%	43% - 77%

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

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits Fund. The cost of providing these benefits for 2,135 retirees and 9,928 active employees in 2002 and 2,090 retirees and 9,713 active employees in 2001 is not separable and cannot be reasonably estimated. Total payments to the Employee Benefits Fund for retirees and active employees were $50 million in 2002 and $39 million in 2001.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2001, the City's portion of this obligation, $3,151,826, is not reflected in the financial statements of the Electric Fund.

18 – SUBSEQUENT EVENTS

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

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX C

Form of Bond Counsel's Opinions

Proposed Form of Opinion of Bond Counsel

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

CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT AND REFUNDING BONDS,
SERIES 2003,
DATED SEPTEMBER 1, 2003,
IN THE PRINCIPAL AMOUNT OF $68,855,000

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which Bonds are issued in the aggregate principal amount of $68,855,000. The Bonds bear interest from the date and mature on the dates specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the ordinance of the City authorizing the issuance of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

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

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

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code, and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

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

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

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

Respectfully,

Proposed Form of Opinion of Bond Counsel

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

CITY OF AUSTIN, TEXAS
CERTIFICATES OF OBLIGATION,
SERIES 2003,
DATED SEPTEMBER 1, 2003,
IN THE PRINCIPAL AMOUNT OF $4,450,000

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the certificates of obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which Certificates are issued in the aggregate principal amount of $4,450,000. The Certificates bear interest from the date and mature on the dates specified on the face of the Certificates, and are subject to redemption prior to maturity on the dates and in the manner specified on the face of the Certificates, all in accordance with the ordinance of the City authorizing the issuance of the Certificates (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, the charter of the City, certified copies of the proceedings of the City, and other proofs authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate No. R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been authorized, issued and delivered in accordance with the Constitution and laws of the State of Texas, and the Certificates and the Ordinance constitute valid and legally binding obligations of the City; and that the ad valorem taxes, upon all taxable property within the City, necessary to pay the interest on and principal of said Certificates, have been pledged for such purpose, within the limits prescribed by the Constitution and the charter of the City and that the principal of and interest on the Certificates of Obligation are additionally secured by and payable from the surplus revenues received by the City from the operation of the City's solid waste disposal system; provided, that the amount of such pledge of surplus revenues shall not exceed $1,000.00. The opinion hereinbefore expressed is qualified to the extent that the obligations of the City, and the enforceability thereof, are subject to applicable bankruptcy, reorganization or similar laws relating to or affecting creditors' rights generally, and the exercise of judicial discretion in accordance with general principles of equity.

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code, and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code.

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

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

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

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

Respectfully,

Proposed Form of Opinion of Bond Counsel

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

CITY OF AUSTIN, TEXAS
PUBLIC PROPERTY FINANCE
CONTRACTUAL OBLIGATIONS,
SERIES 2003,
DATED SEPTEMBER 1, 2003,
IN THE PRINCIPAL AMOUNT OF $8,610,000

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the public property finance contractual obligations described above (the "Contractual Obligations"), we have examined into the legality and validity of the Contractual Obligations, which Contractual Obligations are issued in the aggregate principal amount of $8,610,000. The Contractual Obligations bear interest from the date and mature on the dates specified on the face of the Contractual Obligations, all in accordance with the ordinance of the City authorizing the issuance of the Contractual Obligations (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, the charter of the City, certified copies of the proceedings of the City, and other proofs authorizing and relating to the issuance of the Contractual Obligations, including one of the executed Contractual Obligations (Contractual Obligation No. R-1).

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

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Contractual Obligations, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code, and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code.

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

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

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

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

Respectfully,

Proposed Form of Opinion of Bond Counsel

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

CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT REFUNDING BONDS,
TAXABLE SERIES 2003A,
DATED SEPTEMBER 1, 2003,
IN THE PRINCIPAL AMOUNT OF $2,530,000

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which Bonds are issued in the aggregate principal amount of $2,530,000. The Bonds bear interest from the date and mature on the dates specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the ordinance of the City authorizing the issuance of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

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

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

IT IS OUR OPINION THAT THE BONDS ARE NOT OBLIGATIONS DESCRIBED IN SECTION 103(a) OF THE INTERNAL REVENUE CODE OF 1986.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

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

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions.

Respectfully,

APPENDIX D

Specimen Insurance Policies

Exhibit A

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

FGIC

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, 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 and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

FGIC

Municipal Bond
New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ______________________________
Assistant Secretary

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

STD-TX-6
4/95