

OFFICIAL STATEMENT

CITY OF AUSTIN, TEXAS

\$67,835,000

Public Improvement and Refunding Bonds, Series 2004

\$25,000,000

Certificates of Obligation, Series 2004

\$21,830,000

Public Property Finance Contractual Obligations, Series 2004

\$2,430,000

Public Improvement Refunding Bonds, Taxable Series 2004A

Dated: August 26, 2004

OFFICIAL STATEMENT DATED AUGUST 26, 2004

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

NEW ISSUE – Book-Entry-Only

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel ("Bond Counsel"), interest on the Series 2004 Bonds is excludable from gross income for federal income tax purposes under existing law and the Series 2004 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.

\$67,835,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Public Improvement and Refunding Bonds, Series 2004

Dated: September 1, 2004

Due: September 1, as shown below

Interest on the \$67,835,000 City of Austin, Texas (the "City") Public Improvement and Refunding Bonds, Series 2004 (the "Series 2004 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, 2005, 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 2004 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 2004 Bonds (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Series 2004 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 2004 Bonds.



Payment of the principal and interest on the Series 2004 Bonds maturing on September 1 in each of the years 2015, 2016 and 2022 through 2024, inclusive, when due will be guaranteed by a municipal bond insurance policy to be issued by Financial Security Assurance Inc. simultaneously with the delivery of the Series 2004 Bonds. See "BOND INSURANCE" herein.

MATURITY SCHEDULE

CUSIP Prefix: 052396

| Maturity (September 1) | Amount | Interest Rate | Price or Yield | Maturity (September 1) | Amount | Interest Rate | Price or Yield |
|---------------------------|-------------|------------------|-------------------|---------------------------|-------------|------------------|-------------------|
| 2007 | \$2,565,000 | 3.000% | 2.140% | 2016 | \$3,690,000 | 4.000% | 100(b) |
| 2008 | 2,645,000 | 3.000% | 2.500% | 2017 | 3,875,000 | 4.200% | 4.220% |
| 2009 | 2,740,000 | 3.000% | 2.790% | 2018 | 4,070,000 | 4.300% | 4.310% |
| 2010 | 2,845,000 | 3.250% | 3.010% | 2019 | 4,275,000 | 4.400% | 100 |
| 2011 | 2,960,000 | 3.500% | 3.240% | 2020 | 4,495,000 | 4.450% | 4.490% |
| 2012 | 3,080,000 | 4.000% | 3.410% | 2021 | 4,730,000 | 4.550% | 4.590% |
| 2013 | 3,220,000 | 4.000% | 3.570% | 2022 | 4,980,000 | 5.000% | 4.480%(a)(b) |
| 2014 | 3,365,000 | 4.000% | 3.680% | 2023 | 5,245,000 | 4.500% | 4.610%(b) |
| 2015 | 3,520,000 | 4.000% | 3.900%(a)(b) | 2024 | 5,535,000 | 4.500% | 4.640%(b) |

(Plus Accrued Interest from September 1, 2004)

(a) Priced to call date.

(b) These maturities have been insured by FSA at the request of the Purchaser.

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above will produce compensation to the Purchaser of approximately \$548,415.40.

The City reserves the right, at its option, to redeem Series 2004 Bonds having stated maturities on and after September 1, 2015, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2014, 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 2004 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 2004 Bonds (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Series 2004 Bonds will be delivered through the facilities of DTC on or about September 23, 2004.

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OFFICIAL STATEMENT DATED AUGUST 26, 2004

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

(See "BOND INSURANCE" and "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

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

\$25,000,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Certificates of Obligation, Series 2004

Dated: September 1, 2004

Due: September 1, as shown below

Interest on the \$25,000,000 City of Austin, Texas (the "City") Certificates of Obligation, Series 2004 (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, 2005, 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.



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

MATURITY SCHEDULE

CUSIP Prefix: 052396

| <u>Maturity</u> <u>(September 1)</u> | <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Price</u> <u>or Yield</u> | <u>Maturity</u> <u>(September 1)</u> | <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Price</u> <u>or Yield</u> |
|---|---------------|--------------------------------|---------------------------------|---|---------------|--------------------------------|---------------------------------|
| 2005 | \$ 775,000 | 2.000% | 1.450% | 2015 | \$1,235,000 | 5.000% | 3.840%(a) |
| 2006 | 815,000 | 2.000% | 1.780% | 2016 | 1,295,000 | 5.000% | 3.940%(a) |
| 2007 | 850,000 | 2.250% | 2.130% | 2017 | 1,355,000 | 5.000% | 4.020%(a) |
| 2008 | 890,000 | 3.000% | 2.500% | 2018 | 1,420,000 | 5.000% | 4.110%(a) |
| 2009 | 935,000 | 3.000% | 2.790% | 2019 | 1,485,000 | 5.000% | 4.200%(a) |
| 2010 | 980,000 | 3.000% | 3.010% | 2020 | 1,555,000 | 5.000% | 4.290%(a) |
| 2011 | 1,025,000 | 5.000% | 3.240% | 2021 | 1,630,000 | 5.000% | 4.390%(a) |
| 2012 | 1,075,000 | 5.000% | 3.420% | 2022 | 1,710,000 | 5.000% | 4.480%(a) |
| 2013 | 1,125,000 | 5.000% | 3.600% | 2023 | 1,790,000 | 5.000% | 4.560%(a) |
| 2014 | 1,180,000 | 5.000% | 3.730% | 2024 | 1,875,000 | 4.625% | 4.760% |

(Plus Accrued Interest from September 1, 2004)

(a) Priced to call date.

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above, less a cash premium, will produce compensation to the Purchaser of approximately \$192,217.50.

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2015, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2014, 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 September 23, 2004.

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OFFICIAL STATEMENT DATED AUGUST 26, 2004

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.

\$21,830,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Public Property Finance Contractual Obligations, Series 2004

Dated: September 1, 2004

Due: May 1 and November 1, as shown below

Interest on the \$21,830,000 City of Austin, Texas (the "City") Public Property Finance Contractual Obligations, Series 2004 (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, 2005, 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

| <u>Maturity</u> <u>(May 1)</u> | <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Price</u> <u>or Yield</u> | <u>Maturity</u> <u>(November 1)</u> | <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Price</u> <u>or Yield</u> |
|-----------------------------------|---------------|--------------------------------|---------------------------------|--|---------------|--------------------------------|---------------------------------|
| 2005 | \$1,010,000 | 2.000% | 1.500% | 2005 | \$1,375,000 | 2.000% | 1.550% |
| 2006 | 1,410,000 | 2.000% | 1.750% | 2006 | 1,440,000 | 1.850% | 1.800% |
| 2007 | 1,475,000 | 2.150% | 2.150% | 2007 | 1,510,000 | 2.200% | 2.200% |
| 2008 | 1,545,000 | 2.500% | 2.500% | 2008 | 1,585,000 | 2.600% | 2.600% |
| 2009 | 1,620,000 | 2.850% | 2.850% | 2009 | 1,655,000 | 2.900% | 2.900% |
| 2010 | 1,700,000 | 3.100% | 3.100% | 2010 | 1,740,000 | 3.100% | 3.100% |
| 2011 | 1,780,000 | 3.350% | 3.350% | 2011 | 1,985,000 | 3.350% | 3.350% |

(Plus Accrued Interest from September 1, 2004)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above, less a cash premium, will produce compensation to the Purchaser of approximately \$15,935.90.

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 September 23, 2004.

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OFFICIAL STATEMENT DATED AUGUST 26, 2004

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 2004A Bonds, the Series 2004A 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".

\$2,430,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Public Improvement Refunding Bonds, Taxable Series 2004A

Dated: September 1, 2004

Due: September 1, as shown below

Interest on the \$2,430,000 City of Austin, Texas (the "City") Public Improvement Refunding Bonds, Taxable Series 2004A (the "Series 2004A 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, 2005, 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 2004A 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 2004A Bonds (see "OBLIGATION INFORMATION – Security").

Proceeds from the sale of the Series 2004A 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 2004A Bonds.

MATURITY SCHEDULE

CUSIP Prefix: 052396

| <u>Maturity</u> <u>(September 1)</u> | <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Price</u> <u>or Yield</u> | <u>Maturity</u> <u>(September 1)</u> | <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Price</u> <u>or Yield</u> |
|---|---------------|--------------------------------|---------------------------------|---|---------------|--------------------------------|---------------------------------|
| 2006 | \$200,000 | 4.000% | 2.950% | 2011 | \$260,000 | 4.400% | 4.420% |
| 2007 | 210,000 | 4.000% | 3.380% | 2012 | 270,000 | 4.600% | 4.610% |
| 2008 | 225,000 | 4.000% | 3.750% | 2013 | 285,000 | 4.750% | 4.760% |
| 2009 | 235,000 | 4.000% | 4.030% | 2014 | 500,000 | 4.750% | 4.850% |
| 2010 | 245,000 | 4.125% | 4.160% | | | | |

(Plus Accrued Interest from September 1, 2004)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above, less a cash premium, will produce compensation to the Purchaser of approximately \$3,163.00.

The Series 2004A Bonds are not subject to redemption prior to their stated maturities.

The Series 2004A 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 2004A Bonds (see APPENDIX C – "Form of Bond Counsel's Opinions").

It is expected that the Series 2004A Bonds will be delivered through the facilities of DTC on or about September 23, 2004.

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 2004 Bonds, the Certificates, the Contractual Obligations, or the Series 2004A 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.

Other than with respect to information concerning Financial Security Assurance Inc. (“Financial Security”) contained under the caption “Bond Insurance” and APPENDIX D specimen “Municipal Bond Insurance Policy” herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2004 Bonds; or (iii) the tax exempt status of the interest on the Series 2004 Bonds.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2004 BONDS, THE CERTIFICATES, THE CONTRACTUAL OBLIGATIONS AND THE SERIES 2004A BONDS, THE PURCHASERS OF ANY OR ALL OF SUCH OBLIGATIONS MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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CITY OF AUSTIN

Elected Officials

| | <u>Term Expires June 15</u> |
|--|-----------------------------|
| 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 |
| John Stephens, CPA..... | Chief Financial Officer |
| Laura Huffman..... | Assistant City Manager |
| Vickie Schubert, CPA..... | Deputy Chief Financial Officer |
| David Allan Smith..... | City Attorney |
| Shirley A. Brown..... | City Clerk |

BOND COUNSEL

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

FINANCIAL ADVISOR

Public Financial Management
Austin, Texas

AUDITORS

KPMG LLP and Richard Mendoza, CPA
Austin, Texas

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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 2004 Bonds, the Certificates, the Contractual Obligations, and the Series 2004A 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 2004 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 2004 Bonds, the Series 2004A Bonds, the Certificates and the Contractual Obligations information concerning the Series 2004 Bonds, the Series 2004A 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 | <p>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.</p> <p>The City is approximately 273.10 square miles in area (see APPENDIX A – “General Information Regarding the City”).</p> |
| The Series 2004 Bonds | <p>The Series 2004 Bonds are being issued in the principal amount of \$67,835,000 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”).</p> |
| The Certificates | <p>The Certificates are being issued in the principal amount of \$25,000,000 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”).</p> |
| The Contractual Obligations..... | <p>The Contractual Obligations are being issued in the principal amount of \$21,830,000 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”).</p> |
| The Series 2004A Bonds | <p>The Series 2004A Bonds are being issued in the principal amount of \$2,430,000 pursuant to the general laws of the State of Texas, particularly Chapter 1207, Texas Government Code and an Ordinance passed by the City Council of the City (see “OBLIGATION INFORMATION – Authority for Issuance”).</p> |
| Security..... | <p>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.</p> |

Optional Redemption of Series 2004 Bonds and Certificates The City reserves the right, at its option, to redeem the Series 2004 Bonds and the Certificates having stated maturities on and after September 1, 2015, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2014, 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 2004A 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 2004A Bonds, the Series 2004A 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 | 1,136.47 | 1.50% | 99.23% |
| 2003 | 674,719 | 50,759,650,668 | 75,230.80 | 788,366 | 1,168.44 | 1.55% | 99.60% |
| 2004 | 678,769 | 49,199,408,526 | 72,483.29 | 732,407 | 1,079.02 | 1.49% | 99.25% (3) |
| 2005 | 683,946 | 49,996,299,663(4) | 73,099.78 | 708,447(5) | 1,035.82(5) | 1.42%(5) | N/A |

(1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31.

(2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget.

(3) Estimated Collections as of June 30, 2004.

(4) Certified Appraised Value, including \$3,059,367,835 in property in the appeals process.

(5) Projected. Includes the Obligations.

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OFFICIAL STATEMENT

Relating to

\$67,835,000

CITY OF AUSTIN, TEXAS

Public Improvement and Refunding Bonds, Series 2004

\$25,000,000

CITY OF AUSTIN, TEXAS

Certificates of Obligation, Series 2004

\$21,830,000

CITY OF AUSTIN, TEXAS

Public Property Finance Contractual Obligations, Series 2004

\$2,430,000

CITY OF AUSTIN, TEXAS

Public Improvement Refunding Bonds, Taxable Series 2004A

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 \$67,835,000 City of Austin, Texas, Public Improvement and Refunding Bonds, Series 2004 (the "Series 2004 Bonds"), \$25,000,000 City of Austin, Texas, Certificates of Obligation, Series 2004 (the "Certificates"), \$21,830,000 Public Property Finance Contractual Obligations, Series 2004 (the "Contractual Obligations") and \$2,430,000 City of Austin, Texas, Public Improvement Refunding Bonds, Taxable Series 2004A (the "Series 2004A Bonds"). The Series 2004 Bonds are referred to herein as the "Taxable Bonds". The Series 2004 Bonds and the Series 2004A 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 2004 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 Ordinances"), 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 Ordinances, 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 2004 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 Christopher Ochoa in Federal District Court for the Western District of Texas, alleging federal constitutional and state common law torts against, among others, the City. Mr. Ochoa was exonerated and found innocent after spending twelve years in prison for a crime he did not commit. On December 15, 2003, the City and Mr. Ochoa entered into 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 \$5.3 million in settlement and release of the claims against the City alleged in the lawsuit filed by Mr. Ochoa. On December 16, 2003, the Federal District Court for the Western District of Texas entered an Order granting Mr. Ochoa's agreed Motion to Dismiss his lawsuit against, among others, the City, with prejudice. 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.

General

Each series of Obligations is dated September 1, 2004 and shall bear interest on the unpaid principal amounts from such date, at the respective per annum rates shown on the cover pages for each series of Obligations described herein. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the bondholder. The Obligations are issued only as fully registered obligations in denominations of \$5,000 or any integral multiple thereof within a maturity.

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

Security

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

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

Bondholder Remedies

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

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

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

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

Redemption

Optional Redemption. The City reserves the right, at its option, to redeem the Series 2004 Bonds and the Certificates having stated maturities on and after September 1, 2015, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2014, 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 2004 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 2004 Bonds or the Certificates, or portions thereof, within such maturity to be redeemed.

The Contractual Obligations and the Series 2004A 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 2004 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 2004 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 2004 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 its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

Book-Entry-Only System

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

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

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

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

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

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

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

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

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

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

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

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

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

Paying Agent/Registrar

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

Transfer, Exchange and Registration

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

Limitation on Transfer of Bonds or Certificates Called for Redemption

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Series 2004 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 2004 Bond or Certificate.

BOND INSURANCE

Financial Security Assurance Inc.

Bond Insurance Policy

Concurrently with the issuance of the Series 2004 Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series 2004 Bonds maturing on September 1 of the years 2015, 2016 and 2022 through 2024, inclusive (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy. Reference is made to APPENDIX D for a specimen of the Policy. The Policy does not guarantee payment of debt service on any Series 2004 Bonds other than the Insured Bonds.

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

Financial Security Assurance Inc.

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

At June 30, 2004, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,212,545,000 and its total unearned premium reserve was approximately \$1,501,280,000 in accordance with statutory accounting practices. At June 30, 2004, Financial Security's total shareholders' equity was approximately \$2,438,206,000 and its total net unearned premium reserve was approximately \$1,255,708,000 in accordance with generally accepted accounting principles.

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

The Policy does not protect investors against changes in market value of the Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2004 Bonds or the advisability of investing in the Series 2004 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement with respect to the issuance of MBIA's policy in support of the debt service on the Certificates. Reference is made to Appendix E 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 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 or interest on the Certificates resulting from the insolvency, negligence or any other act or omission of the Paying Agent 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 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 the 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

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

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

MBIA Information

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

1. The Company's Annual Report on Form 10-K for the year ended December 31, 2003; and
2. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

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, 2003, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 1, 2004 and June 30, 2004) 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, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2004 MBIA had admitted assets of \$10.5 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

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

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

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

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

The above ratings are not recommendations to buy, sell or hold the 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.

There can be no assurances that payments made by the Insurer representing interest on the Certificates will be excluded from gross income, for federal tax purposes, in the event of nonappropriation by the City.

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.

TAX INFORMATION

Ad Valorem Tax Law

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

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

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

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

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

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

In a statewide election held on September 13, 2003, voters approved an amendment to Section 1-b, Article VIII of the Texas Constitution, that would authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of the disabled and of the elderly and their spouses. The City is now authorized to freeze ad valorem taxes on residence homesteads of persons who are disabled or sixty-five years of age or older. If the City Council does not take action to establish the tax limitation, voters within the City may submit a petition signed by five percent of the registered voters of the City requiring the City Council to call an election to determine by majority vote whether to establish the tax limitation.

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is fifty-five years of age or older at the time of the person's death. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

The City Council has not determined at this time what action, if any, it will take regarding this constitutional amendment. The City can make no representations or predictions concerning the impact such a tax limitation would have on the taxing rates of the City or its ability to make debt service payments.

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

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

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

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

The City may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has adopted criteria for granting tax abatements which

establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The City has entered into several such abatement agreements in recent years.

Tax Valuation

| | | |
|--|--------------------|-------------------------|
| January 1, 2004 Appraised Valuation (1) | | \$52,881,407,531 |
| Less Local Exemptions to Assessed Values: (2) | | |
| Residential Homestead over 65 | \$1,132,588,815 | |
| Homestead 10% Increase Cap | 441,618,699 | |
| Disabled Veterans | 36,593,204 | |
| Agricultural and Historical Exemptions | 343,474,981 | |
| Disability Exemption | 104,213,983 | |
| Freeport Exemption | <u>826,618,186</u> | <u>2,885,107,868</u> |
| January 1, 2004 Net Taxable Assessed Valuation (1) | | <u>\$49,996,299,663</u> |

-
- (1) 2004 Certified Appraised Value includes \$3,059,367,835 in property in the appeals process.
- (2) Exemptions or adjustments to assessed valuation granted in 2004 include (a) exemptions of \$51,000 for resident homestead property of property owners over 65 years of age; (b) exemptions for residents homestead property exceeding a 10 percent increase in valuation from the previous year; (c) exemptions ranging from \$5,000 to \$12,000 for property of disabled veterans or certain surviving dependents of disabled veterans; (d) certain adjustments to productive agricultural lands; (e) exemptions to the land designated as historically significant sites by certain public bodies; (f) exemptions of \$51,000 to disabled resident homestead property owners; (g) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

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Statement of Debt (As of September 30, 2004)

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) | \$680,700,000 | |
| Certificates of Obligations (1) | 123,485,000 | |
| Contractual Obligations (1) | 26,715,000 | |
| Assumed Bonds (2) | 12,037,467 | |
| Contract Tax Bonds (3) | 145,000 | |
| The Series 2004 Bonds (4) | 67,835,000 | |
| The Series 2004A Bonds (4) | 2,430,000 | |
| The Certificates (4) | 25,000,000 | |
| The Contractual Obligations (4) | <u>21,830,000</u> | |
| Total | | \$960,177,467 |
| Less Self-Supporting Debt: | | |
| Assumed Bonds (2) | \$10,408,123 | |
| Contract Tax Bonds (3) | 145,000 | |
| Airport (5) | 561,915 | |
| Austin Energy (5) | 2,882,421 | |
| City Hall | 34,030,000 | |
| CMTA Mobility (6) | 24,195,000 | |
| Communications and Technology Management (4)(5) | 18,951,858 | |
| Convention Center (4)(5) | 25,797,250 | |
| Fleet Management (5) | 7,798,771 | |
| Golf (5) | 7,873,200 | |
| One Texas Center (5) | 14,320,000 | |
| Solid Waste (4)(5) | 25,839,743 | |
| Transportation (4)(5) | 2,166,531 | |
| Water and Wastewater (4)(5) | 15,767,435 | |
| Watershed Protection (5) | <u>13,722,933</u> | \$204,460,180 |
| Interest and Sinking Fund, All Public Improvement Bonds (7) | | <u>11,893,504</u> |
| Net Debt (8) | | \$743,877,763 |
| Ratio Total Debt to 2004 Net Taxable Assessed Valuation | | 1.95% |
| Ratio Net Debt to 2004 Net Taxable Assessed Valuation | | 1.51% |

2004 Population (Estimate) – 678,769 (9)
Per Capita Net Taxable Assessed Valuation – \$72,483.29
Per Capita Net Debt Outstanding – \$1,095.92

-
- (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 August 26, 2004 with delivery September 23, 2004.
(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, 2004.
 - (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 \$11,470,448.
 - (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, 2004) \$1,439,928,647 Combined Utility Systems Revenue Bonds payable from a prior lien on the combined net revenue of the Electric System and the Water and Wastewater System; \$542,135,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System; \$655,060,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and \$276,026,000 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, 2004) \$388,125,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding (as of August 1, 2004) \$228,140,000 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 \$7,160,000 and \$4,725,000, respectively, of Certificates of Participation are outstanding (as of August 1, 2004) and payable from payments made under such Subleases. The City anticipates funding the required lease payments from the revenue of the respective utility system, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenue of the Electric System and the Water and Wastewater System are not specifically pledged in such Subleases.

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Valuation and Funded Debt History

| Fiscal Year Ended 9-30 | Estimated City Population (1) | Taxable Assessed Valuation | Per Capita Taxable Assessed Valuation | (000's) Net Funded Tax Debt (2) | Per Capita Net Funded Tax Debt | Ratio of Net Funded Tax Debt to Taxable Valuation | % of Tax Collections |
|------------------------|-------------------------------|----------------------------|---------------------------------------|---------------------------------|--------------------------------|---|----------------------|
| 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 | 1,136.47 | 1.50% | 99.23% |
| 2003 | 674,719 | 50,759,650,668 | 75,230.80 | 788,366 | 1,168.44 | 1.55% | 99.60% |
| 2004 | 678,769 | 49,199,408,526 | 72,483.29 | 732,407 | 1,079.02 | 1.49% | 99.25% (3) |
| 2005 | 683,946 | 49,996,299,663(4) | 73,099.78 | 708,447(5) | 1,035.82(5) | 1.42%(5) | N/A |

- (1) Source: City of Austin Department of Development and Review based on full purpose area as of December 31.
(2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from Operating Budget.
(3) Estimated Collections as of June 30, 2004.
(4) Certified Appraised Value, including \$3,059,367,835 in property in the appeals process.
(5) Projected. Includes the Obligations.

Tax Rate, Levy and Collection History

| Fiscal Year Ended 9-30 | Total Tax Rate | Distribution | | Tax Levy | % Current Collections | % Total Collections |
|------------------------|----------------|--------------|---------------------------|---------------|-----------------------|---------------------|
| | | General Fund | Interest and Sinking Fund | | | |
| 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 | 233,342,114 | 98.84% | 99.60% |
| 2004 | 0.4928 | 0.3236 | 0.1692 | 242,454,685 | 98.13%(1) | 98.96%(1) |
| 2005 (2) | 0.4447 | 0.2764 | 0.1683 | 222,333,545 | | |

- (1) Estimated collections as of June 20, 2004.
(2) The total tax rate is anticipated to be reduced to the level shown as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new countywide hospital district, which will result in certain health services currently being provided by the City to be provided by the hospital district. The hospital district will have taxing powers, and it is anticipated that the combined tax rates of the City and the hospital district will result in an effective tax rate to citizens of the City of approximately 51 cents (see "TAX INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes).

Ten Largest Taxpayers (1)

| <u>Name of Taxpayer</u> | <u>Nature of Property</u> | January 1, 2004 <u>Taxable Assessed Valuation</u> | % of Total Taxable <u>Assessed Valuation</u> |
|-------------------------------------|---------------------------|--|---|
| Freescall Semiconductor Inc(2) | Manufacturing | \$ 636,381,765 | 1.27% |
| Dell Computer Corporation | Manufacturing | 398,510,872 | 0.80% |
| Applied Materials Inc. | Manufacturing | 363,192,228 | 0.73% |
| Advanced Micro Devices, Inc. | Manufacturing | 283,773,408 | 0.57% |
| IBM Corporation | Manufacturing | 279,708,052 | 0.56% |
| Southwestern Bell Telephone Company | Telephone Utility | 241,821,726 | 0.48% |
| Samsung Austin Semiconductor (3) | Manufacturing | 147,860,341 | 0.30% |
| CISCO Systems | Manufacturing | 119,891,600 | 0.24% |
| Blue Star Austin Investments | Commercial | 97,154,533 | 0.19% |
| Simon Property Group | Commercial | <u>93,167,087</u> | <u>0.19%</u> |
| TOTAL | | <u>\$2,661,401,612</u> | <u>5.33%</u> |

- (1) Taxable property valuations for the ten largest taxpayers from the July 2004 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 2005-2006, and taxable property valuations may be lower than the July 2004 certified tax roll.
- (2) The Motorola Corporation is now Freescale Semiconductor Inc.
- (3) The Samsung Corporation received an abatement for \$90,428,640 in real and personal property value.
- Source: Travis Central Appraisal District.

Property Tax Rate Distribution

| | Fiscal Year Ended September 30 | | | | |
|---------------------------|--------------------------------|--------------|--------------|--------------|-----------------|
| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005 (1)</u> |
| General Fund | \$.3011 | \$.3041 | \$.2969 | \$.3236 | \$.2764 |
| Interest and Sinking Fund | <u>.1652</u> | <u>.1556</u> | <u>.1628</u> | <u>.1692</u> | <u>.1683</u> |
| Total Tax Rate | \$.4663 | \$.4597 | \$.4597 | \$.4928 | \$.4447 |

- (1) July 24, 2004 Certified Tax Roll set at a rate of \$0.5065 which is the effective tax rate. The total tax rate is anticipated to be reduced to the level shown as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new countywide hospital district, which will result in certain health services currently being provided by the City to be provided by the hospital district. The hospital district will have taxing powers, and it is anticipated that the combined tax rates of the City and the hospital district will result in an effective tax rate to citizens of the City of approximately 51 cents (see "TAX INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes).

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Net Taxable Assessed Valuations, Tax Levies and Collections

| Fiscal Year Ended | Valuation | Real Property | | Personal Property | | Net Taxable | Total | % Current | % Total |
|-------------------------|-------------|------------------|-------------------|-------------------|-------------------|---------------------------|-----------------|--------------------|--------------------|
| <u>9-30</u> | <u>Date</u> | <u>Amount</u> | <u>% of Total</u> | <u>Amount</u> | <u>% of Total</u> | <u>Assessed Valuation</u> | <u>Tax Levy</u> | <u>Collections</u> | <u>Collections</u> |
| 1994 | 1-1-93 | \$14,828,873,350 | 81.30% | \$3,408,658,744 | 18.70% | \$18,237,532,094 | \$113,528,637 | 98.76% | 100.07% |
| 1995 | 1-1-94 | 17,350,805,301 | 82.79% | 3,607,783,999 | 17.21% | 20,958,589,300 | 117,892,065 | 99.00% | 100.10% |
| 1996 | 1-1-95 | 19,478,990,278 | 83.59% | 3,824,024,769 | 16.41% | 23,303,015,047 | 126,908,220 | 99.03% | 99.91% |
| 1997 | 1-1-96 | 21,488,717,069 | 83.21% | 4,334,668,188 | 16.79% | 25,823,385,257 | 135,598,596 | 98.96% | 99.47% |
| 1998 | 1-1-97 | 22,693,966,978 | 82.54% | 4,799,091,757 | 17.46% | 27,493,058,735 | 148,490,010 | 98.80% | 99.37% |
| 1999 | 1-1-98 | 27,225,077,724 | 83.88% | 5,233,272,031 | 16.12% | 32,458,349,755 | 166,900,834 | 98.89% | 99.57% |
| 2000 | 1-1-99 | 30,114,175,223 | 84.58% | 5,488,665,103 | 15.42% | 35,602,840,326 | 179,224,698 | 99.08% | 99.85% |
| 2001 | 1-1-00 | 35,257,000,679 | 85.23% | 6,110,383,576 | 14.77% | 41,419,314,286 | 193,138,262 | 98.98% | 99.60% |
| 2002 | 1-1-01 | 40,775,710,666 | 85.34% | 7,007,162,430 | 14.66% | 47,782,873,096 | 219,657,867 | 98.81% | 99.23% |
| 2003 | 1-1-02 | 44,261,013,540 | 87.20% | 6,498,637,128 | 12.80% | 50,759,650,668 | 233,342,114 | 98.84% | 99.60% |
| 2004 | 1-1-03 | 43,038,451,926 | 87.48% | 6,160,956,600 | 12.52% | 49,199,408,526 | 242,454,685 | 98.13% (1) | 99.96% (1) |
| 2005 | 1-1-04 | 43,920,059,913 | 87.85% | 6,076,239,750 | 12.15% | 49,996,299,663 | 222,333,545 (2) | N/A | N/A |

(1) Estimated collections through June 30, 2004.

(2) July 24, 2004 Certified Tax Roll set at a rate of \$0.5065 which is the effective tax rate. However, as a result of the voter approved new Hospital District the proposed tax rate will be reduced by \$0.0618 to \$0.4447. (See "TAX INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes").

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Tax Rate Limitation

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

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

Under the Property 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.

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DEBT INFORMATION (1)

| Fiscal Year Ending <u>09/30</u> | Public Improvement <u>Bonds</u> | Certificates of <u>Obligation</u> | Contractual <u>Obligations</u> | Contract Tax <u>Bonds</u> | Assumed MUD <u>Bonds</u> | The <u>Obligations (2)</u> | Total Combined Debt <u>Requirements</u> | Less: Self-Supporting <u>Requirements(3)</u> | Total Net Debt <u>Requirements</u> | Percent Principal <u>Payout</u> |
|--|---------------------------------------|---|-----------------------------------|---------------------------------|--------------------------------|-------------------------------|---|--|--|---------------------------------------|
| 2005 | \$ 77,753,874 | \$ 12,473,339 | \$ 9,021,994 | \$ 148,553 | \$ 2,805,925 | \$ 6,174,439 | \$ 108,378,123 | \$ 27,786,531 | \$ 80,591,592 | |
| 2006 | 82,062,794 | 12,058,381 | 6,508,294 | | 2,353,724 | 8,331,403 | 111,314,595 | 27,155,138 | 84,159,457 | |
| 2007 | 76,758,635 | 12,123,731 | 4,120,158 | | 1,261,653 | 10,991,833 | 105,256,009 | 24,773,141 | 80,482,867 | |
| 2008 | 71,439,710 | 12,130,194 | 3,286,727 | | 1,111,385 | 11,100,715 | 99,068,731 | 24,201,824 | 74,866,906 | |
| 2009 | 66,607,398 | 12,193,014 | 3,095,256 | | 991,463 | 11,209,825 | 94,096,954 | 23,445,715 | 70,651,239 | 33.28% |
| 2010 | 67,885,386 | 12,243,274 | 2,164,616 | | 997,573 | 11,309,403 | 94,600,251 | 12,053,796 | 82,546,456 | |
| 2011 | 65,104,036 | 12,296,314 | 716,897 | | 1,001,480 | 11,413,766 | 90,532,493 | 18,478,305 | 72,054,188 | |
| 2012 | 61,224,034 | 12,356,045 | | | 1,003,240 | 9,772,628 | 84,355,947 | 19,857,164 | 64,498,783 | |
| 2013 | 57,095,150 | 11,610,825 | | | 1,017,960 | 7,770,009 | 77,493,944 | 17,131,582 | 60,362,362 | |
| 2014 | 53,881,375 | 8,952,963 | | | 1,214,635 | 7,986,421 | 72,035,394 | 16,090,256 | 55,945,138 | 63.88% |
| 2015 | 50,070,398 | 8,981,018 | | | 1,213,546 | 7,479,071 | 67,744,033 | 12,963,109 | 54,780,923 | |
| 2016 | 45,710,213 | 9,049,258 | | | 1,229,024 | 7,506,521 | 63,495,015 | 12,768,713 | 50,726,302 | |
| 2017 | 41,990,948 | 9,114,009 | | | 1,011,643 | 7,539,171 | 59,655,770 | 12,384,547 | 47,271,223 | |
| 2018 | 36,671,656 | 8,989,056 | | | 716,688 | 7,568,671 | 53,946,071 | 11,857,113 | 42,088,958 | |
| 2019 | 35,132,450 | 7,012,003 | | | | 7,592,661 | 49,737,114 | 9,240,585 | 40,496,529 | 88.23% |
| 2020 | 28,986,694 | 6,540,453 | | | | 7,620,311 | 43,147,458 | 8,337,136 | 34,810,322 | |
| 2021 | 22,308,138 | 4,879,013 | | | | 7,652,534 | 34,839,684 | 8,029,019 | 26,810,665 | |
| 2022 | 14,219,444 | 3,074,940 | | | | 7,685,819 | 24,980,203 | 6,886,806 | 18,093,396 | |
| 2023 | 6,993,000 | 351,080 | | | | 7,696,319 | 15,040,399 | 5,123,160 | 9,917,239 | |
| 2024 | - | - | | | | 7,745,794 | 7,745,794 | 2,361,499 | 5,384,295 | 100.00% |

(1) As of September 30, 2004.

(2) Includes principal and interest on the Obligations.

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

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-03) (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.

| <u>Taxing Jurisdiction</u> | <u>Total Funded Debt</u> | <u>Estimated % Applicable (2)</u> | <u>Overlapping Funded Debt</u> |
|--|------------------------------|---------------------------------------|------------------------------------|
| City of Austin | \$805,677 (1) | 100.00% | \$ 805,677 |
| Austin Independent School District | 444,015 | 79.12% | 351,305 |
| Travis County | 479,377 | 72.00% | 345,151 |
| Round Rock Independent School District | 465,740 | 5.75% | 26,780 |
| Leander Independent School District | 556,601 | 1.17% | 6,512 |
| Pflugerville Independent School District | 222,872 | 4.01% | 8,937 |
| Eanes Independent School District | 110,422 | 3.98% | 4,395 |
| Williamson County | 376,880 | 2.93% | 11,043 |
| Del Valle Independent School District | 94,070 | 3.12% | 2,935 |
| Manor Independent School District | 32,664 | 1.72% | 562 |
| Austin Community College | 128,760 | 81.70% | 105,197 |
| North Austin Municipal Utility District No. 1 | 11,392 | 100.00% | 11,392 |
| Northwest Austin Municipal Utility District No. 1 | 12,727 | 100.00% | 12,727 |
| Northwest Travis County Road District No. 3 | 5,355 | 100.00% | <u>5,355</u> |
| TOTAL DIRECT AND OVERLAPPING FUNDED DEBT | | | <u>\$1,697,968</u> |
| Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (3) | | | 3.32% |
| Per Capita Overlapping Funded Debt (4) | | | \$2,516.56 |

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

(2) Source: Taxing jurisdiction.

(3) Based on assessed valuation of \$51,174,017,303.

(4) Based on 2003 estimated population of 674,719.

On May 15, 2004, voters of Travis County (in which the City is located) approved the creation of a countywide hospital district, and authorized the hospital district to levy an ad valorem tax at a rate not to exceed 25 cents per \$100 assessed valuation. It is anticipated that the hospital district will assume and fund health care facilities and services currently provided by the City, and funded from ad valorem taxes assessed to residents of the City and Travis County. The City expects to reduce the ad valorem tax rate levied and assessed against property owners of the City as a result of the creation of the countywide hospital district. See "TAX INFORMATION – Tax Rate, Levy and Collection History".

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Authorized General Obligation Bonds

| <u>Purpose</u> | <u>Date</u> | <u>Amount</u> | <u>Amount</u> <u>Previously</u> | <u>Amount</u> | <u>Unissued</u> |
|-----------------------------------|-------------------|-------------------|------------------------------------|---------------------|----------------------|
| | <u>Authorized</u> | <u>Authorized</u> | <u>Issued</u> | <u>Being Issued</u> | <u>Balance</u> |
| 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 | 35,503,000 | 0 |
| Park and Recreation Facilities | 11-03-98 | 75,925,000 | 40,250,000 | 11,532,000 | 9,668,000 |
| Library, Cultural Arts and Museum | 11-03-98 | 46,390,000 | 34,845,000 | 2,875,000 | 8,670,000 |
| Street Improvements | 11-07-00 | 150,000,000 | 30,000,000 | <u>15,000,000</u> | <u>90,000,000</u> |
| TOTAL | | | | <u>\$64,910,000</u> | <u>\$123,275,000</u> |

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2005. 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.

2004-2005 Capital Budget

The 2004-2005 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 2004-2005 of \$409.6 million in enterprise funds and \$134.7 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 2004-05 Capital Budget. Total new proposed appropriation for General Government CIP Funds is \$57.2 million and total new proposed appropriation for Enterprise CIP Funds is \$222.5 million. Appropriation by department is listed below.

| | |
|--|----------------|
| Summary of 2004-2005 Proposed Capital Budget (millions): | |
| Austin Energy | \$ 39.1 |
| Aviation | 16.2 |
| Austin Water Utility | 153.7 |
| Golf | 0.2 |
| Solid Waste Services | 1.7 |
| Watershed Protection | <u>11.6</u> |
| Enterprise Appropriations | \$222.5 |
| | |
| Communications & Technology Management | \$ 5.1 |
| Financial & Administrative Services | 7.4 |
| Fleet | 0.5 |
| Fire | 2.2 |
| Library | 0.8 |
| Neighborhood Housing & Community Development | 1.9 |
| Neighborhood Planning & Zoning | 0.5 |
| Parks and Recreation | 8.4 |
| Police | 0.2 |
| Public Works | <u>30.3</u> |
| General Government Appropriations | \$ 57.3 |
| | |
| TOTAL PROPOSED NEW APPROPRIATIONS | <u>\$279.8</u> |

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 2004-2005 proposed budget complied with these requirements.

2004–2005 Budget (Amounts are in thousands)

The 2004-2005 proposed operating budget was proposed on July 29, 2004, and was prepared in accordance with guidelines provided by the City Council. The adopted budget includes a tax rate of \$0.4447 per \$100 assessed valuation, which is the effective tax rate. The following is a summary of the adopted 2004-2005 General Fund Budget. The City Council will adopt an approved budget the second week in September.

An approximately \$19 million budget gap occurred during the 2003-2004 fiscal year, and the City addressed this through enhanced revenue – both revenue initiatives and improved revenue increases – as well as expenditure reductions, bringing the budget into balance. These expenditure reductions include elimination of positions, as well as reduced hours and program levels at various facilities.

| | |
|---|-----------|
| Beginning Balance, October 1, 2004 (Budget Basis) (000's omitted) | \$ 39,636 |
|---|-----------|

Summary of Budgeted General Fund Resources

Revenue:

| | |
|-------------------------------|---------------|
| General Property Taxes | \$ 136,726 |
| City Sales Tax | 122,748 |
| Other Taxes | 3,888 |
| Gross Receipts/Franchise Fees | 28,564 |
| Miscellaneous | <u>62,240</u> |

| | |
|---------------|-----------|
| Total Revenue | \$354,166 |
|---------------|-----------|

Transfers In:

| | |
|---------------------------------|------------|
| Electric Light and Power System | \$ 74,520 |
| Water and Wastewater System | 19,596 |
| Other Transfers | <u>850</u> |

| | |
|--------------------|-----------|
| Total Transfers In | \$ 94,966 |
|--------------------|-----------|

| | |
|------------------------------|------------------|
| Total General Fund Resources | <u>\$449,132</u> |
|------------------------------|------------------|

Summary of Budgeted General Fund Requirements

Departmental Appropriations:

| | |
|----------------------------------|---------------|
| Administrative Services | \$ 8,902 |
| Urban Growth Management | 15,771 |
| Public Safety | 290,801 |
| Public Works | 160 |
| Public Health and Human Services | 26,806 |
| Public Recreation and Culture | <u>45,227</u> |

| | |
|-----------------------------------|-----------|
| Total Departmental Appropriations | \$387,667 |
|-----------------------------------|-----------|

Transfers Out:

| | |
|-----------------------|-----------|
| Support Services Fund | \$ 16,010 |
| Other Funds | 31,392 |

| | |
|---------------------|-----------|
| Total Transfers Out | \$ 47,402 |
|---------------------|-----------|

| | |
|--------------------|------------------|
| Other Requirements | <u>\$ 13,866</u> |
|--------------------|------------------|

| | |
|---------------------------------|------------------|
| Total General Fund Requirements | <u>\$448,935</u> |
|---------------------------------|------------------|

| | |
|--------------------------|---|
| Use of Beginning Balance | 0 |
|--------------------------|---|

| | |
|----------------|------------------|
| Ending Balance | <u>\$ 39,833</u> |
|----------------|------------------|

| | |
|-----------------------------|---------|
| One-Time Critical Equipment | \$7,872 |
|-----------------------------|---------|

| | |
|-------------------------|------------------|
| Adjusted Ending Balance | <u>\$ 31,961</u> |
|-------------------------|------------------|

Budgeted Reserve Requirements

| | |
|-----------------------------------|---------------|
| Emergency Reserve | \$ 15,000 |
| Contingency Reserve | 4,358 |
| Budget Stabilization Reserve Fund | <u>33,000</u> |

| | |
|-------------------------------------|------------------|
| Total Budgeted Reserve Requirements | <u>\$ 52,358</u> |
|-------------------------------------|------------------|

Deficit Budgeting

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

Accounting System

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

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

Short-Term Borrowing

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

GASB Statement No. 34

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

INVESTMENTS

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

Legal Investments

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

least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

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

Investment Policies

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

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority of the City Council or the 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 May 31, 2004, the City's investable funds were invested in the following categories.

| <u>Type of Investment</u> | <u>Percentage</u> |
|-----------------------------------|-------------------|
| U. S. Treasuries | 15.1% |
| U. S. Agencies | 56.8% |
| Money Market Funds | 0.3% |
| Local Government Investment Pools | 27.8% |

The dollar weighted average maturity for the combined City investment portfolios is 1.18 years. The City prices the portfolios weekly utilizing a market pricing service.

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GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
(in 000's)

| | Fiscal Year Ended September 30 | | | | |
|--|--------------------------------|------------------|------------------|-------------------|------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| <u>Revenues:</u> | | | | | |
| Taxes (1) | \$215,886 | \$240,664 | \$251,750 | \$262,190 | \$264,511 |
| Franchise Fees | 19,671 | 23,699 | 31,453 | 29,589 | 28,962 |
| Fines, Forfeitures and Penalties | 16,205 | 16,040 | 17,000 | 17,704 | 16,966 |
| Licenses, Permits and Inspections | 17,252 | 18,174 | 17,631 | 14,670 | 14,737 |
| Charges for Services | 11,534 | 11,758 | 14,984 | 15,579 | 15,403 |
| Interest and Other | <u>6,362</u> | <u>9,410</u> | <u>10,584</u> | <u>6,028</u> | <u>19,815</u> |
| Total Revenues | \$286,910 | \$319,745 | \$343,402 | \$345,760 | \$360,394 |
| <u>Expenditures:</u> | | | | | |
| Administration | \$ 7,850 | \$ 8,976 | \$ 9,426 | \$ 9,282 | \$ 8,909 |
| Urban Growth Management | 9,129 | 10,189 | 11,569 | 10,882 | 11,638 |
| Public Safety | 173,963 | 191,592 | 210,281 | 237,590 | 254,684 |
| Public Services and Utilities | 11,099 | 6,098 | 9,520 | 9,191 | 9,380 |
| Public Health | 40,678 | 41,032 | 41,437 | 43,655 | 46,061 |
| Public Recreation and Culture | 40,929 | 44,205 | 47,460 | 46,696 | 45,193 |
| Social Services Management | 8,627 | 9,387 | 8,071 | 10,448 | 9,985 |
| Nondepartmental Expenditures | <u>49,142</u> | <u>53,459</u> | <u>57,857</u> | <u>62,493</u> | <u>47,029</u> |
| Total expenditures | \$341,417 | \$364,938 | \$395,621 | \$430,237 | \$432,879 |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | \$ (54,507) | \$ (45,193) | \$ (52,219) | \$ (84,477) | \$ (72,485) |
| <u>Other Financing Sources (Uses):</u> | | | | | |
| Capital Leases | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 785 |
| Transfers from Other Funds | 74,204 | 78,352 | 86,283 | 137,084 | 92,417 |
| Transfers to Other Funds | <u>(26,592)</u> | <u>(31,294)</u> | <u>(29,992)</u> | <u>(9,424)</u> | <u>(21,129)</u> |
| Net Other Financing Sources | \$ 47,612 | \$ 47,058 | \$ 56,291 | \$127,660 | \$ 72,073 |
| Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses | \$ (6,895) | \$ 1,865 | \$ 4,072 | \$ 43,183 | \$ (412) |
| Residual Equity Transfer In (Out) | 0 | 251 | (500) | 0 | 0 |
| Fund Balances at Beginning of Year | <u>49,289</u> | <u>42,394</u> | <u>44,510</u> | <u>50,435 (2)</u> | <u>93,618</u> |
| Fund Balances at End of Year | <u>\$ 42,394</u> | <u>\$ 44,510</u> | <u>\$ 48,082</u> | <u>\$ 93,618</u> | <u>\$ 93,206</u> |

(1) Consists of property, sales and mixed drinks tax.

(2) Beginning fund balance adjusted for implementation of new accounting principle.

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CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

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

| <u>Fiscal Year</u> <u>Ended 9-30</u> | <u>Per Capita</u> <u>Sales and Use Tax</u> | <u>(in 000's)</u> <u>Sales and Use Tax</u> | <u>% of</u> <u>Ad Valorem Tax Levy</u> |
|---|---|---|---|
| 1994 | \$149.33 | \$ 75,780 | 66.75% |
| 1995 | 153.77 | 80,475 | 68.26% |
| 1996 | 154.43 | 83,681 | 65.94% |
| 1997 | 157.15 | 88,150 | 65.01% |
| 1998 | 160.44 | 97,581 | 65.72% |
| 1999 | 172.59 | 106,839 | 64.01% |
| 2000 | 194.31 | 122,157 | 68.16% |
| 2001 | 186.23 | 123,218 | 63.80% |
| 2002 | 172.03 | 115,441 | 52.55% |
| 2003 | 163.70 | 110,454 | 47.34% |
| 2004 (1) | 172.23 | 116,903 | 48.22% |
| 2005 (2) | 179.47 | 122,748 | 55.21% |

(1) Estimate.

(2) Estimate used in proposed budget.

Transfers From Utility Funds

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

| <u>Fiscal Year</u> <u>Ended 9-30</u> | <u>(in 000's)</u> <u>Transfers</u> | <u>% of General</u> <u>Fund Requirements</u> |
|---|---------------------------------------|---|
| 1994 | \$67,914 | 29.7% |
| 1995 | 71,111 | 28.5% |
| 1996 | 73,583 | 26.0% |
| 1997 | 71,450 | 24.6% |
| 1998 | 72,721 | 23.4% |
| 1999 | 74,204 | 21.7% |
| 2000 | 78,352 | 21.5% |
| 2001 | 85,824 | 21.7% |
| 2002 | 88,924 | 21.7% |
| 2003 | 92,417 | 20.3% |
| 2004 (1) | 95,894 | 20.7% |
| 2005 (2) | 94,117 | 21.0% |

(1) Estimate.

(2) Estimate used in proposed budget.

ENTERPRISE FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Assets

The Enterprise Funds account for the activities of the City which render services on a user charge basis to the general public. Set forth on pages B-28 and B-29 of APPENDIX B, attached hereto, is a condensed summary of the revenues, expenses, transfers and retained earnings of the City's enterprise funds for the year ended September 30, 2003.

THE ELECTRIC UTILITY SYSTEM

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") which provides the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric services. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The City 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 was approved by the City Council in the amount of \$691,386.00. 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 PUCT under section 33.101 of the Public Utility Regulatory Act ("PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City's corporate limits.

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

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

In 1995, PURA was amended as it pertains to the PUCT's original jurisdiction over the City's provision of wholesale transmission service. The PUCT now has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, discriminatory, predatory, or anti-competitive. The PUCT adopted rules relating to wholesale transmission service. The City participated in the rulemaking. The current rules have been challenged in two original petitions filed by Reliant (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. The City Council approved a proposed settlement of the case in August 2003. The settlement has been presented to the PUCT for consideration. It is unknown when the PUCT will consider the settlement.

The City's current transmission rates have been in effect since January 1, 1997. The City's transmission costs have increased over the last 7 years as the result of adding new investment and increasing reliability. As a result, the City filed an application to change rates for wholesale transmission service on May 21, 2004. If approved, the requested change will result in an annual revenue requirement increase of \$12.8 million. The application is being processed by the PUCT.

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

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

During the 1999 Legislative Session PURA was amended by SB 7 providing for deregulation of the electric utility industry in Texas. SB 7 opened retail competition for investor owned utilities beginning January 1, 2002. SB 7 allows

local authorities to choose when to bring retail competition to their Municipally Owned Utilities (“MOU”), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to “opt in” for retail competition is adopted by the municipal utility’s governing body, the decision is irrevocable.

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

MOUs Which *Do Not* Choose Retail Competition

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

MOUs Choosing Retail Competition On or After January 1, 2002

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

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

MOU Local Control Preserved

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

Participation By MOU In Markets Outside Its Area

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

Metering And Billing

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

Other Key MOU Provisions

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

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

Real Estate Taxes

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

Service Area

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

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

Federal Regulation

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

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

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

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

of continuing to serve the former customer's requirements for electric sales service and would also be required to demonstrate that it had attempted to mitigate its stranded costs.

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

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

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

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

Environmental

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

Air Emissions . . . Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power production facilities. All of Austin Energy's large generating units have been issued Federal Operating Permits and Federal Acid Rain Permits for the individual units by the Texas Commission on Environmental Quality ("TCEQ") and USEPA. References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

In 1999, as part of SB 7, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 TAC 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). All of Austin Energy's then operational units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. The SB 7 permitting program instituted a "cap and trade" program for NOx emissions. "Grandfathered" units were allocated allowances of NOx based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit. Austin Energy's SB 7 permitted units must have enough SB 7 emission allowances available to cover the actual emissions from these units on a yearly basis. If the total NOx emissions from these plants exceed the total system allocation, Austin Energy must purchase the additional allowances needed to cover its emissions. The emission-trading program will also allow Austin Energy to sell in the open market emission allowances derived from excess NOx reductions. Since the NOx emission rate from the Decker Unit 2 is considered very low compared to similar units, this unit was voluntarily included in this same permitting program. By making this voluntary move, Austin Energy significantly reduced the costs of complying with this program.

In addition to the SB 7 degrandfathering program, Austin Energy has made voluntary commitments to cap the emissions of NOx from Decker, Holly and Sand Hill to a total of 1500 tons per year. This commitment was made in order to assist with the Early Action Compact or EAC made between the governmental bodies of the Austin Area and EPA. The first compliance year under the SB 7 program has just come to an end and Austin Energy's emission total was several hundred tons below the 1500 ton total.

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

Water

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

Other

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

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

Nuclear

Nuclear generation facilities are subject to regulation by the Nuclear Regulatory Commission ("NRC") and are required to obtain liability insurance and a United States Government indemnity agreement in order for the NRC to issue operating licenses. This primary insurance and the retrospective assessment discussed below are to insure against the

maximum liability under the Price-Anderson Act for any public claims arising from a nuclear incident which occurs at any of the licensed nuclear reactors located in the United States.

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

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

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

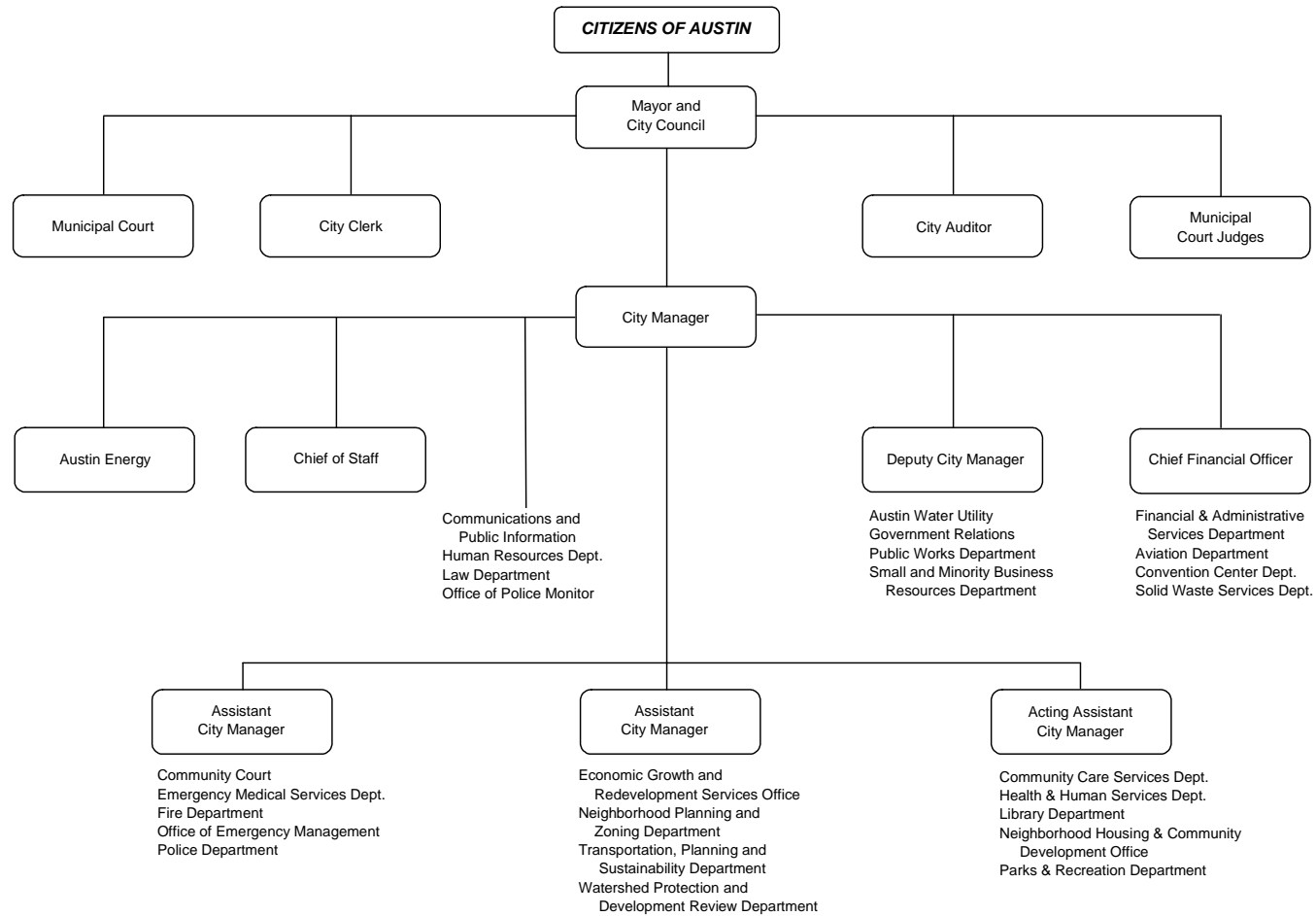
The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion, but is less than the total amount available for such losses. The \$2.75 billion of nuclear property insurance consists of \$500 million in primary property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

Finally, the NRC maintains its regulations setting forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the required report to the NRC 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, 2003 was \$90,687,258 (unaudited). For Fiscal Year 2004, Austin Energy estimates that it will continue to collect approximately \$4,958,221 for decommissioning expense.

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CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

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

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

City Manager – Toby Hammett Futrell

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

Chief Financial Officer – John Stephens, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

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

If the annexation service plan for an annexation area includes a schedule for the provision of full municipal services, the City has two and one-half years from the date of the annexation to substantially complete the capital improvements necessary to provide services to the area. However, if necessary, the City may propose a longer schedule. A wide range of services – police and fire protection, sanitation, and maintenance of public facilities such as water and wastewater facilities, 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 1994. Negative numbers reflect disannexations in excess of acreage annexed.

| <u>Calendar Year</u> | <u>Full Purpose Acres (1)</u> | <u>Limited Purpose Acres</u> |
|----------------------|-------------------------------|------------------------------|
| 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 |
| 2003 | 3,253 | 0 |

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

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

Recent Annexation

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

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

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

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

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

Future Annexation

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

- Avery Ranch – sections of limited purpose area will continue to be converted to full purpose status;
- Walnut Creek Area – full purpose annexation of limited purpose area northeast of Austin scheduled for 2005;
- Wildhorse Ranch – limited purpose area with conversions to full purpose expected to begin in 2004;
- 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); and
- Anderson Mill MUD and adjacent areas – annexation postponed until December 2008 per terms of the amended SPA.

Pension Plans

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

The Police Officers contribute 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 25.7 years and the Firefighter's Fund over 33.4 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2003, was \$1,551,830,802. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2002, was \$384,992,000. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2003, was \$452,668,849. Actuarial studies were performed for the Municipal Employees Fund and Firefighter's Pension Fund as of December 31, 2003, and the Police

Officer's Fund as of December 31, 2002. The Municipal Employees Fund had an infinite funding period at year end 2003, and various methods of restoring actuarial soundness are currently being evaluated. See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

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

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

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$20.1 million for claims and damages at the end of fiscal year 2003. 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 2004 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.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Tax-Exempt Obligations in order for interest on the Tax-Exempt Obligations to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Tax-Exempt Obligations to be included in gross income retroactively to the date of issuance of the Tax-Exempt Obligations. The opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Tax-Exempt Obligations.

Bond Counsel’s opinion 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 2004A 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"). Additionally the Series 2004 Bonds maturing in each of the years 2015, 2016 and 2022 through 2024, inclusive, will be rated "AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's as a result of a municipal bond insurance policy delivered by Financial Security. The Certificates will also be rated "AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's as a result of a municipal bond insurance policy delivered by MBIA. The presently outstanding tax supported debt of the City is rated "AA+" by S&P, "AA+" by Fitch and "Aa2" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Obligations. The City will undertake no responsibility to notify the owners of the Obligations of any such revisions or withdrawal of ratings.

Litigation

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

Registration and Qualification

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

Legal Opinions and No-Litigation Certificate

The City will furnish complete transcripts of proceedings had incident to the authorization and issuance of the Obligations including the unqualified approving legal opinions of the Attorney General of the State of Texas approving the issuance of each series of the Obligations, and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the 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.

Financial Advisor

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

Authenticity of Financial Data and Other Information

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

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Ordinances adopted by the City Council on August 26, 2004.

/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. A petition signed by a minimum 5 percent of voters waives the term limit for a councilmember. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs.

Austin, the capital of the state of Texas, is the fourth largest city in Texas (behind Houston, Dallas, and San Antonio), with a year 2000 population of 656,562. According to the 2000 Census, Austin's population grew since 1990 by 191,000 residents, which represents an increase of 41 percent. Geographically, Austin consists of approximately 275 square miles. Austin has a median household income of \$42,689 and a per capita income of \$24,163.

Austin is frequently recognized as a great place to live and/or work, with one of the most recent commendations in *Forbes*, which rated Austin as the number one city on its list of Best Places for Business and Careers. *Forbes* also recognized Austin as the best city for singles. 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, film and interactive festivals each spring as well as the Austin City Limits Festival each fall.

The educational opportunities in Austin have long drawn people to the city. Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with more than 30% of its adults having a college degree and over 88 percent 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. Although the Austin area unemployment rate has improved slightly from the previous year, it remains significantly higher than prior to the economic downturn. The unemployment rate for September 2003 was 5.5 percent, which is a slight improvement from the September 2002 rate of 5.7 percent. Statewide, the unemployment rate stands at 6.6 percent, compared to 6.5 percent a year ago.

Layoffs and the nationwide slump in tourism have negatively impacted both sales tax and hotel tax revenues from levels experienced a few years ago. While, hotel tax revenues increased by 3 percent from the prior year, they are still below pre 9/11 levels. During 2003, sales tax revenue declined 4.5 percent. Early 2004 collections show an increase in sales tax and hotel bed taxes, which may indicate that the economic slump is beginning to improve. Property taxes for 2003 and subsequent years may be negatively impacted by lawsuits filed against the appraisal district; the suits challenge the appraisal district's property valuations for many businesses. If the challenges are successful, they could result in decreased tax revenue next year for the local taxing jurisdictions, including the City. These financial statements include the impact of estimated refunds for the pending lawsuits.

The City's airport continues to see a decline in travel as a result of the 9/11 tragedy and continued security concerns related to air travel. Total airline passengers declined slightly in 2003 from the previous year. Costs related to the operations of the airport increased significantly due to security costs. Parking revenues have also declined significantly due to the decline in

travel and an increase in competition from other parking sites located near the airport. The City's Convention Center facilities, with the addition of the expanded Convention Center facility and the new Palmer Events Center, increased revenues significantly from the previous year. The increase in revenues was proportionately higher than the increase in expenses to operate the facilities, in part due to cost-cutting initiatives instituted beginning in 2002. Although water and wastewater revenues were higher than the previous year, they were less than anticipated due to mild weather conditions.

City management implemented cost savings efforts beginning in 2002 and throughout the 2003 budget. During the 2003 budget development, a structural budget process was instituted. As part of this process, an emphasis was placed on funding the City's expenditures with on-going revenue sources instead of relying on one-time revenue occurrences and excess ending balances in order to balance the budget. Aside from public safety related costs, significant cost reductions occurred across the City, primarily in the General and Support Services Funds. As part of the 2003 budget, over 300 vacant positions were cut from the budget. Economic indicators show that the economy was beginning to improve in early 2004; however, the City continues to be extremely cautious regarding future economic projections.

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 recently reorganized its economic development activity to focus on three major areas; traditional economic development (including primary employers), small business development, and cultural vitality.

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 Daughter's of Charity under a lease agreement with the City. In order to accommodate certain ethical religious directives, Seton and the City agreed to construct a separately licensed facility for reproductive services and to increase maternity capacity. In February 2004, construction of the Austin Women's Hospital was completed. The facility, which is located on the fifth floor of Brackenridge Hospital, will be operated by the University of Texas Medical Branch at Galveston. The new hospital will maintain access for anyone in need of reproductive health care services; maintain seamless delivery of services; and maintain the high quality of care currently available at Brackenridge Hospital. The facility opened for business on March 10, 2004.

Prior to 1995, the City owned and operated an acute care hospital (Brackenridge Hospital) and a children's hospital (Austin Children's Hospital), along with a clinic system and an indigent care program. In 1995, long-term operating responsibility for the two hospitals, and a significant portion of the financial responsibility for the indigent care program, was transferred to a third party lessee of Brackenridge Hospital and Austin Children's Hospital. In May 2004, the citizens of Travis County, Texas (which encompasses most of the City of Austin) voted to establish a county-wide hospital district, which will assume ownership of Brackenridge Hospital, Austin Children's Hospital, and Austin Women's Hospital (which opened as a hospital within a hospital on the Brackenridge Hospital campus in early 2004). In addition to acquiring the hospitals, the newly created district is required to assume responsibility from the City for funding the clinic and indigent care programs for residents of Travis County, Texas.

Construction of the Combined Transportation, Emergency and Communications Center was completed in October 2003. The facility supports existing and new operations of critical emergency communications and transportation management for the region. It is located at the former site of the Robert Mueller Airport.

Convention and Cultural Projects

The City operates the Austin Convention Center, in addition to the Palmer Events Center. In June 2002, construction was completed for the expansion of the Convention Center, which effectively doubled the size of the facility. On January 5, 2004, the new Convention Center Headquarters Hotel, which is adjacent to the Convention Center, opened for business. This hotel is owned by Austin Convention Enterprises, Inc., and operated by Hilton Hotels Corporation. The Palmer Events Center is located next to Town Lake and is utilized for arts and crafts shows, concerts, trade shows and small conventions.

The City continues with building a new City Hall and Public Plaza, which will be Austin's newest landmarks. The City Hall will overlook lovely Town Lake. December 2, 2003 marked the topping-out ceremony, which approximates the halfway point in construction of the building and plaza. Construction is expected to be completed in the Fall of 2004.

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 the site of a new children's 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 improvements to State Highway (SH) 183, which will improve access to Austin-Bergstrom International Airport; extension of Loop 1 North; 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. Other projects include improved transportation options for pedestrians and bicyclists.

Utility Projects

Austin Energy, the City's electric utility, continues its efforts to remain competitive in the new deregulated environment. 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 remaining competitive 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 in Electric Utility revenue refunding bonds and refunded \$100.3 million of the Combined Utility System tax exempt commercial paper and \$87 million of the outstanding Combined Utility System taxable commercial paper during 2003. Austin Energy continues to increase participation in the GreenChoice Program, including participation from Concordia University, which is the first college in the nation to subscribe to 100 percent green power. Austin Energy's GreenChoice Program ranks number one in the nation in green power sales according to the Department of Energy.

The Water and Wastewater Utility has launched the Austin Clean Water Program. The Program is the result of a mandate from the U.S. Environmental Protection Agency to eliminate overflows from its wastewater collections system by the end of 2007. The cost to complete this program is estimated to be \$150 million. The Utility reduced its debt liability by issuing refunding bonds during the year. Consent obtained from Utility bondholders to replace a debt service reserve fund with a surety bond will result in releasing cash reserves that may be used to defease outstanding debt.

Status of City Services

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

Police, EMS, and Fire are the three highest rated services in the survey. The top issues of importance to Austin residents are:

- Downtown issues (parking, traffic, construction)
- Tax related issues (including utility rates, fees and charges)
- Road conditions/new roads
- Growth management
- Jobs

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

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

| | <u>1980</u> | | <u>1990</u> | | <u>2002</u> | | <u>2003</u> | | <u>May 31, 2004</u> | |
|---------------------------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|---------------------|---------------|
| | | % of | | % of | | % of | | % of | | % of |
| <u>Industrial Classification</u> | | <u>Total</u> | | <u>Total</u> | | <u>Total</u> | | <u>Total</u> | | <u>Total</u> |
| Manufacturing | 31,014 | 12.8% | 49,300 | 12.9% | 71,200 | 10.6% | 60,483 | 9.1% | 56,600 | 8.6% |
| Government | 78,263 | 32.3% | 110,400 | 28.8% | 147,900 | 22.1% | 148,433 | 22.3% | 147,800 | 22.5% |
| Trade, transportation & utilities (b) | 59,121 | 24.4% | 90,500 | 23.6% | 173,800 | 25.9% | 113,183 | 17.0% | 132,400 | 20.1% |
| Services and miscellaneous | 44,826 | 18.5% | 97,200 | 25.3% | 201,800 | 30.1% | 265,342 | 40.0% | 242,600 | 36.9% |
| Finance, insurance and real estate | 14,296 | 5.9% | 23,400 | 6.1% | 34,100 | 5.1% | 37,850 | 5.7% | 40,700 | 6.2% |
| Contract Construction | 14,053 | 5.8% | 12,000 | 3.1% | 39,800 | 5.9% | 37,008 | 5.6% | 36,300 | 5.5% |
| Natural resources and mining | <u>727</u> | <u>0.3%</u> | <u>700</u> | <u>0.2%</u> | <u>1,700</u> | <u>0.3%</u> | <u>1,776</u> | <u>0.3%</u> | <u>1,500</u> | <u>0.2%</u> |
| Total | <u>242,300</u> | <u>100.0%</u> | <u>383,500</u> | <u>100.0%</u> | <u>670,300</u> | <u>100.0%</u> | <u>664,075</u> | <u>100.0%</u> | <u>657,900</u> | <u>100.0%</u> |

(a) Austin-San Marcos MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided.

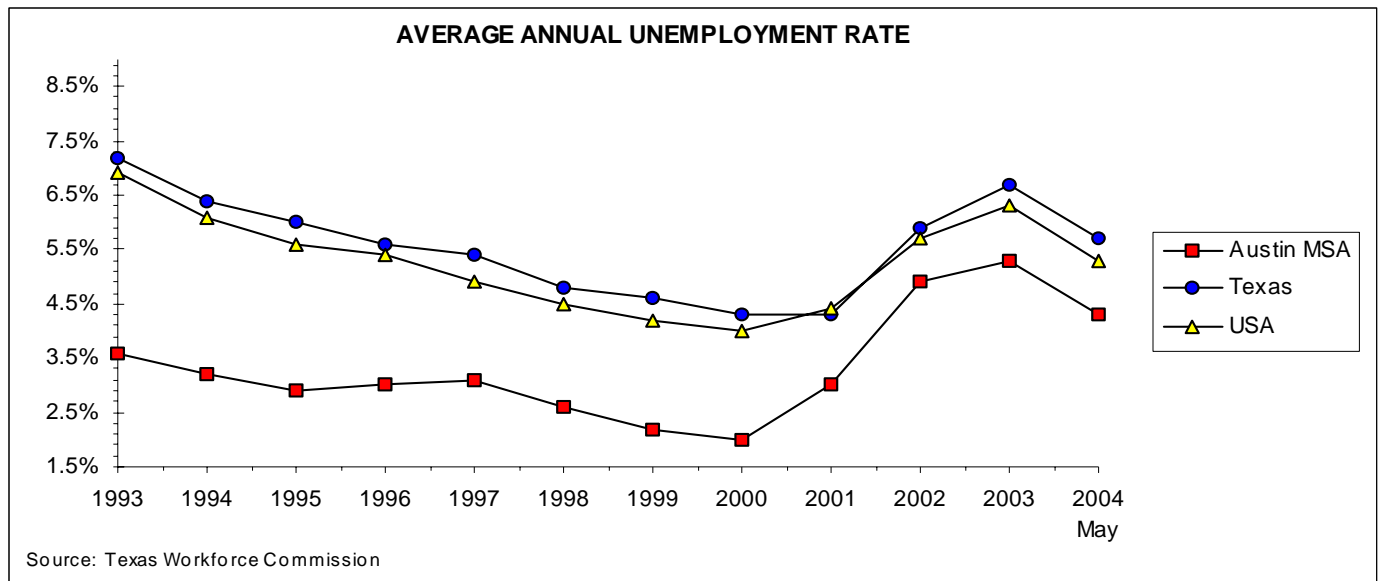
Numbers for 2003 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of May 31, 2004.

(b) Trade, transportation and utilities are reported together as of 2003.

Source: 2003 Comprehensive Annual Financial Report, Texas Workforce Commission.

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Average Annual Unemployment Rate



| | <u>Austin MSA</u> | <u>Texas</u> | <u>U.S.</u> |
|----------|-------------------|--------------|-------------|
| 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 | 5.3% | 6.7% | 6.3% |
| 2004 May | 4.3% | 5.7% | 5.3% |

Note: Information is updated periodically, data contained herein is latest provided.

Source: 2003 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

| <u>Period</u> | <u>Amount</u> | <u>Period</u> | <u>Amount</u> | <u>Period</u> | <u>Amount</u> | <u>Period</u> | <u>Amount</u> | <u>Period</u> | <u>Amount</u> |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 1-1-00 | \$ 9.115 | 1-1-01 | \$ 9.298 | 1-1-02 | \$ 8.723 | 1-1-03 | \$ 8.249 | 1-1-04 | \$ 8.883 |
| 2-1-00 | 12.565 | 2-1-01 | 13.733 | 2-1-02 | 13.405 | 2-1-03 | 11.463 | 2-1-04 | 12.382 |
| 3-1-00 | 9.078 | 3-1-01 | 9.169 | 3-1-02 | 8.345 | 3-1-03 | 8.218 | 3-1-04 | 8.693 |
| 4-1-00 | 8.363 | 4-1-01 | 9.243 | 4-1-02 | 8.322 | 4-1-03 | 7.981 | 4-1-04 | 8.534 |
| 5-1-00 | 11.500 | 5-1-01 | 12.091 | 5-1-02 | 10.746 | 5-1-03 | 10.644 | 5-1-04 | 10.867 |
| 6-1-00 | 9.344 | 6-1-01 | 9.199 | 6-1-02 | 9.253 | 6-1-03 | 8.519 | 6-1-04 | 9.384 |
| 7-1-00 | 9.651 | 7-1-01 | 9.605 | 7-1-02 | 9.287 | 7-1-03 | 7.908 | 7-1-04 | 8.980 |
| 8-1-00 | 11.768 | 8-1-01 | 11.456 | 8-1-02 | 10.289 | 8-1-03 | 10.414 | 8-1-04 | 11.474 |
| 9-1-00 | 9.220 | 9-1-01 | 9.279 | 9-1-02 | 8.695 | 9-1-03 | 8.510 | | |
| 10-1-00 | 9.938 | 10-1-01 | 8.974 | 10-1-02 | 8.884 | 10-1-03 | 8.832 | | |
| 11-1-00 | 10.463 | 11-1-01 | 10.260 | 11-1-02 | 10.157 | 11-1-03 | 10.686 | | |
| 12-1-00 | 9.746 | 12-1-01 | 9.142 | 12-1-02 | 8.859 | 12-1-03 | 8.817 | | |

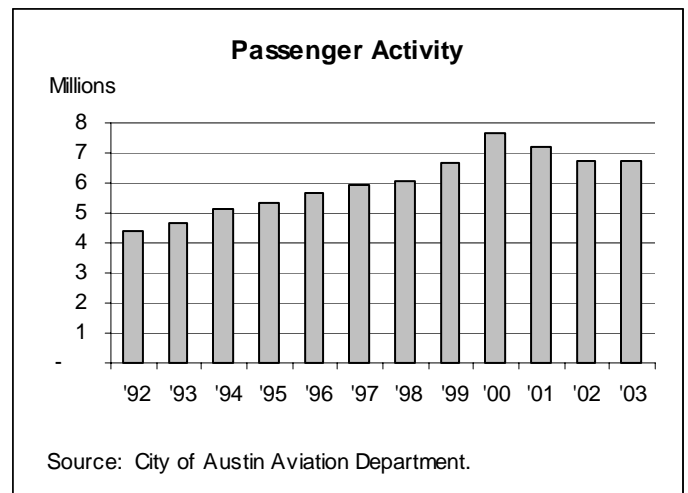
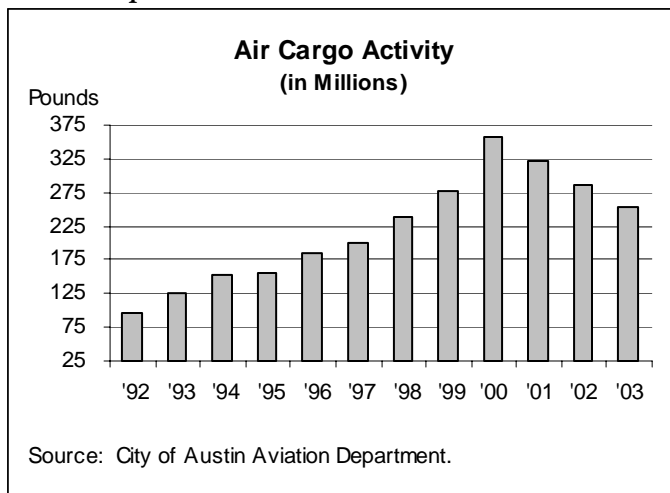
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2003)

| <u>Employer</u> | <u>Product or Service</u> | <u>Employees</u> |
|------------------------------------|---------------------------|------------------|
| The University of Texas at Austin | Education and Research | 20,249 |
| Dell Computer Corporation | Computers | 16,000 |
| City of Austin | City Government | 10,463 |
| Austin Independent School District | Education | 10,408 |
| Motorola, Inc. | Electronic Components | 8,500 |
| IBM Corporation | Office Machines | 6,500 |
| Seton Healthcare Network | Hospital | 6,393 |
| HEB Grocery | Grocery/Pharmacy | 6,200 |
| Internal Revenue Service | Federal Agency | 5,000 |
| St. David's Healthcare Partnership | Healthcare | 4,833 |

Source: 2003 Comprehensive Annual Financial Report.

Transportation



Austin-Bergstrom International Airport

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

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

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

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by nine major airlines with scheduled air service: American, America West (includes Mesa Airlines), Continental (includes Express Jet), Delta (includes SkyWest and Atlantic Southeast Airlines), Frontier (includes Frontier Express), Mexicana (includes Aerocaribe), Northwest (includes Pinnacle Air), Southwest, and United (includes SkyWest, Wisconsin Air, and Atlantic Coast Airlines). Non-stop service is available to 29 U.S. destinations and 2 international destinations.

Growth Indicators

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

Population

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

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

Source: 2003 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

| <u>Area</u> | <u>Median</u> | <u>Per Capita EBI</u> | <u>% of Households by EBI Group*</u> | | | | <u>Per Capita Retail Sales</u> |
|----------------|----------------------|-----------------------|--------------------------------------|----------|----------|----------|------------------------------------|
| | <u>Household EBI</u> | | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | |
| City of Austin | \$41,909 | \$22,420 | 19.1% | 21.8% | 18.8% | 40.3% | \$32,252 |
| Austin MSA | 47,220 | 22,217 | 15.9% | 19.1% | 18.5% | 46.5% | 24,157 |
| Texas | 37,641 | 17,709 | 23.3% | 23.1% | 18.5% | 35.1% | 13,739 |
| USA | 38,035 | 18,375 | 22.3% | 23.2% | 19.5% | 35.0% | 12,816 |

*Group A, \$0 - \$19,999 Group B, \$20,000 - 34,999 Group C, \$35,000 - 49,999 Group D, \$50,000 and over
Source: 2003 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 \$810 per month, with an occupancy rate of 89% for the fourth quarter 2003.

Residential Sales Data

| <u>Year</u> | <u>Number of Sales</u> | <u>Total Volume</u> | <u>Average Price</u> |
|-------------|------------------------|---------------------|----------------------|
| 1992 | 8,503 | \$ 887,249,588 | \$104,345 |
| 1993 | 9,926 | 1,139,100,456 | 114,759 |
| 1994 | 10,571 | 1,272,585,426 | 120,385 |
| 1995 | 11,459 | 1,439,915,043 | 125,658 |
| 1996 | 12,597 | 1,672,441,903 | 132,765 |
| 1997 | 12,439 | 1,762,198,574 | 141,667 |
| 1998 | 15,583 | 2,334,200,698 | 149,791 |
| 1999 | 18,135 | 2,963,915,274 | 163,436 |
| 2000 | 18,621 | 3,561,039,919 | 191,238 |
| 2001 | 18,392 | 3,556,546,121 | 193,375 |
| 2002 | 18,716 | 3,695,947,381 | 197,475 |
| 2003 | 19,792 | 3,898,713,470 | 196,994 |
| 2004 June | 10,721 | 2,133,641,484 | 199,015 |

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

| <u>Year</u> | <u>Occupancy Rate</u> |
|--------------------------------|-----------------------|
| 1992 | 82.6% |
| 1993 | 86.3% |
| 1994 | 87.9% |
| 1995 | 88.4% |
| 1996 | 92.2% |
| 1997 | 94.7% |
| 1998 | 93.4% |
| 1999 | 92.8% |
| 2000 | 96.0% |
| 2001 | 81.2% |
| 2002 | 77.0% |
| 2003 | 76.7% |
| 2004 (2 nd Quarter) | 79.3% |

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

Education

The Austin Independent School District had an enrollment of 77,313 for the 2004 school year. This reflects an increase of 0.4% in enrollment from the 2003 school year. The District includes 107 campus buildings.

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

(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 51,426 for the fall semester of 2003 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-San Marcos MSA were \$2.4 billion in 2001. There are more than 23,000 hotel rooms available within the Austin Metropolitan Area, as of September 2003. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. Through the first three quarters of 2003 the citywide occupancy rate for the Austin area was 57.5 percent, with an average room rate of \$83.75.

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

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APPENDIX B

Excerpts From the Annual Financial Report

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KPMG LLP
Suite 1100
111 Congress Avenue
Austin, TX 78701



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Austin, Texas ("City"), as of and for the year ended September 30, 2003, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2003, 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.

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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introduction, combining and fund financial statements and schedules, supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and fund financial statements and schedules, and supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introduction and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
February 6, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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The Management's Discussion and Analysis (MD&A) section of the City of Austin's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

The financial statements are presented in conformance with the Governmental Accounting Standards Board Statement No. 1 through Statement No. 39 and Statement 41. During the current fiscal year, the City implemented GASB Statement No. 39, "*Determining if Certain Organizations are Component Units*" and GASB Statement No. 41, "*Budgetary Comparison Schedules – Perspective Differences – an amendment to GASB Statement No. 34*". These statements did not alter the City's financial reporting presentation from previous years.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$3.6 billion (net assets). Of this amount, unrestricted net assets of \$618 million may be used to meet the City's ongoing obligations to citizens and creditors.

Total net assets for the City of Austin increased by \$241.4 million during the fiscal year.

As of September 30, 2003, the City's governmental activities reported combined net asset balances of \$1.3 billion. Approximately 3% of this total amount, or \$43 million, represents unrestricted net assets available for spending at the City'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 \$433 million.

The City's total noncurrent liabilities increased \$14 million during the current fiscal year. Governmental noncurrent liabilities increased \$22 million and business-type noncurrent liabilities decreased \$8 million; business-type obligations are self-supporting, and do not rely on tax revenues for repayment. The key factors in this increase included issuance of new debt, which was partially offset by principal payment or refunding of existing debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

a -- Government-wide Financial Statements

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

- The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Austin is improving or deteriorating.
- 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 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 fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level statements.

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

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

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

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

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 policies applied to fiduciary funds is much like those used for proprietary funds.

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

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

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

c -- Notes to the Financial Statements

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

d -- Other Information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net Assets

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

| <p style="text-align: center;">Net Assets as of September 30 (in thousands)</p> | | | | | | |
|--|--------------------------------|-------------|-------------------------------------|-------------|--------------|-------------|
| | Governmental Activities | | Business-Type Activities (1) | | Total | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Current assets | \$ 529,203 | 575,751 | 1,073,730 | 1,131,889 | 1,602,933 | 1,707,640 |
| Capital assets | 1,868,710 | 1,688,064 | 4,965,869 | 4,774,427 | 6,834,579 | 6,462,491 |
| Other noncurrent assets | 3,138 | 877 | 701,942 | 664,730 | 705,080 | 665,607 |
| Total assets | 2,401,051 | 2,264,692 | 6,741,541 | 6,571,046 | 9,142,592 | 8,835,738 |
| Current liabilities | 198,161 | 185,118 | 384,841 | 346,764 | 583,002 | 531,882 |
| Noncurrent liabilities | 854,763 | 832,137 | 4,059,289 | 4,067,578 | 4,914,052 | 4,899,715 |
| Total liabilities | 1,052,924 | 1,017,255 | 4,444,130 | 4,414,342 | 5,497,054 | 5,431,597 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 1,204,877 | 1,111,491 | 1,505,479 | 1,406,119 | 2,710,356 | 2,517,610 |
| Restricted | 100,469 | 28,492 | 216,459 | 202,651 | 316,928 | 231,143 |
| Unrestricted | 42,781 | 107,454 | 575,473 | 547,934 | 618,254 | 655,388 |
| Total net assets | \$ 1,348,127 | 1,247,437 | 2,297,411 | 2,156,704 | 3,645,538 | 3,404,141 |

(1) Certain prior year balances have been reclassified in order to provide more meaningful comparative data

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$3.6 billion at the close of the current fiscal year. However, the largest portion of the City's net assets are invested in capital assets (e.g. land, building, and equipment - 74%). The City uses these capital assets to provide services to citizens. Capital assets are generally not highly liquid; consequently, they are not considered future available resources. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net assets, \$317 million (9%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$618 million (17%), may be used to meet the government's future obligations.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets

Total net assets of the City increased by \$241.4 million in the current year. Governmental net assets increased \$100.7 million, which is attributable to an increase in property tax revenue, an increase to unrestricted contributions, and a decrease to program expenses. The business-type net assets increased by \$140.7 million, mainly attributable to an increase in operating revenues.

| | Changes in Net Assets September 30 (in thousands) | | | | | |
|---|---|-----------|-----------------------------|-----------|-----------|-----------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Program revenues: | | | | | | |
| Charges for services | \$ 75,469 | 84,349 | 1,368,616 | 1,174,755 | 1,444,085 | 1,259,104 |
| Operating grants and contributions | 55,122 | 53,374 | -- | -- | 55,122 | 53,374 |
| Capital grants and contributions | 3,956 | 1,203 | 48,325 | 43,537 | 52,281 | 44,740 |
| General revenues: | | | | | | |
| Property tax | 233,130 | 224,396 | -- | -- | 233,130 | 224,396 |
| Sales tax | 110,454 | 115,441 | -- | -- | 110,454 | 115,441 |
| Franchise fees and gross receipts tax | 63,049 | 62,576 | -- | -- | 63,049 | 62,576 |
| Grants and contributions not restricted to specific programs | 94,210 | 19,137 | -- | -- | 94,210 | 19,137 |
| Interest and other | 24,975 | 23,746 | 30,430 | 58,180 | 55,405 | 81,926 |
| Total revenues | 660,365 | 584,222 | 1,447,371 | 1,276,472 | 2,107,736 | 1,860,694 |
| Program expenses: | | | | | | |
| General government | 43,405 | 75,941 | -- | -- | 43,405 | 75,941 |
| Public safety | 292,411 | 279,533 | -- | -- | 292,411 | 279,533 |
| Transportation, planning and sustainability | 17,119 | 15,694 | -- | -- | 17,119 | 15,694 |
| Public health | 80,808 | 75,033 | -- | -- | 80,808 | 75,033 |
| Public recreation and culture | 58,199 | 71,863 | -- | -- | 58,199 | 71,863 |
| Urban growth management | 59,949 | 54,287 | -- | -- | 59,949 | 54,287 |
| Unallocated depreciation expense - infrastructure | 35,414 | 34,074 | -- | -- | 35,414 | 34,074 |
| Interest on debt | 39,296 | 35,771 | -- | -- | 39,296 | 35,771 |
| Electric | -- | -- | 754,393 | 610,374 | 754,393 | 610,374 |
| Water | -- | -- | 130,119 | 132,665 | 130,119 | 132,665 |
| Wastewater | -- | -- | 115,284 | 118,506 | 115,284 | 118,506 |
| Airport | -- | -- | 79,558 | 76,546 | 79,558 | 76,546 |
| Convention | -- | -- | 40,621 | 36,344 | 40,621 | 36,344 |
| Other | -- | -- | 119,763 | 115,518 | 119,763 | 115,518 |
| Total expenses | 626,601 | 642,196 | 1,239,738 | 1,089,953 | 1,866,339 | 1,732,149 |
| Excess before special items and transfers | 33,764 | (57,974) | 207,633 | 186,519 | 241,397 | 128,545 |
| Special items - purchased land lease rights | -- | (4,000) | -- | -- | -- | (4,000) |
| Transfers | 66,926 | 104,519 | (66,926) | (104,519) | -- | -- |
| Increase in net assets | 100,690 | 42,545 | 140,707 | 82,000 | 241,397 | 124,545 |
| Beginning net assets | 1,247,437 | 1,204,892 | 2,156,704 | 2,074,704 | 3,404,141 | 3,279,596 |
| Ending net assets | \$ 1,348,127 | 1,247,437 | 2,297,411 | 2,156,704 | 3,645,538 | 3,404,141 |

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

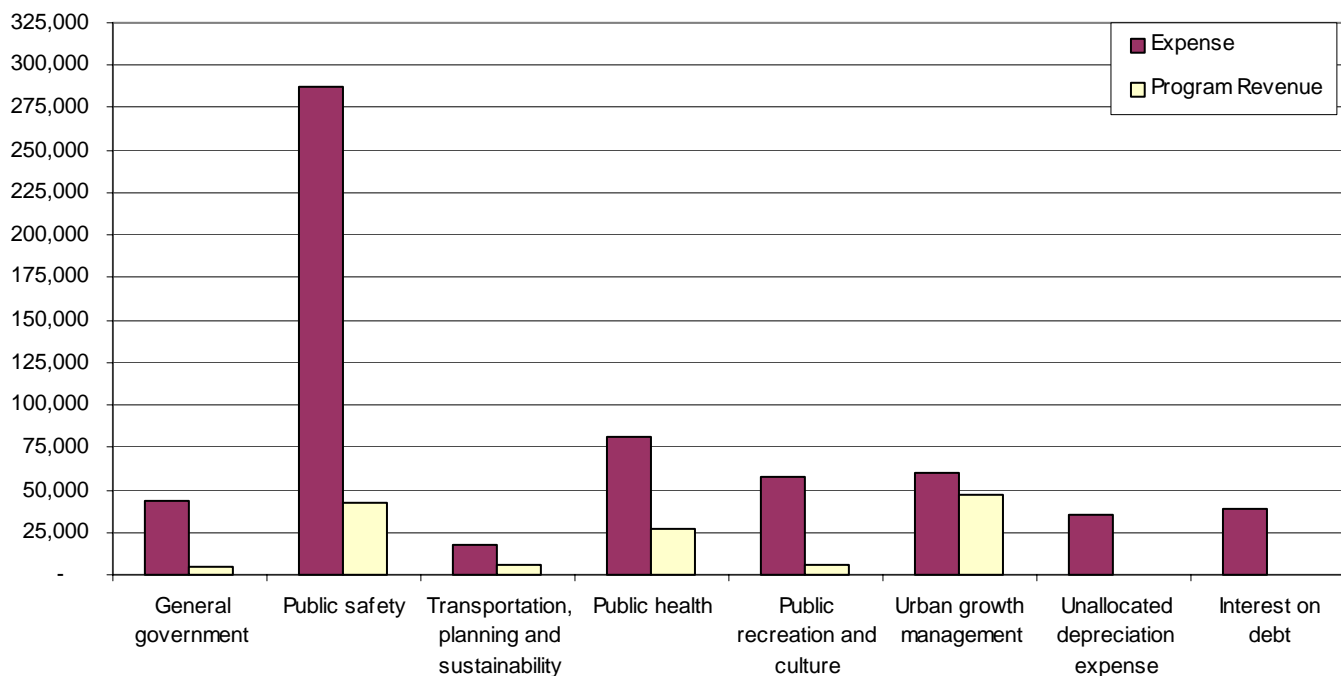
c -- Program Revenues and Expenses -- Governmental Activities

Governmental activities increased the City's net assets by \$100.7 million, thereby accounting for a 3 percent increase in the City's total net assets and 42% of the current year increase in net assets. Key factors of this increase are as follows:

- The City's property tax revenue increased by \$8.7 million, as a result of increasing assessed value; while the City's tax rate was unchanged at .4597 per \$100 valuation.
- Sales and other taxes decreased during the year, with sales tax decreasing more than 4 percent as a result of the economic downturn.
- Grants and contributions not restricted to specific programs increased by \$75.1 million during the year, primarily as a result of contributed infrastructure through annexations and developer contributions.
- Governmental expenses decreased \$15.6 million, primarily from general government, as a result of decreased right of way acquisition costs which were contributed to other governmental entities and public recreation and culture reductions.

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

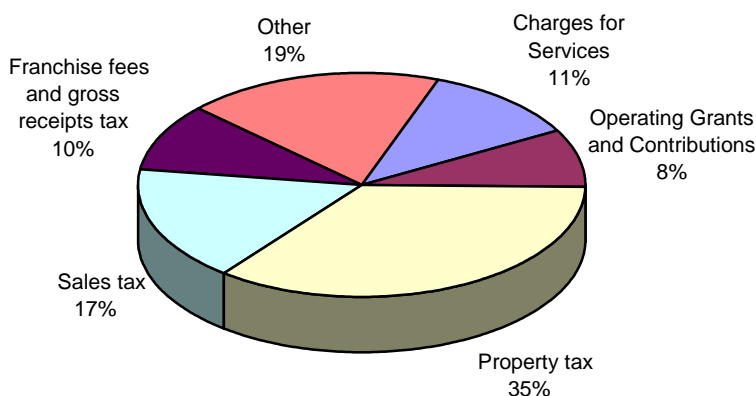
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



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

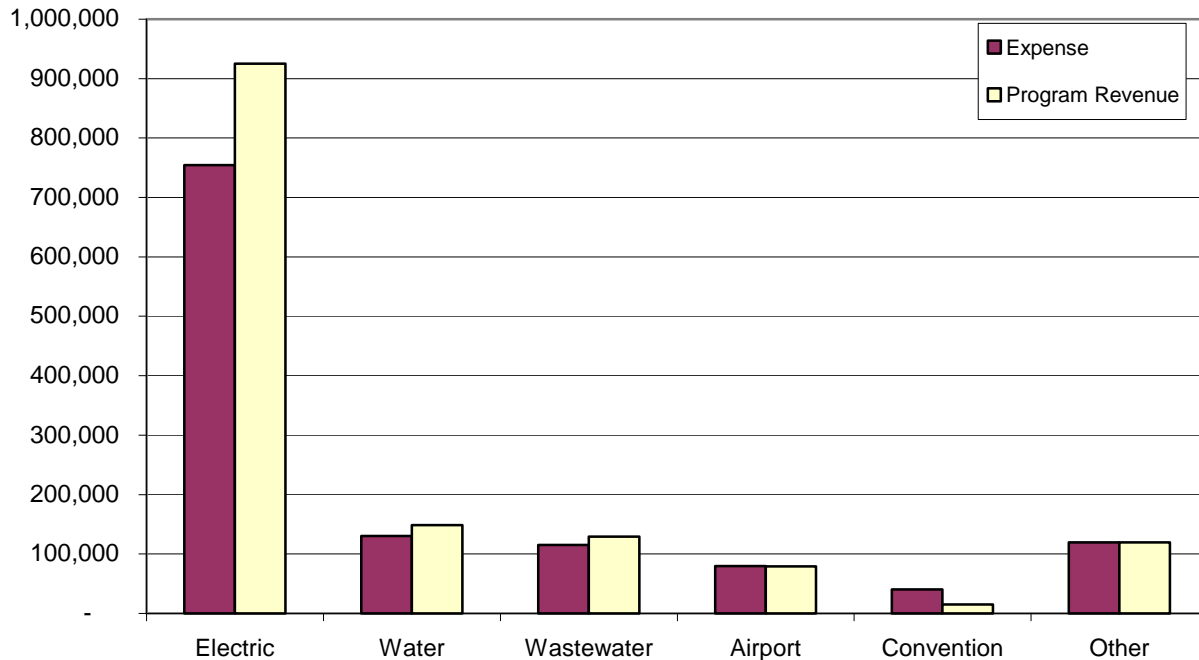
Business-type activities increased the City's net assets by \$140.7 million, accounting for a 4% increase in the City's total net assets and 58% of the current year increase in net assets. Net program expenses and revenues are, as follows:

- Electric net assets increased \$118 million, primarily from an increase in utility services revenue.
- Water and Wastewater net assets increased \$14 million, due to an increase in utility services revenue. Expenses decreased due to cost reduction measures.
- Airport net assets increased \$2 million. Although revenues decreased due to reduced air travel and expenses increased as a result of additional security costs, net assets showed positive growth.
- Convention net assets decreased \$1.9 million, due primarily to a reduction of interest income of \$2.4 million and an increase in transfers from other funds of approximately \$1 million.

As shown in the following chart, the Electric utility, with expenses of \$754 million, is the City's largest business-type activity, followed by Water (\$130 million), Wastewater (\$115 million), Airport (\$80 million) and Convention (\$41 million). For the fiscal year, operating revenues exceeded operating expenses for all business-type activities, except Convention and other business-type activities. Within other business-type activities, Hospital and Primary Care operating expenses exceeded operating revenues.

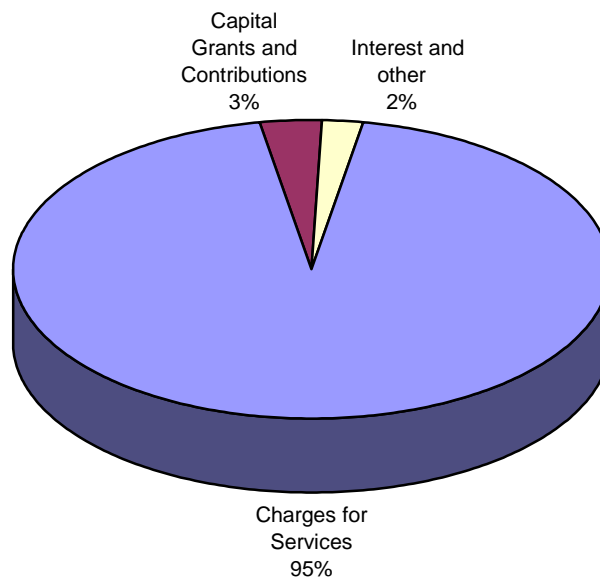
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



For all business-type activities, charges for services provide the largest percentage of revenues (95%), followed by capital grants and contributions (3%) and interest and other revenues (2%).

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

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

At the end of the year, the City of Austin's governmental funds reported combined ending fund balances of \$345 million, a decrease of \$38 million from the previous year. Approximately \$218 million represents unreserved ending balance, which is available for future use. The remainder of fund balance is reserved and only available for commitments for the purchase of goods and services, in addition to certain debt payments. Reserved fund balance increased \$3 million in comparison to the prior year, primarily due to an increase in the reservation for notes receivable of \$2 million in the Housing Assistance Fund, a nonmajor special revenue fund.

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 \$93 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 \$433 million, and total fund balance represents 22% of expenditures. The unreserved and undesignated fund balance of the General Fund is \$35 million, which may be designated by City Council for specified uses for the future.

The General Fund fund balance decreased by \$412,000 during the fiscal year; undesignated fund balance decreased by \$882,000. Significant differences from the previous year include:

- \$15 million increase in revenues, primarily from property taxes and rental income.
- Increase of \$2 million in expenditures. Although public safety expenditures increased by \$13 million, other program expenditures decreased \$11 million.
- \$45 million decrease in transfers in, primarily from nonmajor enterprise funds.
- \$12 million increase in transfers out, primarily for nonmajor enterprise funds and Capital Project funds.

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 \$118 million. Operating revenue for 2003 was \$922 million, an increase of approximately 24% from the prior year. This increase was primarily due to increased fuel costs, which are recovered as a component of the electric rate. Operating expense before depreciation for 2003 was \$554 million, an increase of approximately 38% from the prior year. This increase was primarily due to increased fuel costs.
- Total Water and Wastewater Fund net assets increased approximately \$14 million or \$8.5 million for Water and \$5.5 million for Wastewater. Water operating revenue for 2003 was \$130 million, an increase of approximately 6.9% from the prior year. Wastewater operating revenue for 2003 was \$112 million, an increase of approximately 4.1% from the prior year. Sales were less than projected due to economic conditions and wetter than normal weather conditions during the summer months. Water operating expense before depreciation for 2003 was \$59 million, a decrease of approximately 2% compared to the prior year. Wastewater operating expense before depreciation for 2003 was \$50 million, a decrease of approximately 4% compared to the prior year. The decrease in expenses was due in part from the elimination of 35 full-time positions through attrition and less than anticipated utility transmission main breaks and the related operating expenses. The utility implemented cost containment strategies to reduce other operating costs during 2003.

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

- The Airport Fund net assets increased over \$2 million in 2003. Operating revenues were \$63 million, a decrease of approximately \$1 million from the prior year. Operating expenses before depreciation increased approximately \$3.5 million as a result of increased security costs. Interest revenues were \$2.5 million, a decrease of approximately 38% from the previous year. Interest revenue decreased due to lower interest rates and a reduction of pooled investments and cash through 2003. Capital contributions resulted in the remaining increase in net assets.

OTHER INFORMATION

a -- General Fund budgetary highlights

The original budget of the General Fund was amended once during fiscal year 2003 by \$1.3 million for increased public safety costs.

During the year, revenues were \$8 million less than budgeted. A decline in sales tax collections was the primary cause of the difference.

Cost containment steps were put into place to reduce expenditures in order to offset the revenue shortfall. Expenditures were \$14 million less than budgeted. Significant activities whose expenditures were less than budgeted include public safety (\$5.4 million), public health (\$2.4 million), and general city responsibilities (\$2.3 million). Transfers out were also significantly less than budgeted (\$9.2 million). The budget was not formally amended to reflect the cost containment actions.

The total fund balance at end of year amounted to \$34 million, which was \$22 million higher than budgeted. The increase was attributed to an increase of \$15 million in the current year (excess of revenues and other sources over expenditures and other uses) and an increase of \$7 million from the budgeted amount for the end of the previous fiscal year (fund balance at beginning of year).

b -- Capital Assets

The City's capital assets for governmental and business-type activities as of September 30, 2003, total \$6.8 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 \$373 million (6 percent), with an increase of almost 11 percent for governmental activities and an increase of 4 percent for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|------------------------------------|--------------|-------------------------------------|--------------|--------------|--------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Land and improvements | \$ 195 | 151 | 270 | 267 | 465 | 418 |
| Other assets not depreciated | 18 | 17 | 1 | 1 | 19 | 18 |
| Building and improvements | 226 | 189 | 1,355 | 1,984 | 1,581 | 2,173 |
| Equipment | 26 | 17 | 2,270 | 1,571 | 2,296 | 1,588 |
| Vehicles | 36 | 34 | 36 | 36 | 72 | 70 |
| Infrastructure | 919 | 867 | -- | -- | 919 | 867 |
| Completed assets not classified | 95 | 190 | 320 | 555 | 415 | 745 |
| Construction work in progress | 354 | 223 | 661 | 311 | 1,015 | 534 |
| Nuclear fuel, net of amortization | -- | -- | 22 | 18 | 22 | 18 |
| Plant held for future use | -- | -- | 31 | 31 | 31 | 31 |
| Total net assets | <u>\$ 1,869</u> | <u>1,688</u> | <u>4,966</u> | <u>4,774</u> | <u>6,835</u> | <u>6,462</u> |

OTHER INFORMATION, continued

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

- Governmental capital assets increased \$181 million. Included in this increase were \$89 million in infrastructure additions, \$14 million in Parkland purchases and improvements, \$12 million representing the City's investment in the Combined Emergency Center and \$5 million in Fire and EMS emergency vehicles. Progress also continued on a new City Hall and numerous infrastructure improvement projects.
- Business-type activities purchased or completed construction on capital assets of \$191 million. The Electric Fund added \$83 million in plant and equipment expansions or improvements to existing facilities. The Water and Wastewater Fund increased capital assets by \$104 million, including approximately \$15 million of costs associated with the Austin Clean Water Program.

c -- Debt Administration

At the end of the current fiscal year, the City reported \$4.3 billion in outstanding debt. The table below reflects the outstanding debt at September 30. Additional information can be found in Note 10.

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|------------------------------------|-------------|-------------------------------------|--------------|--------------|--------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| General obligation bonds and other tax supported debt, net | \$ 830 | 795 | 79 | 82 | 909 | 877 |
| Commercial paper notes, net | -- | -- | 128 | 358 | 128 | 358 |
| Revenue notes | -- | -- | 28 | 28 | 28 | 28 |
| Revenue bonds, net | -- | -- | 3,218 | 2,989 | 3,218 | 2,989 |
| Capital lease obligations | 1 | -- | 15 | 17 | 16 | 17 |
| Total | \$ 831 | 795 | 3,468 | 3,474 | 4,299 | 4,269 |

During fiscal year 2003, the City's total outstanding debt increased by \$30 million. The City issued new debt and refinanced portions of existing debt to take advantage of lower borrowing costs. Debt issues include the following:

- Bond debt for governmental functions increased \$36 million, and will be used primarily for street improvements; right of way acquisition and utility relocation; park and recreation facilities; emergency centers; and a court settlement agreement.
- Bond debt for business-type functions decreased \$6 million due to the payment of existing debt. In 2003, new debt was issued primarily for communications technology upgrades; public safety equipment; creek restoration; and developer reimbursements. The City issued Electric refunding and Water and Wastewater refunding bonds to refund taxable and tax-exempt Commercial Paper.

The City continues to maintain excellent credit ratings on debt issues, with ratings remaining unchanged during the year. Ratings at September 30, 2003 of the City's obligations for various debt instruments are as follows:

| Debt | Moody's | | |
|---|---------------------------|------------------------|-------------|
| | Investors Service, Inc | Standard and Poor's | Fitch, Inc. |
| General obligation bonds and other tax supported debt | Aa2 | AA+ | AA+ |
| Commercial paper notes | P-1 | A-1 | F1+ |
| Commercial paper notes - taxable | P-1 | A-1+ | F1+ |
| Revenue bonds - prior lien | A2 | A | A+ |
| Revenue bonds - subordinate lien | A2 | A- | A+ |
| Revenue bonds - separate lien: | | | |
| Electric | A3 | A- | A |
| Water and Wastewater | A2 | A- | A+ |

OTHER INFORMATION, continued

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

The City faces a significant challenge for next year's budget. The economic downturn has continued without any significant positive signs that a recovery will occur in the near future. Nationwide, major city and state governments are facing the same type of budget crisis that Austin has experienced.

Sales tax for fiscal year 2003 was projected to decrease by 5.5%, but ended the year at a decline of 4.5% instead. For fiscal year 2004, the City's approved budget reflects an annual growth rate of 2%. Overall, property values for 2004 will have negative growth for the first time in twelve years. Commercial and multi-family property values are expected to decline by approximately 13%. In addition, costs associated with public safety will continue to increase as a result of increased homeland security requirements.

The City instituted an aggressive response to the economic downturn beginning in 2002 and continuing throughout 2003. Significant reductions in General Fund costs (other than public safety) allowed the City to balance its budget without raising taxes, closing facilities, eliminating programs or laying off employees.

For 2004, the City will continue to focus on making structural changes in City operations that will result in long-term, as well as short-term cost savings. In order to achieve necessary cost reductions, approximately \$38 million will be cut from the General Fund. In addition, the property tax rate will increase to 49.28 cents per \$100 valuation, which is the effective tax rate based on the decline in property valuations. The increase from the previous year rate is approximately 3 cents or 7%. The budget will also include a rate increase in Water and Wastewater fees of 5.9%. The increase is necessary to fund the Austin Clean Water Program, a mandate imposed by the U.S. Environmental Protection Agency.

e -- Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial 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/controller/>.



Statement of Net Assets
September 30, 2003
(In thousands)

City of Austin, Texas
Exhibit A-1

| | Governmental Activities | Business-type Activities | 2003 Total (†) |
|--|------------------------------------|-------------------------------------|---------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash | \$ 112 | 51 | 163 |
| Pooled investments and cash | 311,549 | 69,146 | 380,695 |
| Pooled investments and cash - designated | -- | 36,701 | 36,701 |
| Pooled investments and cash - restricted | -- | 220,708 | 220,708 |
| Total pooled investments and cash | 311,549 | 326,555 | 638,104 |
| Investments, at fair value - designated | 14,685 | 155,611 | 170,296 |
| Investments, at fair value - restricted | -- | 281,025 | 281,025 |
| Cash held by trustee | 10,279 | -- | 10,279 |
| Cash held by trustee - restricted | -- | 10,009 | 10,009 |
| Working capital advances | -- | 2,880 | 2,880 |
| Property taxes receivable | 11,017 | -- | 11,017 |
| Less allowance for uncollectible taxes | (1,852) | -- | (1,852) |
| Net property taxes receivable | 9,165 | -- | 9,165 |
| Accounts and other taxes receivable | 243,014 | 171,923 | 414,937 |
| Less allowance for doubtful accounts | (88,564) | (7,402) | (95,966) |
| Net accounts receivable | 154,450 | 164,521 | 318,971 |
| Interest receivable - restricted | 266 | 2,527 | 2,793 |
| Receivables from other governments | 12,586 | 326 | 12,912 |
| Notes receivable, net of allowance | 9,016 | -- | 9,016 |
| Internal balances | (3,006) | (310) | (3,316) |
| Internal balances - restricted | -- | 3,316 | 3,316 |
| Inventories, at cost | 2,504 | 47,070 | 49,574 |
| Real property held for resale | 5,984 | -- | 5,984 |
| Prepaid expenses | 483 | 1,237 | 1,720 |
| Other assets | 1,130 | 71,385 | 72,515 |
| Other receivables - restricted | -- | 7,527 | 7,527 |
| Total current assets | 529,203 | 1,073,730 | 1,602,933 |
| Noncurrent assets: | | | |
| Investments, at fair value | -- | 65,000 | 65,000 |
| Investments held by trustee - restricted | -- | 88,044 | 88,044 |
| Interest receivable - restricted | -- | 878 | 878 |
| Capital assets | | | |
| Land and other nondepreciable assets | 212,939 | 271,327 | 484,266 |
| Property, plant and equipment in service | 1,851,742 | 6,123,925 | 7,975,667 |
| Less accumulated depreciation | (549,922) | (2,143,724) | (2,693,646) |
| Net property, plant and equipment in service | 1,301,820 | 3,980,201 | 5,282,021 |
| Construction in progress | 353,951 | 661,157 | 1,015,108 |
| Nuclear fuel, net of amortization | -- | 21,805 | 21,805 |
| Plant held for future use | -- | 31,379 | 31,379 |
| Total capital assets | 1,868,710 | 4,965,869 | 6,834,579 |
| Intangible assets, net of amortization | -- | 90,102 | 90,102 |
| Other long-term assets | -- | 1,913 | 1,913 |
| Deferred costs and expenses, net of amortization | 3,138 | 456,005 | 459,143 |
| Total noncurrent assets | 1,871,848 | 5,667,811 | 7,539,659 |
| Total assets | \$ 2,401,051 | 6,741,541 | 9,142,592 |

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

(Continued)

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

Statement of Net Assets
September 30, 2003
(In thousands)

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

| | Governmental Activities | Business-type Activities | 2003 Total (†) |
|---|------------------------------------|-------------------------------------|---------------------------|
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 27,496 | 52,668 | 80,164 |
| Accounts and retainage payable from restricted assets | -- | 41,773 | 41,773 |
| Accrued payroll | 10,978 | 6,638 | 17,616 |
| Accrued compensated absences | 28,125 | 13,115 | 41,240 |
| Claims payable | 20,121 | -- | 20,121 |
| Accrued interest payable from restricted assets | -- | 66,713 | 66,713 |
| Interest payable on other debt | 3,985 | 948 | 4,933 |
| General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium | 50,438 | 3,301 | 53,739 |
| General obligation bonds payable and other tax supported debt payable from restricted assets, net of discount and inclusive of premium | -- | 5,096 | 5,096 |
| Revenue bonds payable | -- | 2,455 | 2,455 |
| Revenue bonds payable payable from restricted assets | -- | 134,116 | 134,116 |
| Capital lease obligations payable | 533 | 3,215 | 3,748 |
| Customer and escrow deposits payable from restricted assets | -- | 10,700 | 10,700 |
| Nuclear fuel expense payable from restricted assets | -- | 29,531 | 29,531 |
| Deferred credits and other liabilities | 56,485 | 14,572 | 71,057 |
| Total current liabilities | 198,161 | 384,841 | 583,002 |
| Noncurrent liabilities, net of current portion: | | | |
| Accrued compensated absences | 41,118 | 7,804 | 48,922 |
| Claims payable | 14,627 | -- | 14,627 |
| Capital appreciation bond interest payable | -- | 150,972 | 150,972 |
| Commercial paper notes payable, net of discount | -- | 128,484 | 128,484 |
| Revenue notes payable | -- | 28,000 | 28,000 |
| General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium | 779,320 | 70,490 | 849,810 |
| Revenue bonds payable, net of discount and inclusive of premium | -- | 3,081,509 | 3,081,509 |
| Capital lease obligations payable | 260 | 11,950 | 12,210 |
| Accrued landfill closure and postclosure costs | -- | 7,370 | 7,370 |
| Decommissioning expense payable from restricted assets | -- | 90,687 | 90,687 |
| Deferred credits and other liabilities | 19,438 | 477,462 | 496,900 |
| Other liabilities payable from restricted assets | -- | 4,561 | 4,561 |
| Total noncurrent liabilities | 854,763 | 4,059,289 | 4,914,052 |
| Total liabilities | 1,052,924 | 4,444,130 | 5,497,054 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,204,877 | 1,505,479 | 2,710,356 |
| Restricted for: | | | |
| Debt service | 13,592 | 111,446 | 125,038 |
| Bond reserve | -- | 18,688 | 18,688 |
| Capital projects | 74,397 | 65,712 | 140,109 |
| Renewal and replacement | -- | 11,330 | 11,330 |
| Passenger facility charges | -- | 7,326 | 7,326 |
| Convention Center operating reserve | -- | 1,957 | 1,957 |
| Perpetual Care: | | | |
| Expendable | 313 | -- | 313 |
| Nonexpendable | 1,040 | -- | 1,040 |
| Other purposes | 11,127 | -- | 11,127 |
| Unrestricted | 42,781 | 575,473 | 618,254 |
| Total net assets | \$ 1,348,127 | 2,297,411 | 3,645,538 |

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

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

Statement of Activities
For the year ended September 30, 2003
(In thousands)

City of Austin, Texas
Exhibit A-2

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities |
| Governmental activities | | | | | | |
| General government | \$ 43,405 | 4,791 | 293 | -- | (38,321) | -- |
| Public safety | 292,411 | 36,579 | 6,324 | -- | (249,508) | -- |
| Transportation, planning and sustainability | 17,119 | 5,142 | 324 | 853 | (10,800) | -- |
| Public health | 80,808 | 8,100 | 15,941 | 3,054 | (53,713) | -- |
| Public recreation and culture | 58,199 | 2,551 | 3,625 | 49 | (51,974) | -- |
| Urban growth management | 59,949 | 18,306 | 28,615 | -- | (13,028) | -- |
| Unallocated depreciation expense | 35,414 | -- | -- | -- | (35,414) | -- |
| Interest on debt | 39,296 | -- | -- | -- | (39,296) | -- |
| Total governmental activities | 626,601 | 75,469 | 55,122 | 3,956 | (492,054) | -- |
| Business-type activities | | | | | | |
| Electric | 754,393 | 921,649 | -- | 3,437 | -- | 170,693 |
| Water | 130,119 | 130,424 | -- | 18,214 | -- | 18,519 |
| Wastewater | 115,284 | 111,941 | -- | 17,471 | -- | 14,128 |
| Airport | 79,558 | 71,693 | -- | 7,524 | -- | (341) |
| Convention | 40,621 | 15,040 | -- | -- | -- | (25,581) |
| Other | 119,763 | 117,869 | -- | 1,679 | -- | (215) |
| Total business-type activities | 1,239,738 | 1,368,616 | -- | 48,325 | -- | 177,203 |
| Total | \$ 1,866,339 | 1,444,085 | 55,122 | 52,281 | (492,054) | (314,851) |
| General revenues: | | | | | | |
| Property tax | | | | | 233,130 | 233,130 |
| Sales tax | | | | | 110,454 | 110,454 |
| Franchise fees and gross receipts tax | | | | | 63,049 | 63,049 |
| Grants and contributions not restricted to specific programs | | | | | 94,210 | 94,210 |
| Interest and other | | | | | 24,975 | 30,430 |
| Transfers | | | | | 66,926 | (66,926) |
| Total general revenues and transfers | | | | | 592,744 | (36,496) |
| Change in net assets | | | | | 100,690 | 140,707 |
| Beginning net assets | | | | | 1,247,437 | 2,156,704 |
| Ending net assets | | | | | \$ 1,348,127 | 2,297,411 |
| | | | | | | 3,645,538 |

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



**Governmental Funds
Balance Sheet
September 30, 2003
(In thousands)**

**City of Austin, Texas
Exhibit B-1**

| | 2003 | | |
|--|-----------------|-----------------------------------|--------------------------------|
| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
| ASSETS | | | |
| Cash | \$ 89 | 5 | 94 |
| Pooled investments and cash | 84,451 | 167,045 | 251,496 |
| Investments, at fair value | -- | 14,685 | 14,685 |
| Cash held by trustee | -- | 9,791 | 9,791 |
| Property taxes receivable | 6,715 | 4,302 | 11,017 |
| Less allowance for uncollectible taxes | (1,155) | (697) | (1,852) |
| Net property taxes receivable | 5,560 | 3,605 | 9,165 |
| Accounts and other taxes receivable | 81,259 | 96,970 | 178,229 |
| Less allowance for doubtful accounts | (52,166) | (386) | (52,552) |
| Net accounts receivable | 29,093 | 96,584 | 125,677 |
| Receivables from other governments | -- | 12,586 | 12,586 |
| Notes receivable, net of allowance | -- | 9,016 | 9,016 |
| Due from other funds | -- | 36,925 | 36,925 |
| Advances to other funds | -- | 4,677 | 4,677 |
| Inventories, at cost | 775 | -- | 775 |
| Real property held for resale | -- | 5,984 | 5,984 |
| Prepaid expenses | 214 | 11 | 225 |
| Other assets | -- | 1,130 | 1,130 |
| Total assets | 120,182 | 362,044 | 482,226 |
| LIABILITIES AND FUND BALANCES | | | |
| Accounts payable | 3,446 | 17,824 | 21,270 |
| Accrued payroll | 8,687 | 49 | 8,736 |
| Accrued compensated absences | 605 | 6 | 611 |
| Due to other funds | 706 | 36,919 | 37,625 |
| Deferred revenue | 5,432 | 6,282 | 11,714 |
| Advances from other funds | 2,217 | 248 | 2,465 |
| Deposits and other liabilities | 5,883 | 48,467 | 54,350 |
| Total liabilities | 26,976 | 109,795 | 136,771 |
| Fund balances | | | |
| Reserved: | | | |
| Encumbrances | 4,123 | 88,755 | 92,878 |
| Inventories and prepaid items | 989 | -- | 989 |
| Notes receivable | -- | 9,016 | 9,016 |
| Real property held for resale | -- | 5,984 | 5,984 |
| Debt service | -- | 17,311 | 17,311 |
| Permanent funds | -- | 1,040 | 1,040 |
| Unreserved, designated: | | | |
| Emergencies | 15,000 | -- | 15,000 |
| Contingencies | 4,358 | -- | 4,358 |
| Future use | 540 | -- | 540 |
| Budget stabilization | 33,000 | -- | 33,000 |
| Special revenue | -- | 25,388 | 25,388 |
| Unreserved, undesignated: | | | |
| General Fund | 35,196 | -- | 35,196 |
| Capital projects | -- | 104,442 | 104,442 |
| Permanent funds | -- | 313 | 313 |
| Total fund balances | 93,206 | 252,249 | 345,455 |
| Total liabilities and fund balances | \$ 120,182 | 362,044 | 482,226 |

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, 2003
(In thousands)

City of Austin, Texas
Exhibit B-1.1

Total fund balances - Governmental funds \$ 345,455

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. 1,829,118

Other long-term assets are not available as current-period
resources and are not reported in the funds. 18,617

Long-term liabilities are not payable in the current period and
are not reported in the funds. (886,719)

Internal service funds are used by management to charge the costs
of capital project management, employee benefits, fleet maintenance,
information systems, liability reserve, support services, wireless
communication, and workers' compensation to individual funds.
The assets and liabilities of the internal service funds are included
in governmental activities in the statement of net assets. 41,656

Total net assets - Governmental activities \$ 1,348,127

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

Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended September 30, 2003
(In thousands)

City of Austin, Texas
Exhibit B-2

| | 2003 | | |
|---|---------------------|------------------------------------|---------------------------------|
| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
| REVENUES | | | |
| Property taxes | \$ 150,378 | 82,195 | 232,573 |
| Sales taxes | 110,454 | -- | 110,454 |
| Franchise fees and other taxes | 32,641 | 30,409 | 63,050 |
| Fines, forfeitures and penalties | 16,966 | 4,000 | 20,966 |
| Licenses, permits and inspections | 14,737 | -- | 14,737 |
| Charges for services/goods | 15,403 | 24,463 | 39,866 |
| Intergovernmental | -- | 74,392 | 74,392 |
| Property owners' participation and contributions | -- | 10,937 | 10,937 |
| Interest and other | 19,815 | 9,930 | 29,745 |
| Total revenues | 360,394 | 236,326 | 596,720 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 43,276 | 1,019 | 44,295 |
| Public safety | 263,477 | 14,820 | 278,297 |
| Transportation, planning and sustainability | 10,337 | 3,776 | 14,113 |
| Public health | 56,606 | 23,864 | 80,470 |
| Public recreation and culture | 46,943 | 5,893 | 52,836 |
| Urban growth management | 12,240 | 47,321 | 59,561 |
| Debt service: | | | |
| Principal | -- | 49,340 | 49,340 |
| Interest | -- | 38,529 | 38,529 |
| Fees and commissions | -- | 8 | 8 |
| Capital outlay | -- | 155,517 | 155,517 |
| Total expenditures | 432,879 | 340,087 | 772,966 |
| Excess (deficiency) of revenues over expenditures | (72,485) | (103,761) | (176,246) |
| OTHER FINANCING SOURCES (USES) | | | |
| Issuance of tax supported debt | -- | 70,323 | 70,323 |
| Issuance of refunding bonds | -- | 62,514 | 62,514 |
| Payment to escrow agent | -- | (62,514) | (62,514) |
| Capital leases | 785 | 106 | 891 |
| Transfers in | 92,417 | 36,841 | 129,258 |
| Transfers out | (21,129) | (41,047) | (62,176) |
| Total other financing sources (uses) | 72,073 | 66,223 | 138,296 |
| Net change in fund balances | (412) | (37,538) | (37,950) |
| Fund balances at beginning of year | 93,618 | 289,787 | 383,405 |
| Fund balances at end of year | \$ 93,206 | 252,249 | 345,455 |

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

Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended September 30, 2003
(In thousands)

City of Austin, Texas
Exhibit B-2.1

Net change in fund balances - Governmental funds \$ (37,950)

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. 104,186

Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds. 71,835

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. (14,957)

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. (20,983)

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. (5,249)

The net revenue of certain activities of internal service funds is reported with governmental activities. 3,808

Change in net assets - Governmental activities \$ 100,690

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

Proprietary Funds
Statement of Net Assets
September 30, 2003
(In thousands)

| | Electric | Water and Wastewater | Airport |
|--|---------------------|---------------------------------|----------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash | \$ 18 | 11 | 5 |
| Pooled investments and cash | 18,468 | 18,938 | 1,915 |
| Pooled investments and cash - designated | 16,877 | 199 | -- |
| Pooled investments and cash - restricted | 52,065 | 27,769 | 81,721 |
| Total pooled investments and cash | 87,410 | 46,906 | 83,636 |
| Investments, at fair value - designated | 153,780 | 1,534 | -- |
| Investments, at fair value - restricted | 150,899 | 89,010 | 27,105 |
| Cash held by trustee | -- | -- | -- |
| Cash held by trustee - restricted | 4,427 | 5,582 | -- |
| Working capital advances | 2,756 | -- | -- |
| Accounts receivable | 115,841 | 37,186 | 4,044 |
| Less allowance for doubtful accounts | (2,314) | (1,066) | (150) |
| Net accounts receivable | 113,527 | 36,120 | 3,894 |
| Interest receivable - restricted | 1,876 | 550 | -- |
| Receivables from other governments | -- | -- | -- |
| Due from other funds - restricted | -- | 27 | 700 |
| Inventories, at cost | 45,389 | 1,134 | -- |
| Prepaid expenses | 973 | 132 | 1 |
| Other assets | 71,384 | 1 | -- |
| Other receivables - restricted | 1,501 | 365 | 1,861 |
| Total current assets | 633,940 | 181,372 | 117,202 |
| Noncurrent assets: | | | |
| Advances to other funds | 2,520 | -- | -- |
| Advances to other funds - restricted | -- | 188 | 2,401 |
| Investments, at fair value | 65,000 | -- | -- |
| Investments held by trustee - restricted | 88,044 | -- | -- |
| Interest receivable - restricted | 878 | -- | -- |
| Capital assets | | | |
| Land and other nondepreciable assets | 34,942 | 136,173 | 59,149 |
| Property, plant and equipment in service | 2,951,409 | 2,121,656 | 615,235 |
| Less accumulated depreciation | (1,288,675) | (658,184) | (86,583) |
| Net property, plant and equipment in service | 1,662,734 | 1,463,472 | 528,652 |
| Construction in progress | 359,749 | 232,170 | 19,368 |
| Nuclear fuel, net of amortization | 21,805 | -- | -- |
| Plant held for future use | 31,379 | -- | -- |
| Total capital assets | 2,110,609 | 1,831,815 | 607,169 |
| Intangible assets, net of amortization | -- | 90,102 | -- |
| Other long-term assets | 1,911 | 2 | -- |
| Deferred costs and expenses, net of amortization | 237,602 | 197,942 | 2,086 |
| Total noncurrent assets | 2,506,564 | 2,120,049 | 611,656 |
| Total assets | \$ 3,140,504 | 2,301,421 | 728,858 |

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

| | Nonmajor Enterprise Funds | 2003 Total | Governmental Activities- Internal Service Funds |
|--|---------------------------------|------------------|--|
| ASSETS | | | |
| Current assets: | | | |
| Cash | 17 | 51 | 18 |
| Pooled investments and cash | 29,825 | 69,146 | 60,053 |
| Pooled investments and cash - designated | 19,625 | 36,701 | -- |
| Pooled investments and cash - restricted | 59,153 | 220,708 | -- |
| Total pooled investments and cash | 108,603 | 326,555 | 60,053 |
| Investments, at fair value - designated | 297 | 155,611 | -- |
| Investments, at fair value - restricted | 14,011 | 281,025 | -- |
| Cash held by trustee | -- | -- | 488 |
| Cash held by trustee - restricted | -- | 10,009 | -- |
| Working capital advances | 124 | 2,880 | -- |
| Accounts receivable | 14,852 | 171,923 | 10,644 |
| Less allowance for doubtful accounts | (3,872) | (7,402) | (222) |
| Net accounts receivable | 10,980 | 164,521 | 10,422 |
| Interest receivable - restricted | 101 | 2,527 | -- |
| Receivables from other governments | 326 | 326 | -- |
| Due from other funds - restricted | -- | 727 | -- |
| Inventories, at cost | 547 | 47,070 | 1,729 |
| Prepaid expenses | 131 | 1,237 | 258 |
| Other assets | -- | 71,385 | -- |
| Other receivables - restricted | 3,800 | 7,527 | -- |
| Total current assets | 138,937 | 1,071,451 | 72,968 |
| Noncurrent assets: | | | |
| Advances to other funds | 64 | 2,584 | -- |
| Advances to other funds - restricted | -- | 2,589 | -- |
| Investments, at fair value | -- | 65,000 | -- |
| Investments held by trustee - restricted | -- | 88,044 | -- |
| Interest receivable - restricted | -- | 878 | -- |
| Capital assets | | | |
| Land and other nondepreciable assets | 41,063 | 271,327 | 486 |
| Property, plant and equipment in service | 435,625 | 6,123,925 | 57,492 |
| Less accumulated depreciation | (110,282) | (2,143,724) | (22,877) |
| Net property, plant and equipment in service | 325,343 | 3,980,201 | 34,615 |
| Construction in progress | 49,870 | 661,157 | 4,491 |
| Nuclear fuel, net of amortization | -- | 21,805 | -- |
| Plant held for future use | -- | 31,379 | -- |
| Total capital assets | 416,276 | 4,965,869 | 39,592 |
| Intangible assets, net of amortization | -- | 90,102 | -- |
| Other long-term assets | -- | 1,913 | -- |
| Deferred costs and expenses, net of amortization | 18,375 | 456,005 | 7 |
| Total noncurrent assets | 434,715 | 5,672,984 | 39,599 |
| Total assets | 573,652 | 6,744,435 | 112,567 |

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

(Continued)

Proprietary Funds
Statement of Net Assets
September 30, 2003
(In thousands)

| | Electric | Water and Wastewater | Airport |
|--|---------------------|---------------------------------|----------------|
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 44,810 | 1,118 | 1,332 |
| Accounts and retainage payable from restricted assets | 14,187 | 23,882 | 976 |
| Accrued payroll | 2,816 | 1,513 | 478 |
| Accrued compensated absences | 5,719 | 3,041 | 894 |
| Claims payable | -- | -- | -- |
| Due to other funds | -- | -- | -- |
| Accrued interest payable from restricted assets | 29,922 | 23,351 | 8,379 |
| Interest payable on other debt | 82 | 677 | 6 |
| General obligation bonds payable and other tax supported debt | -- | -- | 121 |
| General obligation bonds payable and other tax supported debt payable from restricted assets | 445 | 4,261 | -- |
| Revenue bonds payable | -- | 2,455 | -- |
| Revenue bonds payable from restricted assets | 93,374 | 28,337 | 7,195 |
| Capital lease obligations payable | 2,035 | 1,036 | 11 |
| Customer and escrow deposits payable from restricted assets | 5,884 | 1,976 | 571 |
| Nuclear fuel expense payable from restricted assets | 29,531 | -- | -- |
| Deferred credits and other liabilities | 11,092 | 1,775 | 1,317 |
| Total current liabilities | 239,897 | 93,422 | 21,280 |
| Noncurrent liabilities, net of current portion: | | | |
| Accrued compensated absences | 4,047 | 1,822 | 468 |
| Claims payable | -- | -- | -- |
| Advances from other funds | -- | 3,293 | -- |
| Capital appreciation bond interest payable | 75,889 | 75,083 | -- |
| Commercial paper notes payable, net of discount | 54,672 | 73,812 | -- |
| Revenue notes payable | -- | -- | 28,000 |
| General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium | 2,882 | 20,409 | 591 |
| Revenue bonds payable, net of discount and inclusive of premium | 1,317,591 | 1,185,015 | 350,067 |
| Capital lease obligations payable | 7,072 | 4,760 | 11 |
| Accrued landfill closure and postclosure costs | -- | -- | -- |
| Decommissioning expense payable from restricted assets | 90,687 | -- | -- |
| Deferred credits and other liabilities | 67,988 | 406,557 | 2,917 |
| Other liabilities payable from restricted assets | 1,649 | 581 | 2,331 |
| Total noncurrent liabilities | 1,622,477 | 1,771,332 | 384,385 |
| Total liabilities | 1,862,374 | 1,864,754 | 405,665 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 858,021 | 259,498 | 223,544 |
| Restricted for: | | | |
| Debt service | 60,463 | 21,808 | 21,921 |
| Bond reserve | 5,633 | 13,055 | -- |
| Capital projects | -- | -- | 52,714 |
| Renewal and replacement | -- | -- | 10,000 |
| Passenger facility charges | -- | -- | 7,326 |
| Convention Center operating reserve | -- | -- | -- |
| Unrestricted | 354,013 | 142,306 | 7,688 |
| Total net assets | \$ 1,278,130 | 436,667 | 323,193 |
| Reconciliation to government-wide Statement of Net Assets | | | |
| Adjustment to consolidate internal service activities | 1,666 | 1,169 | 460 |
| Total net assets - Business-type activities | \$ 1,279,796 | 437,836 | 323,653 |

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

(Continued)

| | Nonmajor Enterprise Funds | 2003 Total | Governmental Activities- Internal Service Funds |
|--|---------------------------------|------------------|--|
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 5,408 | 52,668 | 6,226 |
| Accounts and retainage payable from restricted assets | 2,728 | 41,773 | -- |
| Accrued payroll | 1,831 | 6,638 | 2,242 |
| Accrued compensated absences | 3,461 | 13,115 | 4,207 |
| Claims payable | -- | -- | 20,121 |
| Due to other funds | -- | -- | 27 |
| Accrued interest payable from restricted assets | 5,061 | 66,713 | -- |
| Interest payable on other debt | 183 | 948 | 142 |
| General obligation bonds payable and other tax supported debt | 3,180 | 3,301 | 2,114 |
| General obligation bonds payable and other tax supported debt payable from restricted assets | 390 | 5,096 | -- |
| Revenue bonds payable | -- | 2,455 | -- |
| Revenue bonds payable from restricted assets | 5,210 | 134,116 | -- |
| Capital lease obligations payable | 133 | 3,215 | 317 |
| Customer and escrow deposits payable from restricted assets | 2,269 | 10,700 | -- |
| Nuclear fuel expense payable from restricted assets | -- | 29,531 | -- |
| Deferred credits and other liabilities | 388 | 14,572 | 889 |
| Total current liabilities | 30,242 | 384,841 | 36,285 |
| Noncurrent liabilities, net of current portion: | | | |
| Accrued compensated absences | 1,467 | 7,804 | 2,611 |
| Claims payable | -- | -- | 14,627 |
| Advances from other funds | 3,696 | 6,989 | 396 |
| Capital appreciation bond interest payable | -- | 150,972 | -- |
| Commercial paper notes payable, net of discount | -- | 128,484 | -- |
| Revenue notes payable | -- | 28,000 | -- |
| General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium | 46,608 | 70,490 | 12,777 |
| Revenue bonds payable, net of discount and inclusive of premium | 228,836 | 3,081,509 | -- |
| Capital lease obligations payable | 107 | 11,950 | 120 |
| Accrued landfill closure and postclosure costs | 7,370 | 7,370 | -- |
| Decommissioning expense payable from restricted assets | -- | 90,687 | -- |
| Deferred credits and other liabilities | -- | 477,462 | -- |
| Other liabilities payable from restricted assets | -- | 4,561 | -- |
| Total noncurrent liabilities | 288,084 | 4,066,278 | 30,531 |
| Total liabilities | 318,326 | 4,451,119 | 66,816 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 164,416 | 1,505,479 | 21,324 |
| Restricted for: | | | |
| Debt service | 7,254 | 111,446 | -- |
| Bond reserve | -- | 18,688 | -- |
| Capital projects | 12,998 | 65,712 | 7,137 |
| Renewal and replacement | 1,330 | 11,330 | -- |
| Passenger facility charges | -- | 7,326 | -- |
| Convention Center operating reserve | 1,957 | 1,957 | -- |
| Unrestricted | 67,371 | 571,378 | 17,290 |
| Total net assets | 255,326 | 2,293,316 | 45,751 |
| Reconciliation to government-wide Statement of Net Assets | | | |
| Adjustment to consolidate internal service activities | 800 | 4,095 | |
| Total net assets - Business-type activities | 256,126 | 2,297,411 | |

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, 2003
(In thousands)

| | Electric | Water and Wastewater | Airport |
|---|---------------------|---------------------------------|-----------------|
| OPERATING REVENUES | | | |
| Utility services | \$ 921,649 | 242,365 | -- |
| User fees and rentals | -- | -- | 63,479 |
| Billings to departments | -- | -- | -- |
| Employee contributions | -- | -- | -- |
| Operating revenues from other governments | -- | -- | -- |
| Other operating revenues | -- | -- | -- |
| Total operating revenues | 921,649 | 242,365 | 63,479 |
| OPERATING EXPENSES | | | |
| Operating expenses before depreciation | 554,235 | 109,416 | 40,786 |
| Depreciation and amortization | 89,757 | 50,480 | 15,962 |
| Total operating expenses | 643,992 | 159,896 | 56,748 |
| Operating income (loss) | 277,657 | 82,469 | 6,731 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest and other revenues | 22,080 | 3,578 | 2,484 |
| Interest on revenue bonds and other debt | (104,091) | (79,606) | (23,236) |
| Interest capitalized during construction | -- | -- | 685 |
| Passenger facility charges | -- | -- | 8,214 |
| Amortization of bond issue cost | (831) | (565) | (105) |
| Cost (recovered) to be recovered in future years | 11,982 | (5,066) | -- |
| Other nonoperating revenue (expense) | (17,530) | 22 | (160) |
| Total nonoperating revenues (expenses) | (88,390) | (81,637) | (12,118) |
| Income (loss) before contributions and transfers | 189,267 | 832 | (5,387) |
| Capital contributions | 3,437 | 35,685 | 7,524 |
| Transfers in | -- | -- | -- |
| Transfers out | (74,636) | (22,515) | (48) |
| Change in net assets | 118,068 | 14,002 | 2,089 |
| Total net assets - beginning | 1,160,062 | 422,665 | 321,104 |
| Total net assets - ending | \$ 1,278,130 | 436,667 | 323,193 |
| Reconciliation to government-wide Statement of Activities | | | |
| Change in net assets | 118,068 | 14,002 | 2,089 |
| Adjustment to consolidate internal service activities | 69 | (292) | 6 |
| Change in net assets - Business-type activities | 118,137 | 13,710 | 2,095 |

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

| | Nonmajor Enterprise Funds | 2003 Total | Governmental Activities- Internal Service Funds |
|---|---------------------------------|------------------|--|
| OPERATING REVENUES | | | |
| Utility services | -- | 1,164,014 | -- |
| User fees and rentals | 128,030 | 191,509 | -- |
| Billings to departments | -- | -- | 190,461 |
| Employee contributions | -- | -- | 22,073 |
| Operating revenues from other governments | 2,269 | 2,269 | -- |
| Other operating revenues | 2,610 | 2,610 | 11,765 |
| Total operating revenues | 132,909 | 1,360,402 | 224,299 |
| OPERATING EXPENSES | | | |
| Operating expenses before depreciation | 130,892 | 835,329 | 218,739 |
| Depreciation and amortization | 12,801 | 169,000 | 1,697 |
| Total operating expenses | 143,693 | 1,004,329 | 220,436 |
| Operating income (loss) | (10,784) | 356,073 | 3,863 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest and other revenues | 2,288 | 30,430 | 435 |
| Interest on revenue bonds and other debt | (16,312) | (223,245) | (610) |
| Interest capitalized during construction | 1,814 | 2,499 | -- |
| Passenger facility charges | -- | 8,214 | -- |
| Amortization of bond issue cost | (173) | (1,674) | (4) |
| Cost (recovered) to be recovered in future years | -- | 6,916 | -- |
| Other nonoperating revenue (expense) | (1,822) | (19,490) | 459 |
| Total nonoperating revenues (expenses) | (14,205) | (196,350) | 280 |
| Income (loss) before contributions and transfers | (24,989) | 159,723 | 4,143 |
| Capital contributions | 1,679 | 48,325 | (594) |
| Transfers in | 32,034 | 32,034 | -- |
| Transfers out | (1,761) | (98,960) | (156) |
| Change in net assets | 6,963 | 141,122 | 3,393 |
| Total net assets - beginning | 248,363 | 2,152,194 | 42,358 |
| Total net assets - ending | 255,326 | 2,293,316 | 45,751 |
| Reconciliation to government-wide Statement of Activities | | | |
| Change in net assets | 6,963 | 141,122 | |
| Adjustment to consolidate internal service activities | (198) | (415) | |
| Change in net assets - Business-type activities | 6,765 | 140,707 | |

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

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2003
(In thousands)

| | Electric | Water and Wastewater | Airport |
|---|---------------------|---------------------------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | \$ 837,121 | 228,007 | 62,081 |
| Cash payments to suppliers for goods and services | (437,704) | (57,130) | (24,510) |
| Cash payments to employees for services | (88,006) | (53,548) | (18,271) |
| Cash payments to claimants/beneficiaries | -- | -- | -- |
| Cash received from other governments | -- | -- | -- |
| Taxes collected and remitted to other governments | (23,282) | -- | -- |
| Net cash provided (used) by operating activities | 288,129 | 117,329 | 19,300 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Transfers in | -- | -- | -- |
| Transfers out | (74,636) | (22,515) | (48) |
| Interest paid on revenue notes and other debt | (19) | (19) | -- |
| Increase in deferred assets | (1,829) | -- | -- |
| Loans to other funds | (2,520) | -- | (73) |
| Loans from other funds | -- | 1,559 | 700 |
| Loan repayments to other funds | -- | -- | -- |
| Loan repayments from other funds | -- | 27 | -- |
| Net cash provided (used) by noncapital financing activities | (79,004) | (20,948) | 579 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Proceeds from the sale of commercial paper notes | 41,052 | 40,170 | -- |
| Proceeds from long-term loans | 2,059 | -- | -- |
| Principal paid on long-term debt | (70,083) | (26,631) | (5,783) |
| Proceeds from the sale of capital assets | 1,920 | -- | -- |
| Purchased interest received | 879 | 590 | -- |
| Interest paid on revenue bonds and other debt | (87,891) | (65,254) | (22,833) |
| Passenger facility charges | -- | -- | 8,214 |
| Acquisition and construction of capital assets | (193,207) | (122,035) | (13,107) |
| Contributions from municipality | -- | -- | -- |
| Contributions from State and Federal governments | -- | -- | 7,137 |
| Contributions in aid of construction | 3,413 | 15,176 | 83 |
| Bond issuance costs | (1,606) | (1,045) | -- |
| Bond discounts | (568) | (673) | -- |
| Bond premiums | 7,925 | 4,644 | -- |
| Bonds issued for advanced refundings of debt | 182,100 | 127,577 | -- |
| Cash paid for bond refunding escrow | (187,325) | (134,790) | -- |
| Cash paid for nuclear fuel inventory | (9,683) | -- | -- |
| Net cash provided (used) by capital and related financing activities | \$ (311,015) | (162,271) | (26,289) |

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

| | Nonmajor Enterprise Funds | 2003 Total | Governmental Activities- Internal Service Funds |
|---|---------------------------------|------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from customers | 129,094 | 1,256,303 | 214,132 |
| Cash payments to suppliers for goods and services | (61,449) | (580,793) | (64,073) |
| Cash payments to employees for services | (66,462) | (226,287) | (82,266) |
| Cash payments to claimants/beneficiaries | -- | -- | (69,552) |
| Cash received from other governments | 2,686 | 2,686 | -- |
| Taxes collected and remitted to other governments | -- | (23,282) | -- |
| Net cash provided (used) by operating activities | 3,869 | 428,627 | (1,759) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Transfers in | 32,034 | 32,034 | -- |
| Transfers out | (1,761) | (98,960) | (156) |
| Interest paid on revenue notes and other debt | (2) | (40) | -- |
| Increase in deferred assets | -- | (1,829) | -- |
| Loans to other funds | (40) | (2,633) | -- |
| Loans from other funds | 3,056 | 5,315 | 59 |
| Loan repayments to other funds | (1,242) | (1,242) | (27) |
| Loan repayments from other funds | 1,689 | 1,716 | -- |
| Net cash provided (used) by noncapital financing activities | 33,734 | (65,639) | (124) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Proceeds from the sale of commercial paper notes | -- | 81,222 | -- |
| Proceeds from long-term loans | -- | 2,059 | -- |
| Principal paid on long-term debt | (6,796) | (109,293) | (2,053) |
| Proceeds from the sale of capital assets | -- | 1,920 | -- |
| Purchased interest received | 18 | 1,487 | -- |
| Interest paid on revenue bonds and other debt | (15,834) | (191,812) | (563) |
| Passenger facility charges | -- | 8,214 | -- |
| Acquisition and construction of capital assets | (22,223) | (350,572) | (10,853) |
| Contributions from municipality | -- | -- | 2,475 |
| Contributions from State and Federal governments | -- | 7,137 | -- |
| Contributions in aid of construction | 2,127 | 20,799 | -- |
| Bond issuance costs | (8) | (2,659) | -- |
| Bond discounts | (15) | (1,256) | -- |
| Bond premiums | 445 | 13,014 | -- |
| Bonds issued for advanced refundings of debt | 4,205 | 313,882 | -- |
| Cash paid for bond refunding escrow | (4,627) | (326,742) | -- |
| Cash paid for nuclear fuel inventory | -- | (9,683) | -- |
| Net cash provided (used) by capital and related financing activities | (42,708) | (542,283) | (10,994) |

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2003
(In thousands)

| | Electric | Water and Wastewater | Airport |
|--|-------------------|---------------------------------|----------------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of investment securities | \$ (369,071) | (120,306) | (53,435) |
| Proceeds from sale and maturities of investment securities | 339,770 | 118,579 | 52,039 |
| Interest on investments | 21,572 | 4,743 | 1,701 |
| Net cash provided by investing activities | (7,729) | 3,016 | 305 |
| Net increase (decrease) in cash and cash equivalents | (109,619) | (62,874) | (6,105) |
| Cash and cash equivalents, October 1 | 201,474 | 115,373 | 89,746 |
| Cash and cash equivalents, September 30 | 91,855 | 52,499 | 83,641 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | |
| Operating income (loss) | 277,657 | 82,469 | 6,731 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 89,757 | 47,980 | 15,962 |
| Amortization | -- | 2,500 | -- |
| Change in assets and liabilities: | | | |
| Increase in working capital advances | 953 | -- | -- |
| (Increase) decrease in accounts receivable | (27,193) | (14,135) | (2,585) |
| Increase (decrease) in allowance for doubtful accounts | (903) | 71 | -- |
| Decrease in receivable from other governments | -- | -- | -- |
| (Increase) decrease in inventory | 3,423 | (301) | -- |
| (Increase) decrease in prepaid expenses and other assets | (65,726) | (17) | -- |
| Decrease in deferred costs and other expenses | 7,638 | -- | -- |
| Decrease in other long-term assets | 2,050 | -- | -- |
| Increase (decrease) in accounts payable | 4,754 | (1,133) | (3,749) |
| Increase in accrued payroll and compensated absences | 437 | 191 | 201 |
| Decrease in claims payable | -- | -- | -- |
| Increase (decrease) in deferred credits and other liabilities | (6,710) | (960) | 2,589 |
| Increase in customer deposits | 1,992 | 664 | 151 |
| Total adjustments | 10,472 | 34,860 | 12,569 |
| Net cash provided (used) by operating activities | \$ 288,129 | 117,329 | 19,300 |

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

(Continued)

| | Nonmajor Enterprise Funds | 2003 Total | Governmental Activities- Internal Service Funds |
|--|---------------------------------|----------------|--|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of investment securities | (36,031) | (578,843) | -- |
| Proceeds from sale and maturities of investment securities | 34,611 | 544,999 | -- |
| Interest on investments | 2,444 | 30,460 | 435 |
| Net cash provided by investing activities | 1,024 | (3,384) | 435 |
| Net increase (decrease) in cash and cash equivalents | (4,081) | (182,679) | (12,442) |
| Cash and cash equivalents, October 1 | 112,701 | 519,294 | 73,001 |
| Cash and cash equivalents, September 30 | 108,620 | 336,615 | 60,559 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | |
| Operating income (loss) | (10,784) | 356,073 | 3,863 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 12,801 | 166,500 | 1,697 |
| Amortization | -- | 2,500 | -- |
| Change in assets and liabilities: | | | |
| Increase in working capital advances | -- | 953 | -- |
| (Increase) decrease in accounts receivable | 336 | (43,577) | (9,902) |
| Increase (decrease) in allowance for doubtful accounts | 127 | (705) | -- |
| Decrease in receivable from other governments | 417 | 417 | -- |
| (Increase) decrease in inventory | (2) | 3,120 | 372 |
| (Increase) decrease in prepaid expenses and other assets | 21 | (65,722) | (20) |
| Decrease in deferred costs and other expenses | -- | 7,638 | -- |
| Decrease in other long-term assets | -- | 2,050 | -- |
| Increase (decrease) in accounts payable | 294 | 166 | 727 |
| Increase in accrued payroll and compensated absences | 228 | 1,057 | 305 |
| Decrease in claims payable | -- | -- | 1,367 |
| Increase (decrease) in deferred credits and other liabilities | 33 | (5,048) | (168) |
| Increase in customer deposits | 398 | 3,205 | -- |
| Total adjustments | 14,653 | 72,554 | (5,622) |
| Net cash provided (used) by operating activities | 3,869 | 428,627 | (1,759) |

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

(Continued)

Proprietary Funds
Statement of Cash Flows
For the year ended September 30, 2003
(In thousands)

| | Electric | Water and Wastewater | Airport |
|--|----------|-------------------------|---------|
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | | |
| Increase in advances from other funds | \$ -- | -- | -- |
| Increase in deferred assets/expenses | 11,869 | 7,099 | -- |
| Increase (decrease) in capital appreciation bond interest payable | (1,579) | 14,276 | -- |
| Capital assets contributed from (to) other funds | -- | -- | 19 |
| Increase in contributed facilities | -- | 13,514 | -- |
| Net decrease in the fair value of investments | (3,333) | (1,178) | -- |
| Amortization of bond issue costs | (831) | (565) | (105) |
| Amortization of bond discounts and premiums | (1,613) | (674) | 465 |
| Amortization of deferred loss on refundings | 12,914 | 5,639 | 74 |
| Gain (loss) on disposal of assets | (13,594) | 22 | (181) |
| Deferred gain and loss on bond refunding | (72) | (23) | -- |
| Bond issuance costs, discounts, premiums and accrued interest written off due to refunding | 162 | 142 | -- |
| Deferred costs (recovered) to be recovered | 11,982 | (5,066) | -- |
| Loss on extinguishment of debt | -- | -- | -- |
| Contributions from other funds | -- | -- | -- |
| Increase in deferred credits and other liabilities | 5,842 | 21,082 | -- |
| Capital lease obligations | 1,044 | 171 | 40 |
| General obligation bonds and other tax supported debt proceeds receivable | 960 | 270 | -- |
| Debt paid by other governmental entities | -- | (513) | -- |

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

(Continued)

| | Nonmajor Enterprise Funds | 2003 Total | Governmental Activities- Internal Service Funds |
|---|---------------------------------|---------------|--|
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | | |
| Increase in advances from other funds | -- | -- | 42 |
| Increase in deferred assets/expenses | -- | 18,968 | -- |
| Increase (decrease) in capital appreciation bond interest payable | -- | 12,697 | -- |
| Capital assets contributed from (to) other funds | 8 | 27 | (3,027) |
| Increase in contributed facilities | -- | 13,514 | -- |
| Net decrease in the fair value of investments | (13) | (4,524) | -- |
| Amortization of bond issue costs | (173) | (1,674) | -- |
| Amortization of bond discounts and premiums | 89 | (1,733) | (2) |
| Amortization of deferred loss on refundings | 382 | 19,009 | 6 |
| Gain (loss) on disposal of assets | (1,839) | (15,592) | 21 |
| Deferred gain and loss on bond refunding | (131) | (226) | -- |
| Bond issue costs, discounts, premiums and accrued interest written off due to refunding | 45 | 349 | -- |
| Deferred costs (recovered) to be recovered | (11) | 6,905 | -- |
| Loss on extinguishment of debt | 230 | 230 | -- |
| Contributions from other funds | (31) | (31) | 144 |
| Increase in deferred credits and other liabilities | -- | 26,924 | -- |
| Capital lease obligations | 403 | 1,658 | 830 |
| General obligation bonds and other tax supported debt proceeds receivable | 3,800 | 5,030 | 9,090 |
| Debt paid by other governmental entities | -- | (513) | -- |

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

Fiduciary Funds
Statement of Fiduciary Net Assets
September 30, 2003
(In thousands)

City of Austin, Texas
Exhibit D-1

| | Private Purpose Trust | Agency |
|--------------------------------|----------------------------------|---------------|
| ASSETS | | |
| Pooled investments and cash | \$ 884 | 2,297 |
| Other assets | 121 | -- |
| Total assets | <u>1,005</u> | <u>2,297</u> |
| LIABILITIES | | |
| Accounts payable | 1 | 51 |
| Due to other governments | -- | 1,553 |
| Deposits and other liabilities | 253 | 693 |
| Total liabilities | <u>254</u> | <u>2,297</u> |
| NET ASSETS | | |
| Held in trust | 751 | |
| Total net assets | <u>\$ 751</u> | |

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

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended September 30, 2003
(In thousands)

City of Austin, Texas
Exhibit D-2

| | <u>Private Purpose Trust</u> |
|-------------------------------------|----------------------------------|
| ADDITIONS | |
| Contributions | \$ 217 |
| Interest and other | 18 |
| Total additions | <u>235</u> |
| DEDUCTIONS | |
| Deductions | <u>157</u> |
| Total deductions | <u>157</u> |
| Change in net assets | 78 |
| Total net assets - beginning | 673 |
| Total net assets - ending | <u><u>\$ 751</u></u> |

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government. The City Council is composed of a Mayor and six Councilmembers, all of whom are elected at large for three-year staggered terms, and 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; public recreation and culture; urban growth management and general government. In addition, the City owns and operates certain major enterprise activities, including an electric utility, water and wastewater utility, airport 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. 39 and Statement No. 41. GASB Statement No. 39 entitled *"Determining if Certain Organizations are Component Units"* was implemented in the City's fiscal year 2003, as required by GASB. There were no additional component units identified in the City's reporting structure as a result. GASB Statement No. 41 entitled *"Budgetary Comparison Schedules – Perspective Differences – an amendment to GASB Statement No. 34"*, does not alter the City's financial reporting presentation from previous years. 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. The Mayor, with consent of the City Council, appoints the Board of Commissioners for the Urban Renewal Agency, whose primary responsibility is to oversee the implementation and compliance of Urban Renewal Plans adopted by the City Council. The City's presiding officer of the municipality governing body appoints the persons to serve as commissioners of the Austin Housing Authority. All of these entities are separate from the operating activities of the City. Related organizations are not included in the City's reporting entity.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b -- Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, vehicle rental taxes, EMS charges, Municipal Court fines and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The City reports the following major governmental fund:

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

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

The City reports the following major enterprise funds:

Electric Fund: Accounts for the activities of the City-owned electric utility, doing business as Austin Energy TM.

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).

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

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

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

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

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

The City reports the following proprietary and fiduciary funds:

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

During fiscal year 2003, the following nonmajor governmental funds exceeded their legally adopted expenditure or transfer budget (in thousands): Police Federal Seized Fund (\$9) and Wildland Conservation (\$44).

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, 2003. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts Receivable -- Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of September 30, 2003 (in thousands):

| | Charges for Services | Fines | Taxes | Other Govern- ments | Other | Total |
|---------------------------------|----------------------------|---------------|---------------|---------------------------|---------------|----------------|
| Governmental activities | | | | | | |
| General Fund | \$ 56,263 | 53,407 | 25,730 | -- | -- | 135,400 |
| Nonmajor governmental funds | 2,935 | 21 | 7,339 | 15,886 | 70,789 | 96,970 |
| Internal service funds | 1,554 | -- | -- | -- | 9,090 | 10,644 |
| Allowance for doubtful accounts | (52,634) | (35,930) | -- | -- | -- | (88,564) |
| Total | <u>\$ 8,118</u> | <u>17,498</u> | <u>33,069</u> | <u>15,886</u> | <u>79,879</u> | <u>154,450</u> |

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.

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

| | Electric | Water and Wastewater | Airport | Nonmajor Enterprise | Total Restricted Assets |
|------------------------------------|-------------------|-------------------------|----------------|------------------------|-------------------------------|
| Bond reserve | \$ 64,396 | 45,652 | -- | 6,757 | 116,805 |
| Capital projects | 17,158 | 30,123 | 66,986 | 58,027 | 172,294 |
| Customer and escrow deposits | 7,533 | 2,557 | 571 | 1,639 | 12,300 |
| Debt service | 90,385 | 45,159 | 21,921 | 7,355 | 164,820 |
| Federal grants | -- | -- | 4,962 | -- | 4,962 |
| Nuclear decommissioning | 90,687 | -- | -- | -- | 90,687 |
| Nuclear fuel inventory replacement | 29,531 | -- | -- | -- | 29,531 |
| Operating reserve account | -- | -- | -- | 1,957 | 1,957 |
| Passenger facility charge account | -- | -- | 9,348 | -- | 9,348 |
| Renewal and replacement account | -- | -- | 10,000 | 1,330 | 11,330 |
| | <u>\$ 299,690</u> | <u>123,491</u> | <u>113,788</u> | <u>77,065</u> | <u>614,034</u> |

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

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

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

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.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

(1) Includes internal service funds

Depreciation of assets is classified by functional components. The City considers land, arts and treasures and library collections to be inexhaustible; and therefore, these assets are reported as nondepreciable. The true value of arts and treasures and library collections is expected to be maintained over time and, thus, is not depreciated. Unallocated depreciation reported in the government-wide statement of activities consists of depreciation of infrastructure assets (\$35.4 million).

The City Council approved a resolution directing the City Manager to include the closure of Holly Power Plant Units 3 and 4 by December 31, 2007 in the Strategic Plan developed by Austin Energy. Depreciation was accelerated on Holly Plant assets to coincide with this closure date. The resulting change increased depreciation expense by \$1.2 million.

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

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

Deferred Expenses or Credits -- The City's utility systems are reported in accordance with 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, are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements, and in the enterprise activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements; the estimated liability for governmental funds is the amount of sick and vacation paid at termination within 60 days of year-end.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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 bad debt expense, as follows (in thousands):

| | | |
|---------------------------|----|-------|
| Electric Fund | \$ | 7,769 |
| Water and Wastewater Fund | | 1,108 |
| Nonmajor Enterprise Funds | | 1,352 |

Electric, water and wastewater revenue is recorded when earned in 2003 and when billed in 2002 and prior years. Customers' electric and water meters are read and bills are rendered on a cycle basis by billing district. Electric rate schedules include fuel cost adjustment clauses that permit recovery of fuel costs in the month incurred. The City reported fuel costs on the same basis as it recognized revenue in 2002 and prior years. In 2003, Austin Energy recorded unbilled revenue as earned based upon taking each day's power generation and using the billing district read dates to estimate what percentage was billed as of September 30, 2003 and what percentage will be billed thereafter over the days since the last meter read, on a billing cycle basis. The amount of unbilled revenue recorded as of September 30, 2003 for the Electric Fund was \$35.8 million. The Water and Wastewater Fund recorded unbilled revenue as earned based upon an extrapolation of customer usage from the prior year, over the days since the last meter read, on an aggregate basis. The amount of unbilled revenue recorded as of September 30, 2003 for the Water and Wastewater Fund was \$14.4 million.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

Pension Costs -- 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 No. 10, *"Accounting and Reporting for Risk Financing and Related Insurance Issues"* (see Note 14).

Austin Energy initiated the energy risk management pilot program. This program was authorized by City Council and led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk. The City complies with GASB Technical Bulletin No. 2003-1, *"Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets"* (see Note 14).

f -- Comparative Data

Governments are required to present comparative data only in connection with Management's Discussion and Analysis (MD&A). Comparative data has been utilized within the MD&A to more fully understand the City's financial statements for the current period.

g -- Use of Estimates

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

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balances of the City's governmental funds, \$345 million, differ from the net assets of governmental activities, \$1,348 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 | | \$ 345,455 |
| 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 | 2,356,163 | |
| Less: accumulated depreciation | (527,045) | |
| Total | | 1,829,118 |
| Other-long term assets are not available as current-period resources and are not reported in the funds. | | |
| Accounts and other taxes receivable | 18,351 | |
| Deferred revenue - Property taxes/interest | 266 | |
| Total | | 18,617 |
| 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 | (811,736) | |
| Capital lease obligations payable | (356) | |
| Compensated absences | (61,814) | |
| Interest payable | (3,843) | |
| Deferred credits and other liabilities | (8,970) | |
| Total | | (886,719) |
| Internal service funds | | 41,656 |
| Total net assets - Governmental activities | | \$ 1,348,127 |

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, \$38 million deficit, differs from the change in net assets for governmental activities, \$100.7 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 | | \$ (37,950) |
| 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 | 160,821 | |
| Depreciation expense | (56,033) | |
| Loss on disposal of capital assets | (602) | |
| Total | | 104,186 |
| Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds. | | |
| Property taxes | 32 | |
| Franchise fees and gross receipts tax | (1) | |
| Charges for services | 68 | |
| Interest and other | (228) | |
| Capital assets contribution | 71,964 | |
| Total | | 71,835 |
| 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 | (14,957) | |
| Total | | (14,957) |
| Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | | |
| Issuance of long-term debt | (70,323) | |
| Principal repayment on long-term debt | 49,340 | |
| Total | | (20,983) |
| 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 | (5,103) | |
| Interest and other | (146) | |
| Total | | (5,249) |
| Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities. | | <u>3,808</u> |
| Change in net assets - Governmental activities | | <u><u>\$ 100,690</u></u> |

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

At September 30, 2003, the following funds reported deficits in fund balances or net assets. Management intends to recover these deficits through future operating revenues, transfers or debt issues.

| <u>Nonmajor Governmental</u> | <u>Deficit</u> | | <u>Deficit</u> |
|---------------------------------------|-----------------------|--------------------------------|-----------------------|
| <u>Special Revenue Funds:</u> | <u>(in thousands)</u> | <u>Internal Service Funds:</u> | <u>(in thousands)</u> |
| Tourism and Promotion | \$ 21 | Liability Reserve | \$ 6,043 |
| Capital Projects Funds: | | | |
| Energy improvements - city facilities | 82 | | |
| Parks/Old Bakery | 179 | | |
| Police facilities | 14 | | |
| Transportation Mobility Improvements | 82 | | |
| Parks - 1992 | 173 | | |
| Build Austin | 25 | | |
| Public Works | 21 | | |
| Conservation Land | 1 | | |

The City Council passed a resolution to reimburse the deficit in the Transportation Mobility Improvements Fund through a future bond sale. The Liability Reserve deficit will be recovered through future transfers.

4 – POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by fund at September 30, 2003 (in thousands):

| | <u>Pooled Investments and Cash</u> | |
|--------------------------------------|------------------------------------|-------------------|
| | <u>Unrestricted</u> | <u>Restricted</u> |
| General Fund | \$ 84,451 | -- |
| Nonmajor governmental funds | 167,045 | -- |
| Electric | 35,345 | 52,065 |
| Water and Wastewater | 19,137 | 27,769 |
| Airport | 1,915 | 81,721 |
| Nonmajor enterprise funds | 49,450 | 59,153 |
| Internal service funds | 60,053 | -- |
| Fiduciary funds | 3,181 | -- |
| Subtotal pooled investments and cash | <u>420,577</u> | <u>220,708</u> |
| Total pooled investments and cash | <u>\$ 641,285</u> | |

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) Direct 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;
- (10) Money Market Mutual Funds;
- (11) Certificates of deposit; and
- (12) Share certificates issued by State or Federal Credit Unions.

The City participates in two Texas local government investment pools: TexPool and TexasTERM/Daily. The State Comptroller of Public Accounts oversees TexPool, with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the Comptroller. 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 2003.

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) |
| <u>Investments</u> | | | | |
| Obligations of the U.S. government and its agencies | \$ 810,447 | -- | -- | 810,447 |
| | 810,447 | -- | -- | 810,447 |
| <u>Investments held by trustee</u> | | | | |
| Obligations of the U.S. government and its agencies | 92,783 | -- | -- | 92,783 |
| <u>Investments not categorized</u> | | | | |
| TexPool, Texas Local Government Investment Pool | | | | 258,665 |
| TexasTERM/Daily, Local Government Investment Pool | | | | 88,021 |
| | | | | 346,686 |
| Total investments | | | | \$ 1,249,916 |

5 – INVESTMENTS AND DEPOSITS, continued

Investments and deposits at September 30, 2003 are as follows (in thousands):

| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total |
|-------------------------------------|----------------------------|-----------------------------|--------------------|------------------|
| Non-pooled investments and deposits | \$ 25,076 | 599,740 | -- | 624,816 |
| Pooled investments and deposits | 316,314 | 331,544 | 3,181 | 651,039 |
| Total investments and deposits | <u>341,390</u> | <u>931,284</u> | <u>3,181</u> | <u>1,275,855</u> |
| Unrestricted deposits | 10,391 | 51 | -- | 10,442 |
| Restricted deposits | -- | 10,009 | -- | 10,009 |
| Pooled deposits | 2,666 | 2,795 | 27 | 5,488 |
| Investments | 328,333 | 918,429 | 3,154 | 1,249,916 |
| Total investments and deposits | <u>\$ 341,390</u> | <u>931,284</u> | <u>3,181</u> | <u>1,275,855</u> |

A difference of \$9.8 million exists between bank balance and book balance, primarily due to deposits in transit offset by outstanding checks.

b -- Deposits

The September 30, 2003, 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 | 10,279 | -- | -- | 10,279 |
| Restricted | -- | 10,009 | -- | 10,009 |
| Pooled cash | <u>2,666</u> | <u>2,795</u> | <u>27</u> | <u>5,488</u> |
| Total deposits | <u>\$ 13,057</u> | <u>12,855</u> | <u>27</u> | <u>25,939</u> |

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, 2003.

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, 2002, upon which the 2003 levy was based, was \$50,759,650,668.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 2003, 98.84% of the current tax levy (October 1, 2002) was collected. The statutory lien date is January 1.

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

6 – PROPERTY TAXES, continued

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

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

The City is permitted by Article 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, 2003, was \$.2969 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$.7031 per \$100 assessed valuation, and could levy approximately \$356,891,104 in additional taxes from the assessed valuation of \$50,759,650,668 before the legislative limit is reached.

The City has reserved a portion of the taxes collected for lawsuits filed by certain tax payers against the appraisal districts challenging assessed values.

7 – CAPITAL ASSETS AND INFRASTRUCTURE

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

The City 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 2003 depreciation expense for this accelerated depreciation is \$1,210,000.

The City has recorded capitalized interest for fiscal year 2003 in the following funds related to the construction of various enterprise fund capital improvement projects (in thousands):

| | | |
|----------------------------|----|-------|
| Major fund: | | |
| Airport | \$ | 685 |
| Nonmajor enterprise funds: | | |
| Convention Center | | 1,052 |
| Drainage | | 458 |
| Golf | | 94 |
| Solid Waste Services | | 210 |

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Components of capital assets (in thousands)

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|-------------|
| Capital assets not depreciated | | | |
| Land and improvements | \$ 195,274 | 270,600 | 465,874 |
| Arts and treasures | 4,785 | 727 | 5,512 |
| Library collections | 12,880 | -- | 12,880 |
| Total | 212,939 | 271,327 | 484,266 |
| Property, plant and equipment in service | | | |
| Building and improvements | 310,174 | 1,862,542 | 2,172,716 |
| Equipment | 50,253 | 3,848,527 | 3,898,780 |
| Vehicles | 74,447 | 84,419 | 158,866 |
| Infrastructure | 1,308,273 | -- | 1,308,273 |
| Completed assets not classified | 108,595 | 328,437 | 437,032 |
| Total | 1,851,742 | 6,123,925 | 7,975,667 |
| Less accumulated depreciation for | | | |
| Building and improvements | (84,558) | (507,997) | (592,555) |
| Equipment | (23,938) | (1,578,768) | (1,602,706) |
| Vehicles | (38,791) | (48,343) | (87,134) |
| Infrastructure | (389,336) | -- | (389,336) |
| Completed assets not classified | (13,299) | (8,616) | (21,915) |
| Total | (549,922) | (2,143,724) | (2,693,646) |
| Net property, plant and equipment in service | 1,301,820 | 3,980,201 | 5,282,021 |
| Construction in progress | 353,951 | 661,157 | 1,015,108 |
| Nuclear fuel, net of amortization | -- | 21,805 | 21,805 |
| Plant held for future use | -- | 31,379 | 31,379 |
| Total capital assets | \$ 1,868,710 | 4,965,869 | 6,834,579 |

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

Capital asset activity for the year ended September 30, 2003 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| Capital assets not depreciated | | | | |
| Land and improvements | \$ 151,314 | 43,960 | -- | 195,274 |
| Arts and treasures | 4,450 | 335 | -- | 4,785 |
| Library collections | 12,706 | 174 | -- | 12,880 |
| Total | 168,470 | 44,469 | -- | 212,939 |
| Property, plant and equipment in service | | | | |
| Building and improvements | 265,028 | 45,742 | (596) | 310,174 |
| Equipment | 46,331 | 13,802 | (9,880) | 50,253 |
| Vehicles | 69,496 | 9,795 | (4,844) | 74,447 |
| Infrastructure | 1,218,959 | 89,314 | -- | 1,308,273 |
| Completed assets not classified | 202,908 | 160 | (94,473) | 108,595 |
| Total | 1,802,722 | 158,813 | (109,793) | 1,851,742 |
| Less accumulated depreciation for | | | | |
| Building and improvements | (75,765) | (9,384) | 591 | (84,558) |
| Equipment | (29,301) | (4,227) | 9,590 | (23,938) |
| Vehicles | (35,751) | (7,250) | 4,210 | (38,791) |
| Infrastructure | (352,467) | (36,869) | -- | (389,336) |
| Completed assets not classified | (13,299) | -- | -- | (13,299) |
| Total | (506,583) | (57,730) | 14,391 | (549,922) |
| Net property, plant and equipment in service | 1,296,139 | 101,083 | (95,402) | 1,301,820 |
| Construction in progress | 223,455 | 155,612 | (25,116) | 353,951 |
| Total capital assets | \$ 1,688,064 | 301,164 | (120,518) | 1,868,710 |

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

Governmental activities:

| | |
|--|-----------|
| General government | \$ 891 |
| Public safety | 8,720 |
| Transportation, planning and sustainability | 3,387 |
| Public health | 871 |
| Public recreation and culture | 5,433 |
| Urban growth management | 1,317 |
| Unallocated depreciation expense - infrastructure | 35,414 |
| Internal service funds | 1,697 |
| Total governmental activities depreciation expense | \$ 57,730 |

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

Capital asset activity for the year ended September 30, 2003 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------------|------------------|--------------------|
| Capital assets not depreciated | | | | |
| Land and improvements | \$ 32,877 | 2,065 | -- | 34,942 |
| Total | <u>32,877</u> | <u>2,065</u> | <u>--</u> | <u>34,942</u> |
| Property, plant and equipment in service | | | | |
| Building and improvements | 566,795 | 36,380 | (1,382) | 601,793 |
| Equipment | 2,208,322 | 115,841 | (21,483) | 2,302,680 |
| Vehicles | 19,367 | 1,305 | (1,353) | 19,319 |
| Completed assets not classified | 194,004 | 23,899 | (190,286) | 27,617 |
| Total | <u>2,988,488</u> | <u>177,425</u> | <u>(214,504)</u> | <u>2,951,409</u> |
| Less accumulated depreciation for | | | | |
| Building and improvements | (233,771) | (16,925) | 140 | (250,556) |
| Equipment | (951,540) | (72,010) | 3,243 | (1,020,307) |
| Vehicles | (15,443) | (822) | 1,346 | (14,919) |
| Completed assets not classified | (3,232) | -- | 339 | (2,893) |
| Total | <u>(1,203,986)</u> | <u>(89,757)</u> | <u>5,068</u> | <u>(1,288,675)</u> |
| Net property, plant and equipment in service | <u>1,784,502</u> | <u>87,668</u> | <u>(209,436)</u> | <u>1,662,734</u> |
| Construction in progress | 160,485 | 365,039 | (165,775) | 359,749 |
| Nuclear fuel, net of amortization | 18,102 | 3,703 | -- | 21,805 |
| Plant held for future use | 31,379 | -- | -- | 31,379 |
| Total capital assets | <u>\$ 2,027,345</u> | <u>458,475</u> | <u>(375,211)</u> | <u>2,110,609</u> |

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

Capital asset activity for the year ended September 30, 2003 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------|-----------------|-------------------|
| Capital assets not depreciated | | | | |
| Land and improvements | \$ 135,325 | 848 | -- | 136,173 |
| Total | 135,325 | 848 | -- | 136,173 |
| Property, plant and equipment in service | | | | |
| Building and improvements | 1,356,114 | 10,675 | (1,022,915) (1) | 343,874 |
| Equipment | 452,012 | 1,061,750 (1) | (5,381) | 1,508,381 |
| Vehicles | 21,203 | 514 | (729) | 20,988 |
| Completed assets not classified | 275,535 | 122 | (27,244) | 248,413 |
| Total | 2,104,864 | 1,073,061 | (1,056,269) | 2,121,656 |
| Less accumulated depreciation for | | | | |
| Building and improvements | (444,518) | (7,671) | 348,609 (1) | (103,580) |
| Equipment | (154,423) | (387,202) (1) | 5,272 | (536,353) |
| Vehicles | (12,971) | (1,366) | 726 | (13,611) |
| Completed assets not classified | (4,640) | -- | -- | (4,640) |
| Total | (616,552) | (396,239) (2) | 354,607 | (658,184) |
| Net property, plant and equipment in service | 1,488,312 | 676,822 | (701,662) | 1,463,472 |
| Construction in progress | 104,100 | 129,101 | (1,031) | 232,170 |
| Total capital assets | \$ 1,727,737 | 806,771 | (702,693) | 1,831,815 |

(1) The City implemented a fixed asset accounting system. During the implementation process, asset categories were reviewed and \$1,022,565 of buildings and improvements were reclassified to equipment and \$348,259 of accumulated depreciation - buildings and improvements was reclassified to accumulated depreciation - equipment.

(2) Components of accumulated depreciation increases:

| | |
|---------------------------|-------------------|
| Current year depreciation | \$ 47,980 |
| Reclassification | 348,259 |
| | <u>\$ 396,239</u> |

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

Capital asset activity for the year ended September 30, 2003 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| Capital assets not depreciated | | | | |
| Land and improvements | \$ 58,690 | -- | -- | 58,690 |
| Arts and treasures | 405 | 54 | -- | 459 |
| Total | 59,095 | 54 | -- | 59,149 |
| Property, plant and equipment in service | | | | |
| Building and improvements | 576,259 | 435 | (1,681) | 575,013 |
| Equipment | 14,430 | 348 | (74) | 14,704 |
| Vehicles | 3,036 | 729 | (43) | 3,722 |
| Completed assets not classified | 21,852 | -- | (56) | 21,796 |
| Total | 615,577 | 1,512 | (1,854) | 615,235 |
| Less accumulated depreciation for | | | | |
| Building and improvements | (65,658) | (14,792) | 1,682 | (78,768) |
| Equipment | (4,713) | (850) | 40 | (5,523) |
| Vehicles | (1,685) | (320) | 36 | (1,969) |
| Completed assets not classified | (323) | -- | -- | (323) |
| Total | (72,379) | (15,962) | 1,758 | (86,583) |
| Net property, plant and equipment in service | 543,198 | (14,450) | (96) | 528,652 |
| Construction in progress | 7,802 | 12,639 | (1,073) | 19,368 |
| Total capital assets | \$ 610,095 | (1,757) | (1,169) | 607,169 |

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

Capital asset activity for the year ended September 30, 2003 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| Capital assets not depreciated | | | | |
| Land and improvements | \$ 40,271 | 524 | -- | 40,795 |
| Arts and treasures | 268 | -- | -- | 268 |
| Total | 40,539 | 524 | -- | 41,063 |
| Property, plant and equipment in service | | | | |
| Building and improvements | 300,827 | 46,429 | (5,394) | 341,862 |
| Equipment | 22,205 | 1,149 | (592) | 22,762 |
| Vehicles | 37,910 | 3,546 | (1,066) | 40,390 |
| Completed assets not classified | 73,587 | -- | (42,976) | 30,611 |
| Total | 434,529 | 51,124 | (50,028) | 435,625 |
| Less accumulated depreciation for | | | | |
| Building and improvements | (72,514) | (7,471) | 4,892 | (75,093) |
| Equipment | (15,401) | (1,661) | 477 | (16,585) |
| Vehicles | (15,131) | (3,669) | 956 | (17,844) |
| Completed assets not classified | (1,261) | -- | 501 | (760) |
| Total | (104,307) | (12,801) | 6,826 | (110,282) |
| Net property, plant and equipment in service | 330,222 | 38,323 | (43,202) | 325,343 |
| Construction in progress | 38,489 | 19,833 | (8,452) | 49,870 |
| Total capital assets | \$ 409,250 | 58,680 | (51,654) | 416,276 |

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

Capital asset activity for the year ended September 30, 2003 was as follows (in thousands):

| | Beginning Balance | Increases (1) | Decreases (1) | Ending Balance |
|--|----------------------|---------------------|--------------------|--------------------|
| Capital assets not depreciated | | | | |
| Land and improvements | \$ 267,163 | 3,437 | -- | 270,600 |
| Arts and treasures | 673 | 54 | -- | 727 |
| Total | <u>267,836</u> | <u>3,491</u> | <u>--</u> | <u>271,327</u> |
| Property, plant and equipment in service | | | | |
| Building and improvements | 2,799,995 | 93,919 | (1,031,372) | 1,862,542 |
| Equipment | 2,696,969 | 1,178,952 | (27,394) | 3,848,527 |
| Vehicles | 81,516 | 6,094 | (3,191) | 84,419 |
| Completed assets not classified | 564,978 | 24,021 | (260,562) | 328,437 |
| Total | <u>6,143,458</u> | <u>1,302,986</u> | <u>(1,322,519)</u> | <u>6,123,925</u> |
| Less accumulated depreciation for | | | | |
| Building and improvements | (816,461) | (46,859) | 355,323 | (507,997) |
| Equipment | (1,126,077) | (461,723) | 9,032 | (1,578,768) |
| Vehicles | (45,230) | (6,177) | 3,064 | (48,343) |
| Completed assets not classified | (9,456) | -- | 840 | (8,616) |
| Total | <u>(1,997,224)</u> | <u>(514,759)(2)</u> | <u>368,259</u> | <u>(2,143,724)</u> |
| Net property, plant and equipment in service | <u>4,146,234</u> | <u>788,227</u> | <u>(954,260)</u> | <u>3,980,201</u> |
| Construction in progress | 310,876 | 526,584 | (176,303) | 661,157 |
| Nuclear fuel, net of amortization | 18,102 | 3,703 | -- | 21,805 |
| Plant held for future use | 31,379 | -- | -- | 31,379 |
| Total capital assets | <u>\$ 4,774,427</u> | <u>1,322,005</u> | <u>(1,130,563)</u> | <u>4,965,869</u> |

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

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

Business-type activities:

| | |
|---|-------------------|
| Electric | \$ 89,757 |
| Water and Wastewater | 47,980 |
| Airport | 15,962 |
| Nonmajor enterprise funds | 12,801 |
| Total business-type activities depreciation expense | <u>166,500</u> |
| Reclassification | <u>348,259</u> |
| Total increases in accumulated depreciation | <u>\$ 514,759</u> |

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, 2002. Membership in the plans at December 31, 2002 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 | 3,387 | 312 | 380 | 4,079 |
| Current employees | 7,647 | 1,364 | 938 | 9,949 |
| Total | 11,034 | 1,676 | 1,318 | 14,028 |

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 41089 Austin, Texas 78704 | (512)416-7138 |
| 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, 2003, are as follows (in thousands):

| | City Employees | Police Officers | Fire Fighters | Total |
|---------------------|-------------------|--------------------|------------------|--------|
| City | \$ 26,093 | 13,626 | 9,608 | 49,327 |
| Employees | 26,020 | 6,813 | 7,605 | 40,438 |
| Total contributions | \$ 52,113 | 20,439 | 17,213 | 89,765 |

c-- Annual Pension Cost and Net Pension Obligation

The City's annual pension cost of \$49,327,000 for fiscal year ended September 30, 2003, 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): | | | | |
| 2001 | \$ 24,118 | 8,429 | 10,738 | 43,285 |
| 2002 | 25,986 | 12,160 | 9,089 | 47,235 |
| 2003 | 26,093 | 13,626 | 9,608 | 49,327 |
| Percentage of APC contributed: | | | | |
| 2001 | 100% | 100% | 100% | N/A |
| 2002 | 100% | 100% | 100% | N/A |
| 2003 | 100% | 100% | 100% | N/A |
| Net Pension Obligation: | | | | |
| 2001 | \$ -- | -- | -- | -- |
| 2002 | -- | -- | -- | -- |
| 2003 | -- | -- | -- | -- |

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, 2002. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

| | <u>City Employees</u> | <u>Police Officers</u> | <u>Fire Fighters</u> |
|---------------------------------------|--------------------------------------|--------------------------------------|---|
| 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% |
| 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 | 25.7 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(1) | Actuarial Value of Assets | Actuarial Accrued Liability | UAAL(2) | Funded Ratio | Annual Covered Payroll | Percentage of UAAL to Covered Payroll |
|-------------------------------------|---------------------------------|-----------------------------------|----------|-----------------|------------------------------|--|
| City Employees | | | | | | |
| 1995 | \$ 707,300 | 623,000 | (84,300) | 113.5% | 221,000 | (38.1%) |
| 1997 | 856,423 | 832,140 | (24,283) | 102.9% | 219,208 | (11.1%) |
| 1999 | 1,105,100 | 1,044,500 | (60,600) | 105.8% | 244,500 | (24.8%) |
| 2001 | 1,311,288 | 1,360,270 | 48,982 | 96.4% | 316,793 | 15.5% |
| 2002 | 1,250,851 | 1,440,199 | 189,348 | 86.9% | 322,008 | 58.8% |
| Police Officers | | | | | | |
| 1995 | \$ 127,572 | 164,865 | 37,293 | 77.4% | 36,211 | 103.0% |
| 1997 | 168,602 | 222,703 | 54,101 | 75.7% | 47,189 | 114.6% |
| 1999 | 226,913 | 257,850 | 30,937 | 88.0% | 54,695 | 56.6% |
| 2001 | 284,761 | 347,548 | 62,787 | 81.9% | 69,707 | 90.1% |
| 2002 | 298,782 | 384,992 | 86,210 | 77.6% | 79,236 | 108.8% |
| 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) City Employees and Police Officers' actuarial valuation are prepared annually beginning in 2002; Fire Fighters' actuarial valuation is prepared bi-annually.

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

9 – SELECTED REVENUES

a -- Governmental Funds - General Fund

Hospital lease payments

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton") to operate City-owned Brackenridge Hospital. This lease agreement qualifies as an operating lease for accounting purposes. Previously, lease payments have been reported in the Hospital Fund, a nonmajor enterprise fund. Beginning in fiscal year 2003, lease payments are reported in the City's General Fund.

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 2003, General Fund revenues included minimum lease payments of \$1.8 million and additional rent of \$6.6 million.

During fiscal year 2003, the City amended the lease agreement to accommodate capacity issues related to the Children's Hospital at Brackenridge. The amendment increases the term of the lease from 30 years to 60 years, with an option to extend an additional 30 years.

Certain adjustments to the scheduled lease payments have resulted from costs associated with the construction of the Austin Women's Hospital, a separately licensed hospital to be operated by the University of Texas Medical Branch at Galveston. Construction costs of approximately \$9.3 million will be amortized over the remaining time period of the original lease term (30 years) from the time the facility is completed. The estimated completion date is February 2004; the estimated opening date is the beginning of March 2004.

b -- Major Enterprise Funds

Electric and Water and Wastewater

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

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

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

Airport

The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. In fiscal year 2003, the Airport Fund revenues included minimum concession guarantees of \$8,173,267.

9 – SELECTED REVENUES, continued

The following is a schedule by year of minimum future rentals on noncancelable operating leases for the remaining term of fifty-two years related to the Hospital lease and up to a term of thirty years for the Airport Fund as of September 30, 2003. Amounts for the Hospital lease payments do not include supplemental rent payments as discussed above (in thousands):

| Fiscal Year Ended September 30 | Governmental General Fund Hospital Lease Payments | Enterprise Airport Lease Payments |
|--------------------------------------|--|--|
| 2004 | \$ 1,392 | 8,246 |
| 2005 | 1,097 | 7,731 |
| 2006 | 1,097 | 7,324 |
| 2007 | 1,097 | 7,156 |
| 2008 | 1,097 | 6,862 |
| 2009-2013 | 5,483 | 5,349 |
| 2014-2018 | 5,483 | 792 |
| 2019-2023 | 5,483 | 552 |
| 2024-2028 | 2,223 | 392 |
| 2029-2033 | 50 | 143 |
| 2034-2038 | 50 | -- |
| 2039-2043 | 50 | -- |
| 2044-2048 | 50 | -- |
| 2049-2053 | 50 | -- |
| 2054-2055 | 20 | -- |
| Totals | <u>\$ 24,722</u> | <u>44,547</u> |

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, 2003 are (in thousands):

| Description | September 30, 2002 | Increases | Decreases | September 30, 2003 | Amounts Due Within One Year |
|--------------------------------|-----------------------|-----------|-----------|-----------------------|--------------------------------|
| Governmental activities | | | | | |
| Tax anticipation notes | \$ 4,800 | -- | (4,800) | -- | -- |

In May 2002, the City issued Tax Anticipation Notes, Series 2002, in the amount of \$4,800,000. On April 1, 2003, the City paid the note amount and \$73,387 in interest at a rate of 1.6%.

10 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Long-Term Liabilities

The following is a summary of long-term liabilities. Balances at September 30, 2003 are (in thousands):

| Description | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|------------------|
| Long-term obligations | | | |
| General obligation bonds | \$ 708,200 | 23,019 | 731,219 |
| Certificates of obligation | 95,328 | 34,701 | 130,029 |
| Contractual obligations | 26,230 | 9,640 | 35,870 |
| Other tax supported debt | -- | 11,527 | 11,527 |
| General obligation bonds and other tax supported debt total | 829,758 | 78,887 | 908,645 |
| Commercial paper | -- | 128,484 | 128,484 |
| Revenue notes | -- | 28,000 | 28,000 |
| Revenue bonds | -- | 3,201,903 | 3,201,903 |
| Contract revenue bonds | -- | 16,177 | 16,177 |
| Capital lease obligations | 793 | 15,165 | 15,958 |
| Debt service requirements total | 830,551 | 3,468,616 | 4,299,167 |
| Other long-term obligations | | | |
| Accrued compensated absences | 69,243 | 20,919 | 90,162 |
| Claims payable | 34,748 | -- | 34,748 |
| Accrued landfill closure and postclosure costs | -- | 7,370 | 7,370 |
| Decommissioning expense payable | -- | 90,687 | 90,687 |
| Deferred credits and other liabilities | 75,923 | 507,295 | 583,218 |
| | 179,914 | 626,271 | 806,185 |
| Total long-term obligations | \$ 1,010,465 | 4,094,887 | 5,105,352 |

This schedule excludes short-term liabilities of \$42,459 for governmental activities and \$198,271 for business-type activities and long-term interest payable of \$150,972 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, 2003 are (in thousands):

| Description | September 30, 2002 | Increases | Decreases | September 30, 2003 | Amounts Due Within One Year |
|--|-----------------------|----------------|------------------|-----------------------|--------------------------------|
| Governmental activities (1) | | | | | |
| General obligation bonds, net | \$ 671,300 | 133,184 | (96,284) | 708,200 | 39,321 |
| Certificates of obligation | 99,309 | 650 | (4,631) | 95,328 | 4,907 |
| Contractual obligations | 24,593 | 7,380 | (5,743) | 26,230 | 6,210 |
| General obligation bonds and other tax supported debt total | 795,202 | 141,214 | (106,658) | 829,758 | 50,438 |
| Capital lease obligations | -- | 1,186 | (393) | 793 | 533 |
| Debt service requirements total | 795,202 | 142,400 | (107,051) | 830,551 | 50,971 |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 64,200 | 23,686 | (18,643) | 69,243 | 28,125 |
| Claims payable | 33,381 | 21,501 | (20,134) | 34,748 | 20,121 |
| Deferred credits and other liabilities | 70,373 | 17,187 | (11,637) | 75,923 | 56,485 |
| Governmental activities total | 963,156 | 204,774 | (157,465) | 1,010,465 | 155,702 |
| Business-type activities: | | | | | |
| Electric activities | | | | | |
| General obligation bonds | 1,331 | -- | (5) | 1,326 | 5 |
| Contractual obligations | 1,399 | 960 | (358) | 2,001 | 440 |
| General obligation bonds and other tax supported debt total | 2,730 | 960 | (363) | 3,327 | 445 |
| Commercial paper notes, net | 200,509 | 41,416 | (187,253) | 54,672 | -- |
| Revenue bonds, net | 1,278,388 | 189,022 | (56,445) | 1,410,965 | 93,374 |
| Capital lease obligations | 10,037 | 1,044 | (1,974) | 9,107 | 2,035 |
| Debt service requirements total | 1,491,664 | 232,442 | (246,035) | 1,478,071 | 95,854 |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 9,936 | 447 | (617) | 9,766 | 5,719 |
| Decommissioning expense payable | 81,727 | 8,960 | -- | 90,687 | -- |
| Deferred credits and other liabilities | 90,519 | 53,243 | (57,149) | 86,613 | 16,976 |
| Electric activities total | 1,673,846 | 295,092 | (303,801) | 1,665,137 | 118,549 |
| Water and Wastewater activities | | | | | |
| General obligation bonds, net | 9,418 | 1,780 | (3,694) | 7,504 | 1,493 |
| Contractual obligations | 6,901 | 270 | (1,532) | 5,639 | 1,632 |
| Other tax supported debt | 12,761 | -- | (1,234) | 11,527 | 1,136 |
| General obligation bonds and other tax supported debt total | 29,080 | 2,050 | (6,460) | 24,670 | 4,261 |
| Commercial paper notes, net | 157,842 | 40,170 | (124,200) | 73,812 | -- |
| Revenue bonds, net | 1,088,476 | 125,299 | (14,145) | 1,199,630 | 28,337 |
| Contract revenue bonds, net | 22,755 | 4,446 | (11,024) | 16,177 | 2,455 |
| Capital lease obligations | 6,600 | 171 | (975) | 5,796 | 1,036 |
| Debt service requirements total | 1,304,753 | 172,136 | (156,804) | 1,320,085 | 36,089 |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 4,965 | 102 | (204) | 4,863 | 3,041 |
| Deferred credits and other liabilities | 391,102 | 22,016 | (2,229) | 410,889 | 3,751 |
| Water and Wastewater activities total | 1,700,820 | 194,254 | (159,237) | 1,735,837 | 42,881 |

(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, 2002 | Increases | Decreases | September 30, 2003 | Amounts Due Within One Year |
|--|-----------------------|----------------|------------------|-----------------------|--------------------------------|
| Business-type activities (continued): | | | | | |
| Airport activities | | | | | |
| General obligation bonds, net | 614 | -- | (85) | 529 | 53 |
| Contractual obligations | 246 | -- | (63) | 183 | 68 |
| General obligation bonds | | | | | |
| and other tax supported debt total | <u>860</u> | <u>--</u> | <u>(148)</u> | <u>712</u> | <u>121</u> |
| Revenue notes | 28,000 | -- | -- | 28,000 | -- |
| Revenue bonds, net | 362,340 | -- | (5,078) | 357,262 | 7,195 |
| Capital lease obligations | -- | 40 | (18) | 22 | 11 |
| Debt service requirements total | <u>391,200</u> | <u>40</u> | <u>(5,244)</u> | <u>385,996</u> | <u>7,327</u> |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 1,246 | 116 | -- | 1,362 | 894 |
| Deferred credits and other liabilities | 5,099 | 2,746 | (709) | 7,136 | 1,888 |
| Airport activities total | <u>397,545</u> | <u>2,902</u> | <u>(5,953)</u> | <u>394,494</u> | <u>10,109</u> |
| Nonmajor activities | | | | | |
| General obligation bonds, net | 10,291 | 4,349 | (980) | 13,660 | 1,195 |
| Certificates of obligation, net | 36,856 | 3,800 | (5,955) | 34,701 | 1,569 |
| Contractual obligations | 2,590 | -- | (773) | 1,817 | 806 |
| General obligation bonds | | | | | |
| and other tax supported debt total | <u>49,737</u> | <u>8,149</u> | <u>(7,708)</u> | <u>50,178</u> | <u>3,570</u> |
| Revenue bonds, net | 236,698 | -- | (2,652) | 234,046 | 5,210 |
| Capital lease obligations | -- | 403 | (163) | 240 | 133 |
| Debt service requirements total | <u>286,435</u> | <u>8,552</u> | <u>(10,523)</u> | <u>284,464</u> | <u>8,913</u> |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 5,032 | 582 | (686) | 4,928 | 3,461 |
| Accrued landfill closure and postclosure costs | 7,188 | 182 | -- | 7,370 | -- |
| Deferred credits and other liabilities | 2,019 | 4,796 | (4,158) | 2,657 | 2,657 |
| Nonmajor activities total | <u>300,674</u> | <u>14,112</u> | <u>(15,367)</u> | <u>299,419</u> | <u>15,031</u> |
| Total business-type activities | | | | | |
| General obligation bonds, net | 21,654 | 6,129 | (4,764) | 23,019 | 2,746 |
| Certificates of obligation, net | 36,856 | 3,800 | (5,955) | 34,701 | 1,569 |
| Contractual obligations, net | 11,136 | 1,230 | (2,726) | 9,640 | 2,946 |
| Other tax supported debt | 12,761 | -- | (1,234) | 11,527 | 1,136 |
| General obligation bonds | | | | | |
| and other tax supported debt total | <u>82,407</u> | <u>11,159</u> | <u>(14,679)</u> | <u>78,887</u> | <u>8,397</u> |
| Commercial paper notes, net | 358,351 | 81,586 | (311,453) | 128,484 | -- |
| Revenue notes | 28,000 | -- | -- | 28,000 | -- |
| Revenue bonds, net | 2,965,902 | 314,321 | (78,320) | 3,201,903 | 134,116 |
| Contract revenue bonds | 22,755 | 4,446 | (11,024) | 16,177 | 2,455 |
| Capital lease obligations | 16,637 | 1,658 | (3,130) | 15,165 | 3,215 |
| Debt service requirements total | <u>3,474,052</u> | <u>413,170</u> | <u>(418,606)</u> | <u>3,468,616</u> | <u>148,183</u> |
| Other long-term obligations | | | | | |
| Accrued compensated absences | 21,179 | 1,247 | (1,507) | 20,919 | 13,115 |
| Accrued landfill closure and postclosure costs | 7,188 | 182 | -- | 7,370 | -- |
| Decommissioning expense payable | 81,727 | 8,960 | -- | 90,687 | -- |
| Deferred credits and other liabilities | 488,739 | 82,801 | (64,245) | 507,295 | 25,272 |
| Business-type activities total | <u>4,072,885</u> | <u>506,360</u> | <u>(484,358)</u> | <u>4,094,887</u> | <u>186,570</u> |
| Total long-term liabilities | <u>\$ 5,036,041</u> | <u>711,134</u> | <u>(641,823)</u> | <u>5,105,352</u> | <u>342,272</u> |

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, 2003, including those reported in certain proprietary funds (in thousands):

| | | Original | Amount | Aggregate Interest | Interest Rates | |
|------------------|-----------------|-----------|---|--|--|----------------------------------|
| | Date Issued | Issue | Outstanding at September 30, 2003 | Requirements at September 30, 2003 | of Debt Outstanding at September 30, 2003 | Maturity Dates of Serial Debt |
| Series 1993 | February, 1993 | \$ 71,600 | \$ 52,325 | \$8,988 (1) | 5.50 - 5.75% | 9/1/2004-2009 |
| Series 1994 | October, 1994 | 33,260 | 1,500 | 78 (1) | 5.20% | 9/1/2004 |
| Series 1994 | October, 1994 | 3,550 | 170 | 9 (1) | 5.30% | 9/1/2004 |
| Series 1995 | October, 1995 | 30,250 | 1,985 | 283 (1) | 7.30 - 7.75% | 9/1/2004-2005 |
| Series 1995 | October, 1995 | 8,660 | 820 | 64 (1) | 4.75 - 6.00% | 9/1/2004-2005 |
| Series 1996 | October, 1996 | 30,550 | 8,260 | 2,284 (1) | 4.90 - 6.00% | 9/1/2004-2011 |
| Series 1996 | October, 1996 | 11,755 | 980 | 24 (2) | 4.80% | 11/1/2003 |
| Series 1997 | October, 1997 | 29,295 | 28,315 | 14,251 (1) | 5.00 - 5.75% | 9/1/2004-2017 |
| Series 1997 | October, 1997 | 13,975 | 3,405 | 155 (2) | 4.50% | 11/1/2003-2004 |
| Series 1997 | October, 1997 | 2,120 | 1,695 | 722 (1) | 4.50 - 5.25% | 9/1/2004-2017 |
| Series 1998 | January, 1998 | 110,300 | 109,405 | 39,490 (1) | 4.60 - 5.25% | 9/1/2004-2016 |
| Assumed MUD Debt | December, 1997 | 33,680 | 13,637 | 7,746 (3) | 4.40 - 10.50% | 11/15/2003-2021 |
| Series 1998 | October, 1998 | 13,430 | 13,130 | 6,517 (1) | 4.40 - 7.13% | 9/1/2004-2018 |
| Series 1998 | October, 1998 | 22,770 | 19,285 | 8,191 (1) | 4.10 - 6.40% | 9/1/2004-2018 |
| Series 1998 | October, 1998 | 14,975 | 6,825 | 425 (2) | 3.90 - 4.00% | 11/1/2003-2005 |
| Series 1999 | October, 1999 | 51,100 | 50,490 | 32,218 (1) | 4.30 - 5.75% | 9/1/2004-2019 |
| Series 1999 | October, 1999 | 10,335 | 5,640 | 549 (2) | 4.50 - 4.75% | 11/1/2003-2006 |
| Series 1999 | October, 1999 | 5,590 | 4,870 | 2,528 (1) | 5.00 - 6.00% | 9/1/2004-2019 |
| Series 2000 | October, 2000 | 52,930 | 51,145 | 34,945 (1) | 4.40 - 6.00% | 9/1/2004-2020 |
| Series 2000 | October, 2000 | 6,060 | 5,520 | 3,022 (1) | 5.00 - 5.38% | 9/1/2004-2020 |
| Series 2001 | June, 2001 | 123,445 | 78,345 | 20,184 (1) | 4.75 - 5.50% | 9/1/2004-2022 |
| Series 2001 | October, 2001 | 79,650 | 79,650 | 45,035 (1) | 4.00 - 5.25% | 9/1/2004-2021 |
| Series 2001 | October, 2001 | 2,650 | 2,180 | 246 (2) | 3.00 - 3.88% | 11/1/2003-2008 |
| Series 2001 | October, 2001 | 65,335 | 60,100 | 24,966 (1) | 4.00 - 5.25% | 9/1/2004-2021 |
| Series 2002 | July, 2002 | 12,190 | 12,190 | 5,024 (1) | 3.00 - 5.00% | 9/1/2004-2017 |
| Series 2002 | July, 2002 | 2,495 | 2,495 | 359 (1) | 4.00 - 5.00% | 9/1/2004-2009 |
| Series 2002 | September, 2002 | 99,615 | 99,100 | 52,173 (1) | 2.50 - 5.00% | 9/1/2004-2022 |
| Series 2002 | September, 2002 | 8,690 | 8,230 | 927 (2) | 2.50 - 4.00% | 5/1/2004-2009 |
| Series 2002 | September, 2002 | 34,095 | 33,050 | 17,209 (1) | 2.50 - 5.38% | 9/1/2004-2022 |
| Series 2003 | June, 2003 | 62,585 | 62,585 | 13,613 (1) | 2.25 - 5.00% | 9/1/2004-2023 |
| Series 2003 | September, 2003 | 68,855 | 68,855 | 40,630 (1) | 2.00 - 5.00% | 9/1/2004-2023 |
| Series 2003A | September, 2003 | 2,530 | 2,530 | 735 (1) | 4.00 - 5.00% | 9/1/2004-2013 |
| Series 2003 | September, 2003 | 4,450 | 4,450 | 2,375 (1) | 4.00 - 4.80% | 9/1/2004-2023 |
| Series 2003 | September, 2003 | 8,610 | 8,610 | 978 (2) | 2.00 - 3.38% | 5/1/2004-2010 |
| | | | <u>\$ 901,772</u> | | | |

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

In June 2003, the City issued Public Improvement Refunding Bonds, Series 2003, in the amount of \$62,585,000. The net proceeds of \$68,864,741 (after issue costs, discounts and premiums) from the refunding were used to refund \$66,845,000 of Public Improvement Bonds, Series 1993, 1993A, 1994, 1996 and Certificates of Obligation, Series 1993. The refunding resulted in future interest requirements to service the debt of \$14,458,500 with an average interest rate of 4.43%. An economic gain of \$5,413,395 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$5,650,576. An accounting loss of \$1,089,045, 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 2003, the City issued Public Improvement and Refunding Bonds, Series 2003, in the amount of \$68,855,000. The proceeds from the issue will be used as follows: street improvements (\$20,915,000); right of way acquisition and utility relocation (\$15,000,000); park and recreation facilities (\$14,473,000); emergency centers (\$2,940,000); central sub-station and forensics center (\$5,565,000); land acquisition (\$3,400,000) and refunded a court settlement (\$6,562,000). These bonds will be amortized serially on September 1 of each year from 2004 to 2023. Certain of these bonds are callable beginning September 1, 2021. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2004. Total interest requirements for these bonds, at rates ranging from 2% to 5%, are \$40,630,445.

In September 2003, the City issued Public Improvement Refunding Bonds, Taxable Series 2003A, in the amount of \$2,530,000. Proceeds from the issue will be used to finance certain payment obligations relating to the City's liability under a settlement agreement. These bonds will be amortized serially on September 1 of each year from 2004 to 2013. These bonds are not subject to optional redemption prior to maturity. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2004. Total interest requirements for these bonds, at rates ranging from 4% to 5%, are \$735,005.

In September 2003, the City issued Certificates of Obligation, Series 2003, in the amount of \$4,450,000. The proceeds from the issue will be used as follows: Walnut Creek–Crystal Brook (\$3,800,000) and developer reimbursements (\$650,000). These certificates of obligation will be amortized serially September 1 of each year from 2004 to 2023. Certain of these obligations are callable beginning September 1, 2013. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2004. Total interest requirements for these obligations, at rates ranging from 4% to 4.80%, are \$2,375,156.

In September 2003, the City issued Public Property Finance Contractual Obligations, Series 2003, in the amount of \$8,610,000. The proceeds from the issue will be used as follows: transmission equipment (\$530,000); distribution equipment (\$430,000); communication technology upgrades (\$3,685,000); City Hall technology (\$1,785,000); Emergency Medical Services capital equipment (\$765,000); fire capital equipment (\$1,145,000); and capital equipment vehicles (\$270,000). These contractual obligations will be amortized serially May 1 of each year from 2004 to November 1, 2010. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2004. The contractual obligations are not subject to optional redemption prior to maturity. The total interest requirements for these obligations, at rates ranging from 2% to 3.38%, are \$977,664.

General obligation bonds authorized and unissued amount to \$188,187,000 at September 30, 2003. Bond ratings at September 30, 2003, 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 in 2000. The following paragraphs describe both combined and separate debt.

10 – DEBT AND NON-DEBT LIABILITIES, continued

Combined Utility Systems Debt -- General - The City's Electric Fund and Water and Wastewater Fund comprise the Combined Utility Systems, which issued 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, 2003, exclusive of discounts and premiums, consist of \$1,272,069,611 prior lien bonds and \$256,379,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$1,075,087,026 at September 30, 2003. Revenue bonds authorized and unissued amount to \$1,492,642,660 at that date. Bond ratings at September 30, 2003 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.

Combined Utility Systems Debt -- Bonds Issued and Outstanding - The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2003 (in thousands):

| Series | Bonds Dated | Original Amount Issued | Outstanding at September 30, 2003 |
|------------------|----------------|---------------------------|--------------------------------------|
| 1989 | July 1989 | \$ 65,800 | \$ 955 |
| 1990AB Refunding | February 1990 | 236,009 | 6,388 |
| 1992 Refunding | March 1992 | 265,806 | 30,116 |
| 1992A Refunding | May 1992 | 351,706 | 130,416 |
| 1993 Refunding | February 1993 | 203,166 | 162,186 |
| 1993A Refunding | June 1993 | 263,410 | 137,469 |
| 1994 | May 1994 | 3,500 | 2,500 |
| 1994 Refunding | October 1994 | 142,559 | 107,159 |
| 1995 Refunding | June 1995 | 151,770 | 6,170 |
| 1996AB Refunding | September 1996 | 249,235 | 237,985 |
| 1997 Refunding | August 1997 | 227,215 | 218,210 |
| 1998 Refunding | August 1998 | 180,000 | 172,360 |
| 1998A Refunding | August 1998 | 123,020 | 62,655 |
| 1998 Refunding | November 1998 | 139,965 | 139,730 |
| 1998A Refunding | November 1998 | 105,350 | 105,350 |
| 1998 | November 1998 | 10,000 | 8,800 |
| | | | <u>\$ 1,528,449</u> |

10 – DEBT AND NON-DEBT LIABILITIES, continued

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, 2003 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, 2003, the Electric Fund had outstanding commercial paper notes of \$54,672,000 and the Water and Wastewater Fund had \$73,812,000, of commercial paper notes outstanding. Interest rates on the notes range from 0.85% to 1%, 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. During the fiscal year, bonds were issued to refinance commercial paper notes of \$187,325,000 and \$124,200,000 for the Electric Fund and Water and Wastewater Fund respectively.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes, (the "taxable notes"), in an aggregate principal amount not to exceed \$50,000,000 outstanding at any one time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2003 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, 2003, the Electric Fund and the Water and Wastewater Fund had no taxable notes outstanding.

Electric Utility System Revenue Debt -- General - The City is authorized by ordinance to issue electric utility system revenue obligations. Proceeds from these separate lien 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 2003, the City issued Electric Utility System Revenue Refunding Bonds, Series 2003, in an aggregate principal amount of \$182,100,000. Proceeds from the bond refunding were used to refund \$100,315,000 of the City's outstanding Tax-Exempt Commercial Paper and \$87,010,000 of the City's outstanding Taxable Commercial Paper for the Electric Utility System. The debt service requirements on the refunding bonds were \$338,188,294. No economic gain or loss was recognized on this transaction. An accounting loss of \$71,783, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on the refunding.

Bond ratings at September 30, 2003 were A3 (Moody's Investor Services, Inc.), A- (Standard & Poor's) and A+ (Fitch).

Electric Utility System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all electric system separate lien original and refunding revenue bonds outstanding at September 30, 2003 (in thousands):

| Series | Bonds Dated | Original Amount Issued | Outstanding at September 30, 2003 |
|-----------------|---------------|---------------------------|--------------------------------------|
| 2001 Refunding | February 2001 | \$ 126,700 | \$ 126,700 |
| 2002 Refunding | March 2002 | 74,750 | 74,750 |
| 2002A Refunding | August 2002 | 172,880 | 172,880 |
| 2003 Refunding | March 2003 | 182,100 | 182,100 |
| | | | <u>\$ 556,430</u> |

10 – DEBT AND NON-DEBT LIABILITIES, continued

Water and Wastewater System Revenue Debt -- General - The City is authorized by ordinance to issue water and wastewater system revenue obligations. Proceeds from these separate lien 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 March 2003, the City issued Water and Wastewater System Revenue Refunding Bonds, Series 2003, in an aggregate principal amount of \$121,500,000. Proceeds from the bond refunding were used to refund \$124,200,000 of the City's outstanding Tax-Exempt Commercial Paper for the Water and Wastewater System. The debt service requirements on the refunding bonds are \$222,991,142. No economic gain or loss was recognized on this transaction. No accounting gain or loss was recognized on this refunding.

On August 28, 2003, the City issued Water and Wastewater Contract Revenue Refunding Bonds, Series 2003 in an aggregate principal amount of \$4,510,000. Proceeds from the bonds and bank investment funds were used to refund \$8,670,000 of the City's outstanding Contract Revenue Bonds for North Austin Municipal Utility District, No. 1, Series 1994. The refunding resulted in future interest requirements of \$526,687. An economic gain of \$408,815 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of \$416,092. A deferred loss of \$75,623, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on the refunding.

Bond ratings at September 30, 2003 were A2 (Moody's Investor Services, Inc.), A- (Standard & Poor's) and A+ (Fitch).

Water and Wastewater System Revenue Debt -- Bonds Issued and Outstanding - The following table summarizes all water and wastewater system separate lien original and refunding revenue bonds outstanding at September 30, 2003 (in thousands):

| Series | Bonds Dated | Original Amount Issued | Outstanding at September 30, 2003 |
|-------------------------------|---------------|---------------------------|--------------------------------------|
| Maple Run MUD, 1992 | May 1992 | \$ 17,955 | \$ 10,265 |
| Tanglewood Forest MUD, 1993 | December 1993 | 1,350 | 295 |
| North Austin MUD #1, 1994 | May 1994 | 16,570 | 1,170 |
| 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 | 87,380 |
| 2002A Refunding | August 2002 | 139,695 | 139,695 |
| 2003 Refunding | March 2003 | 121,500 | 121,500 |
| North Austin MUD #1, 2003 RFD | August 2003 | 4,510 | 4,510 |
| | | | <u>\$ 690,195</u> |

10 – DEBT AND NON-DEBT LIABILITIES, continued

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 \$365,360,000, exclusive of discount and loss on refunding, at September 30, 2003. Aggregate interest requirements for all prior lien bonds are \$314,225,386 at September 30, 2003. 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, 2003 (in thousands):

| Series | Bonds Dated | Original Amount Issued | Outstanding at September 30, 2003 |
|-----------------|----------------|---------------------------|--------------------------------------|
| 1989 | September 1989 | \$ 30,000 | \$ 1,000 |
| 1995A | August 1995 | 362,205 | 335,185 |
| 1995B Refunding | August 1995 | 31,040 | 29,175 |
| | | | <u>\$ 365,360</u> |

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, 2003, 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 \$366,202, including accrued interest at September 30, 2003 and was restricted within the Airport System. During fiscal year 2003, interest rates on the notes ranged from 1% to 1.90%, 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 \$241,595,000, exclusive of discounts, premiums and loss on refunding, at September 30, 2003. Aggregate interest requirements for all prior and subordinate lien bonds are \$202,758,899 at September 30, 2003. Revenue bonds authorized and unissued amount to \$760,000 at September 30, 2003.

The following schedule shows the original and refunding revenue bonds outstanding at September 30, 2003 (in thousands):

| Series | Bonds Dated | Original Amount Issued | Outstanding at September 30, 2003 |
|----------------|----------------|---------------------------|--------------------------------------|
| 1993A | December 1993 | \$ 75,955 | \$ 63,395 |
| 1999 Refunding | June 1999 | 6,445 | 3,200 |
| 1999A | June 1999 | 25,000 | 25,000 |
| 1999 | September 1999 | 110,000 | 110,000 |
| 1999 | November 1999 | 40,000 | 40,000 |
| | | | <u>\$ 241,595</u> |

10 – DEBT AND NON-DEBT LIABILITIES, continued

e -- Debt Service Requirements (in thousands)

Governmental Activities

| Fiscal Year Ended September 30 | General Obligation Bonds | | Certificates of Obligation | | Contractual Obligations | |
|---|--------------------------|----------------|----------------------------|---------------|-------------------------|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| | | | | | | |
| 2004 | \$ 39,321 | 34,754 | 4,907 | 4,512 | 6,210 | 768 |
| 2005 | 41,470 | 32,455 | 5,014 | 4,308 | 5,517 | 599 |
| 2006 | 48,393 | 30,464 | 5,155 | 4,083 | 4,181 | 411 |
| 2007 | 45,764 | 28,080 | 5,436 | 3,851 | 2,903 | 287 |
| 2008 | 42,836 | 25,793 | 5,711 | 3,576 | 2,503 | 212 |
| 2009-2013 | 208,937 | 98,001 | 32,765 | 13,508 | 4,916 | 209 |
| 2014-2018 | 176,380 | 49,000 | 23,541 | 6,697 | -- | -- |
| 2019-2023 | 95,978 | 11,432 | 12,799 | 1,382 | -- | -- |
| | <u>699,079</u> | <u>309,979</u> | <u>95,328</u> | <u>41,917</u> | <u>26,230</u> | <u>2,486</u> |
| Less: Unamortized bond discount | (483) | -- | -- | -- | -- | -- |
| Unamortized gain(loss) on bond refundings | (1,151) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premium | 10,755 | -- | -- | -- | -- | -- |
| Net debt service requirements | <u>708,200</u> | <u>309,979</u> | <u>95,328</u> | <u>41,917</u> | <u>26,230</u> | <u>2,486</u> |

| Fiscal Year Ended September 30 | Capital Lease Obligations | | Total Governmental Debt Service Requirements | | |
|---|------------------------------|-----------|---|----------------|------------------|
| | Principal | Interest | Principal | Interest | Total |
| | | | | | |
| 2004 | 533 | 14 | 50,971 | 40,048 | 91,019 |
| 2005 | 260 | 3 | 52,261 | 37,365 | 89,626 |
| 2006 | -- | -- | 57,729 | 34,958 | 92,687 |
| 2007 | -- | -- | 54,103 | 32,218 | 86,321 |
| 2008 | -- | -- | 51,050 | 29,581 | 80,631 |
| 2009-2013 | -- | -- | 246,618 | 111,718 | 358,336 |
| 2014-2018 | -- | -- | 199,921 | 55,697 | 255,618 |
| 2019-2023 | -- | -- | 108,777 | 12,814 | 121,591 |
| | <u>793</u> | <u>17</u> | <u>821,430</u> | <u>354,399</u> | <u>1,175,829</u> |
| Less: Unamortized bond discount | -- | -- | (483) | -- | (483) |
| Unamortized gain(loss) on bond refundings | -- | -- | (1,151) | -- | (1,151) |
| Add: Unamortized bond premium | -- | -- | 10,755 | -- | 10,755 |
| Net debt service requirements | <u>793</u> | <u>17</u> | <u>\$ 830,551</u> | <u>354,399</u> | <u>1,184,950</u> |

10 – DEBT AND NON-DEBT LIABILITIES, continued

e -- Debt Service Requirements, continued (in thousands)

Electric Business-Type Activities

| Fiscal Year Ended September 30 | General Obligation Bonds | | Contractual Obligations | | Commercial Paper Notes (1) | |
|--------------------------------------|-----------------------------|----------|----------------------------|----------|-------------------------------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| | | | | | | |
| 2004 | \$ 5 | 69 | 440 | 58 | 54,672 | 61 |
| 2005 | 5 | 69 | 485 | 47 | -- | -- |
| 2006 | 5 | 68 | 358 | 30 | -- | -- |
| 2007 | 53 | 68 | 202 | 19 | -- | -- |
| 2008 | 88 | 65 | 140 | 14 | -- | -- |
| 2009-2013 | 555 | 250 | 376 | 18 | -- | -- |
| 2014-2018 | 603 | 87 | -- | -- | -- | -- |
| 2019-2023 | 12 | 2 | -- | -- | -- | -- |
| Net debt service requirements | 1,326 | 678 | 2,001 | 186 | 54,672 | 61 |

| Fiscal Year Ended September 30 | Revenue Bonds | | Capital Lease Obligations | | Total Electric Debt Service Requirements | | |
|---|---------------|----------|------------------------------|----------|---|----------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| | | | | | | | |
| 2004 | 93,374 | 80,798 | 2,035 | 579 | 150,526 | 81,565 | 232,091 |
| 2005 | 89,956 | 72,542 | 1,957 | 457 | 92,403 | 73,115 | 165,518 |
| 2006 | 82,612 | 67,692 | 1,871 | 331 | 84,846 | 68,121 | 152,967 |
| 2007 | 114,910 | 62,948 | 2,003 | 202 | 117,168 | 63,237 | 180,405 |
| 2008 | 92,971 | 62,382 | 29 | 61 | 93,228 | 62,522 | 155,750 |
| 2009-2013 | 401,513 | 354,902 | 170 | 283 | 402,614 | 355,453 | 758,067 |
| 2014-2018 | 338,521 | 123,189 | 218 | 235 | 339,342 | 123,511 | 462,853 |
| 2019-2023 | 140,664 | 59,057 | 280 | 173 | 140,956 | 59,232 | 200,188 |
| 2024-2028 | 116,679 | 23,857 | 359 | 94 | 117,038 | 23,951 | 140,989 |
| 2029-2033 | 39,900 | 2,399 | 185 | 10 | 40,085 | 2,409 | 42,494 |
| | 1,511,100 | 909,766 | 9,107 | 2,425 | 1,578,206 | 913,116 | 2,491,322 |
| Less: Unamortized bond discount | (11,943) | -- | -- | -- | (11,943) | -- | (11,943) |
| Unamortized gain(loss) on bond refundings | (130,122) | -- | -- | -- | (130,122) | -- | (130,122) |
| Add: Unamortized bond premium | 41,930 | -- | -- | -- | 41,930 | -- | 41,930 |
| Net debt service requirements | \$ 1,410,965 | 909,766 | 9,107 | 2,425 | 1,478,071 | 913,116 | 2,391,187 |

(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 Ended September 30 | General Obligation Bonds | | Contractual Obligations | | Tax Supported Debt | |
|---|--------------------------|--------------|-------------------------|------------|-----------------------|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2004 | \$ 1,493 | 489 | 1,632 | 205 | 1,136 | 1,432 |
| 2005 | 1,473 | 413 | 1,604 | 141 | 1,095 | 1,223 |
| 2006 | 854 | 340 | 1,189 | 76 | 864 | 1,189 |
| 2007 | 1,143 | 296 | 554 | 36 | 642 | 430 |
| 2008 | 789 | 237 | 324 | 20 | 594 | 401 |
| 2009-2013 | 2,891 | 680 | 336 | 12 | 2,993 | 1,585 |
| 2014-2018 | 702 | 128 | -- | -- | 4,220 | 622 |
| 2019-2023 | 128 | 16 | -- | -- | -- | -- |
| | <u>9,473</u> | <u>2,599</u> | <u>5,639</u> | <u>490</u> | <u>11,544</u> | <u>6,882</u> |
| Less: Unamortized bond discount | (35) | -- | -- | -- | (84) | -- |
| Unamortized gain(loss) on bond refundings | (2,407) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premium | 473 | -- | -- | -- | 67 | -- |
| Net debt service requirements | <u>7,504</u> | <u>2,599</u> | <u>5,639</u> | <u>490</u> | <u>11,527</u> | <u>6,882</u> |

| Fiscal Year Ended September 30 | Commercial Paper Notes (1) | | Revenue Bonds | | Municipal Utility District Contract Revenue Bonds | |
|---|-------------------------------|-----------|------------------|------------------|--|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2004 | 73,812 | 76 | 28,337 | 62,938 | 2,455 | 758 |
| 2005 | -- | -- | 44,769 | 59,767 | 2,035 | 670 |
| 2006 | -- | -- | 52,768 | 57,240 | 2,025 | 573 |
| 2007 | -- | -- | 62,911 | 54,651 | 2,170 | 466 |
| 2008 | -- | -- | 60,839 | 53,905 | 2,325 | 345 |
| 2009-2013 | -- | -- | 235,843 | 309,028 | 5,230 | 291 |
| 2014-2018 | -- | -- | 307,243 | 252,810 | -- | -- |
| 2019-2023 | -- | -- | 199,959 | 129,259 | -- | -- |
| 2024-2028 | -- | -- | 190,965 | 43,576 | -- | -- |
| 2029-2033 | -- | -- | 64,100 | 5,947 | -- | -- |
| | <u>73,812</u> | <u>76</u> | <u>1,247,734</u> | <u>1,029,121</u> | <u>16,240</u> | <u>3,103</u> |
| Less: Unamortized bond discount | -- | -- | (15,131) | -- | (31) | -- |
| Unamortized gain(loss) on bond refundings | -- | -- | (58,959) | -- | (75) | -- |
| Add: Unamortized bond premium | -- | -- | 25,986 | -- | 43 | -- |
| Net debt service requirements | <u>\$ 73,812</u> | <u>76</u> | <u>1,199,630</u> | <u>1,029,121</u> | <u>16,177</u> | <u>3,103</u> |

(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 Ended September 30 | Capital Lease Obligations | | Total Water and Wastewater Debt Service Requirements | | |
|---|------------------------------|--------------|---|------------------|------------------|
| | Principal | Interest | Principal | Interest | Total |
| 2004 | \$ 1,036 | 415 | 109,901 | 66,313 | 176,214 |
| 2005 | 1,085 | 335 | 52,061 | 62,549 | 114,610 |
| 2006 | 1,125 | 248 | 58,825 | 59,666 | 118,491 |
| 2007 | 1,225 | 155 | 68,645 | 56,034 | 124,679 |
| 2008 | 1,325 | 54 | 66,196 | 54,962 | 121,158 |
| 2009-2013 | -- | -- | 247,293 | 311,596 | 558,889 |
| 2014-2018 | -- | -- | 312,165 | 253,560 | 565,725 |
| 2019-2023 | -- | -- | 200,087 | 129,275 | 329,362 |
| 2024-2028 | -- | -- | 190,965 | 43,576 | 234,541 |
| 2029-2033 | -- | -- | 64,100 | 5,947 | 70,047 |
| | <u>5,796</u> | <u>1,207</u> | <u>1,370,238</u> | <u>1,043,478</u> | <u>2,413,716</u> |
| Less: Unamortized bond discount | -- | -- | (15,281) | -- | (15,281) |
| Unamortized gain(loss) on bond refundings | -- | -- | (61,441) | -- | (61,441) |
| Add: Unamortized bond premium | -- | -- | 26,569 | -- | 26,569 |
| Net debt service requirements | <u>\$ 5,796</u> | <u>1,207</u> | <u>1,320,085</u> | <u>1,043,478</u> | <u>2,363,563</u> |

10 – DEBT AND NON-DEBT LIABILITIES, continued

e -- Debt Service Requirements, continued (in thousands)

Airport Business-Type Activities

| Fiscal Year Ended September 30 | General Obligation Bonds | | Contractual Obligations | | Revenue Notes (1) | |
|---|-----------------------------|------------|----------------------------|-----------|-------------------|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| | | | | | | |
| 2004 | \$ 53 | 26 | 68 | 7 | -- | 308 |
| 2005 | 45 | 23 | 63 | 4 | -- | 308 |
| 2006 | 18 | 21 | 40 | 2 | -- | 308 |
| 2007 | 49 | 20 | 12 | 1 | -- | 308 |
| 2008 | 36 | 17 | -- | -- | -- | 308 |
| 2009-2013 | 173 | 61 | -- | -- | -- | 1,540 |
| 2014-2018 | 118 | 18 | -- | -- | 28,000 | 1,386 |
| 2019-2023 | 8 | 2 | -- | -- | -- | -- |
| | <u>500</u> | <u>188</u> | <u>183</u> | <u>14</u> | <u>28,000</u> | <u>4,466</u> |
| Less: Unamortized bond discount | (1) | -- | -- | -- | -- | -- |
| Unamortized gain(loss) on bond refundings | 19 | -- | -- | -- | -- | -- |
| Add: Unamortized bond premium | 11 | -- | -- | -- | -- | -- |
| Net debt service requirements | <u>529</u> | <u>188</u> | <u>183</u> | <u>14</u> | <u>28,000</u> | <u>4,466</u> |

| Fiscal Year Ended September 30 | Revenue Bonds | | Capital Lease Obligations | | Total Airport Debt Service Requirements | | |
|---|-------------------|----------------|------------------------------|----------|--|----------------|----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| | | | | | | | |
| 2004 | 7,195 | 22,092 | 11 | -- | 7,327 | 22,433 | 29,760 |
| 2005 | 7,650 | 21,653 | 11 | 1 | 7,769 | 21,989 | 29,758 |
| 2006 | 8,415 | 21,143 | -- | -- | 8,473 | 21,474 | 29,947 |
| 2007 | 9,015 | 20,628 | -- | -- | 9,076 | 20,957 | 30,033 |
| 2008 | 9,565 | 20,111 | -- | -- | 9,601 | 20,436 | 30,037 |
| 2009-2013 | 57,730 | 91,109 | -- | -- | 57,903 | 92,710 | 150,613 |
| 2014-2018 | 81,445 | 70,030 | -- | -- | 109,563 | 71,434 | 180,997 |
| 2019-2023 | 108,025 | 40,264 | -- | -- | 108,033 | 40,266 | 148,299 |
| 2024-2028 | 76,320 | 7,195 | -- | -- | 76,320 | 7,195 | 83,515 |
| | <u>365,360</u> | <u>314,225</u> | <u>22</u> | <u>1</u> | <u>394,065</u> | <u>318,894</u> | <u>712,959</u> |
| Less: Unamortized bond discount | (6,670) | -- | -- | -- | (6,671) | -- | (6,671) |
| Unamortized gain(loss) on bond refundings | (1,428) | -- | -- | -- | (1,409) | -- | (1,409) |
| Add: Unamortized bond premium | -- | -- | -- | -- | 11 | -- | 11 |
| Net debt service requirements | <u>\$ 357,262</u> | <u>314,225</u> | <u>22</u> | <u>1</u> | <u>385,996</u> | <u>318,894</u> | <u>704,890</u> |

(1) These are variable rate notes with 1.10% interest.

10 – DEBT AND NON-DEBT LIABILITIES, continued

e -- Debt Service Requirements, continued (in thousands)

Nonmajor Business-Type Activities

| Fiscal Year Ended September 30 | General Obligation Bonds | | Certificates of Obligation | | Contractual Obligations | |
|---|-----------------------------|--------------|-------------------------------|---------------|----------------------------|------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2004 | \$ 1,195 | 696 | 1,569 | 1,610 | 806 | 65 |
| 2005 | 1,649 | 639 | 1,616 | 1,535 | 530 | 31 |
| 2006 | 1,636 | 563 | 1,355 | 1,465 | 207 | 14 |
| 2007 | 994 | 480 | 1,429 | 1,408 | 99 | 8 |
| 2008 | 1,261 | 433 | 1,504 | 1,339 | 67 | 5 |
| 2009-2013 | 5,571 | 1,231 | 8,810 | 5,617 | 108 | 4 |
| 2014-2018 | 1,652 | 179 | 11,469 | 3,380 | -- | -- |
| 2019-2023 | 63 | 7 | 6,880 | 794 | -- | -- |
| | <u>14,021</u> | <u>4,228</u> | <u>34,632</u> | <u>17,148</u> | <u>1,817</u> | <u>127</u> |
| Less: Unamortized bond discount | (44) | -- | -- | -- | -- | -- |
| Unamortized gain(loss) on bond refundings | (997) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premium | 680 | -- | 69 | -- | -- | -- |
| Net debt service requirements | <u>13,660</u> | <u>4,228</u> | <u>34,701</u> | <u>17,148</u> | <u>1,817</u> | <u>127</u> |

| Fiscal Year Ended September 30 | Revenue Bonds | | Capital Lease Obligations | | Total Nonmajor Debt Service Requirements | | |
|---|-------------------|----------------|------------------------------|----------|---|----------------|----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| 2004 | 5,210 | 13,251 | 133 | 3 | 8,913 | 15,625 | 24,538 |
| 2005 | 6,070 | 12,961 | 107 | 4 | 9,972 | 15,170 | 25,142 |
| 2006 | 6,505 | 12,631 | -- | -- | 9,703 | 14,673 | 24,376 |
| 2007 | 6,330 | 12,300 | -- | -- | 8,852 | 14,196 | 23,048 |
| 2008 | 6,655 | 11,973 | -- | -- | 9,487 | 13,750 | 23,237 |
| 2009-2013 | 38,880 | 54,097 | -- | -- | 53,369 | 60,949 | 114,318 |
| 2014-2018 | 50,610 | 42,016 | -- | -- | 63,731 | 45,575 | 109,306 |
| 2019-2023 | 47,955 | 27,539 | -- | -- | 54,898 | 28,340 | 83,238 |
| 2024-2028 | 49,335 | 14,564 | -- | -- | 49,335 | 14,564 | 63,899 |
| 2029-2033 | 24,045 | 1,427 | -- | -- | 24,045 | 1,427 | 25,472 |
| | <u>241,595</u> | <u>202,759</u> | <u>240</u> | <u>7</u> | <u>292,305</u> | <u>224,269</u> | <u>516,574</u> |
| Less: Unamortized bond discount | (2,365) | -- | -- | -- | (2,409) | -- | (2,409) |
| Unamortized gain(loss) on bond refundings | (5,663) | -- | -- | -- | (6,660) | -- | (6,660) |
| Add: Unamortized bond premium | 479 | -- | -- | -- | 1,228 | -- | 1,228 |
| Net debt service requirements | <u>\$ 234,046</u> | <u>202,759</u> | <u>240</u> | <u>7</u> | <u>284,464</u> | <u>224,269</u> | <u>508,733</u> |

10 – DEBT AND NON-DEBT LIABILITIES, continued

e -- Debt Service Requirements, continued (in thousands)

Business-Type Activities

| Fiscal Year Ended September 30 | General Obligation Bonds | | Certificates of Obligation | | Contractual Obligations | |
|---|--------------------------|--------------|----------------------------|---------------|-------------------------|------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2004 | \$ 2,746 | 1,280 | 1,569 | 1,610 | 2,946 | 335 |
| 2005 | 3,172 | 1,144 | 1,616 | 1,535 | 2,682 | 223 |
| 2006 | 2,513 | 992 | 1,355 | 1,465 | 1,794 | 122 |
| 2007 | 2,239 | 864 | 1,429 | 1,408 | 867 | 64 |
| 2008 | 2,174 | 752 | 1,504 | 1,339 | 531 | 39 |
| 2009-2013 | 9,190 | 2,222 | 8,810 | 5,617 | 820 | 34 |
| 2014-2018 | 3,075 | 412 | 11,469 | 3,380 | -- | -- |
| 2019-2023 | 211 | 27 | 6,880 | 794 | -- | -- |
| | <u>25,320</u> | <u>7,693</u> | <u>34,632</u> | <u>17,148</u> | <u>9,640</u> | <u>817</u> |
| Less: Unamortized bond discount | (80) | -- | -- | -- | -- | -- |
| Unamortized gain(loss) on bond refundings | (3,385) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premium | 1,164 | -- | 69 | -- | -- | -- |
| Net debt service requirements | <u>23,019</u> | <u>7,693</u> | <u>34,701</u> | <u>17,148</u> | <u>9,640</u> | <u>817</u> |

| Fiscal Year Ended September 30 | Tax Supported Debt | | Commercial Paper Notes (1) | | Revenue Notes (2) | |
|--------------------------------------|-----------------------|--------------|-------------------------------|------------|----------------------|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2004 | 1,136 | 1,432 | 128,484 | 137 | -- | 308 |
| 2005 | 1,095 | 1,223 | -- | -- | -- | 308 |
| 2006 | 864 | 1,189 | -- | -- | -- | 308 |
| 2007 | 642 | 430 | -- | -- | -- | 308 |
| 2008 | 594 | 401 | -- | -- | -- | 308 |
| 2009-2013 | 2,993 | 1,585 | -- | -- | -- | 1,540 |
| 2014-2018 | 4,220 | 622 | -- | -- | 28,000 | 1,386 |
| | <u>11,544</u> | <u>6,882</u> | <u>128,484</u> | <u>137</u> | <u>28,000</u> | <u>4,466</u> |
| Less: Unamortized bond discount | (84) | -- | -- | -- | -- | -- |
| Add: Unamortized bond premium | 67 | -- | -- | -- | -- | -- |
| Net debt service requirements | <u>11,527</u> | <u>6,882</u> | <u>128,484</u> | <u>137</u> | <u>28,000</u> | <u>4,466</u> |

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

(2) These are variable rate notes with 1.10% interest.

10 – DEBT AND NON-DEBT LIABILITIES, continued

e -- Debt Service Requirements, continued (in thousands)

| Fiscal Year Ended September 30 | Business-Type Activities | | | | | |
|---|--------------------------|------------------|--|--------------|------------------------------|--------------|
| | Revenue Bonds | | Municipal Utility District Contract Revenue Bonds | | Capital Lease Obligations | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2004 | \$ 134,116 | 179,079 | 2,455 | 758 | 3,215 | 997 |
| 2005 | 148,445 | 166,923 | 2,035 | 670 | 3,160 | 797 |
| 2006 | 150,300 | 158,706 | 2,025 | 573 | 2,996 | 579 |
| 2007 | 193,166 | 150,527 | 2,170 | 466 | 3,228 | 357 |
| 2008 | 170,030 | 148,371 | 2,325 | 345 | 1,354 | 115 |
| 2009-2013 | 733,966 | 809,136 | 5,230 | 291 | 170 | 283 |
| 2014-2018 | 777,819 | 488,045 | -- | -- | 218 | 235 |
| 2019-2023 | 496,603 | 256,119 | -- | -- | 280 | 173 |
| 2024-2028 | 433,299 | 89,192 | -- | -- | 359 | 94 |
| 2029-2033 | 128,045 | 9,773 | -- | -- | 185 | 10 |
| | <u>3,365,789</u> | <u>2,455,871</u> | <u>16,240</u> | <u>3,103</u> | <u>15,165</u> | <u>3,640</u> |
| Less: Unamortized bond discount | (36,109) | -- | (31) | -- | -- | -- |
| Unamortized gain(loss) on bond refundings | (196,172) | -- | (75) | -- | -- | -- |
| Add: Unamortized bond premium | 68,395 | -- | 43 | -- | -- | -- |
| Net debt service requirements | <u>3,201,903</u> | <u>2,455,871</u> | <u>16,177</u> | <u>3,103</u> | <u>15,165</u> | <u>3,640</u> |

| Fiscal Year Ended September 30 | Total Business-Type Activities Debt Service Requirements | | |
|---|---|------------------|------------------|
| | Principal | Interest | Total |
| | | | |
| 2004 | 276,667 | 185,936 | 462,603 |
| 2005 | 162,205 | 172,823 | 335,028 |
| 2006 | 161,847 | 163,934 | 325,781 |
| 2007 | 203,741 | 154,424 | 358,165 |
| 2008 | 178,512 | 151,670 | 330,182 |
| 2009-2013 | 761,179 | 820,708 | 1,581,887 |
| 2014-2018 | 824,801 | 494,080 | 1,318,881 |
| 2019-2023 | 503,974 | 257,113 | 761,087 |
| 2024-2028 | 433,658 | 89,286 | 522,944 |
| 2029-2033 | 128,230 | 9,783 | 138,013 |
| | <u>3,634,814</u> | <u>2,499,757</u> | <u>6,134,571</u> |
| Less: Unamortized bond discount | (36,304) | -- | (36,304) |
| Unamortized gain(loss) on bond refundings | (199,632) | -- | (199,632) |
| Add: Unamortized bond premium | 69,738 | -- | 69,738 |
| Net debt service requirements | <u>\$3,468,616</u> | <u>2,499,757</u> | <u>5,968,373</u> |

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997 the City issued several series of bonds; the aggregate principal amount 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 million is outstanding at September 30, 2003.

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 \$362.5 million outstanding at September 30, 2003.

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, 2003, are as follows (in thousands):

| Receivable Fund | Payable Fund | Amount | |
|-----------------------------------|-----------------------------|------------------|--------------|
| | | Current | Long-Term |
| Governmental funds: | | | |
| Nonmajor governmental funds | General Fund | \$ 6 | -- |
| | Nonmajor governmental funds | 36,919 | -- |
| | Water and Wastewater | -- | 3,293 |
| | Nonmajor enterprise funds | -- | 1,176 |
| | Internal service funds | -- | 208 |
| Business-type funds: | | | |
| Electric | Nonmajor enterprise funds | -- | 2,520 |
| Water and Wastewater (restricted) | Internal service funds | 27 | 188 |
| Airport (restricted) | General Fund | 700 | 2,217 |
| | Nonmajor governmental funds | -- | 184 |
| Nonmajor enterprise funds | Nonmajor governmental funds | -- | 64 |
| | | <u>\$ 37,652</u> | <u>9,850</u> |

Interfund receivables and payables reflect temporary loans between funds. Of the above current amount, \$14.5 million is an interfund loan from the Fiscal Surety Fund, a special revenue fund, to other special revenue funds (primarily grant funds) to cover deficit pooled investments and cash.

Interfund transfers during fiscal year 2003 were as follows (in thousands):

| Transfers Out | Transfers In | | | |
|-----------------------------|------------------|-----------------------|---------------------|----------------|
| | General Fund | Nonmajor Governmental | Nonmajor Enterprise | Total |
| General Fund | \$ -- | 12,623 | 8,506 | 21,129 |
| Nonmajor governmental funds | -- | 17,519 | 23,528 | 41,047 |
| Electric | 72,864 | 1,772 | -- | 74,636 |
| Water and Wastewater | 19,553 | 2,962 | -- | 22,515 |
| Airport | -- | 48 | -- | 48 |
| Nonmajor enterprise funds | -- | 1,761 | -- | 1,761 |
| Internal service funds | -- | 156 | -- | 156 |
| Total transfers out | <u>\$ 92,417</u> | <u>36,841</u> | <u>32,034</u> | <u>161,292</u> |

12 – INTERFUND BALANCES AND TRANSFERS, continued

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

13 – LITIGATION

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2003. These liabilities include amounts for lawsuits settled subsequent to year-end, which are reported in the government-wide statement of net assets.

14 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with City funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was \$27.8 million as of September 30, 2003. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

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

A management committee of four members governs 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, American Electric Power, formerly known as Central Power and Light Company, and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2003 Austin Energy's investment in the STP was approximately \$620 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 – COMMITMENTS AND CONTINGENCIES, continued

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant operating license submit information to the NRC indicating the minimum funding required to decommission the plant. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2003, Austin Energy funded its share of the estimated decommissioning liability as follows:

| | <u>2003</u> |
|--|---------------|
| Estimated cost to decommission STP | \$233,140,066 |
| Restricted decommissioning fund assets | 90,687,258 |

Austin Energy and other STP participants have provided the required information to the NRC and have been collecting decommissioning funds through rates since 1989. Austin Energy has established an external irrevocable trust for collecting sufficient funds for its share of the estimated decommissioning costs. For fiscal year 2003, Austin Energy collected \$4,958,221 for decommissioning expenses.

d -- Energy Risk Management Program

In August 2003, in an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy initiated the Energy Risk Management Pilot Program. This program was authorized by the Austin City Council and is led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. Austin Energy typically settles these contracts in cash.

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

| <u>Brokerage</u> | <u>Credit Rating</u> |
|--------------------------------------|----------------------|
| Citigroup Global Market Holding Inc. | AA- |
| Man Group | A3 |

The hedging related contracts are reported at cost on the statement of net assets. The gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 30, 2003, Austin Energy's options, futures, and basis swaps, valued at mark-to-market, net to an unrealized loss of \$271,650. This reflects the difference between the cost and the fair market value of these contracts at September 30, 2003. Initial margins are flat fees per contract and are paid in cash. Fair market values are calculated by multiplying the number of outstanding contracts by the forward prices as quoted by the New York Mercantile Exchange. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the financial statements at September 30, 2003.

| <u>Futures</u> | |
|--------------------------|---|
| Contracts effective date | August 25 through September 22, 2003 |
| Contracts maturity date | November 1, 2003 through February 1, 2004 |
| Initial margin | \$648,000 |
| Cost | \$5,268,950 |
| Fair market value | \$5,018,000 |
| Unrealized (Gain)/Loss | \$250,950 |

| <u>Options</u> | |
|--------------------------|---|
| Contracts effective date | September 12 through September 22, 2003 |
| Contracts maturity date | November 1, 2003 through March 1, 2004 |
| Fair Value | \$25,700 |
| Unrealized (Gain)/Loss | \$19,700 |

14 – COMMITMENTS AND CONTINGENCIES, continued

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

Swaps

| | |
|--------------------------|--------------------|
| Contracts effective date | September 22, 2003 |
| Contracts maturity date | November 1, 2003 |
| Cost | \$112,000 |
| Fair market value | \$113,000 |
| Unrealized (Gain)/Loss | \$ 1,000 |

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

e -- 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 | \$7,160,000 | \$5,700,000 |
| 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.

14 – COMMITMENTS AND CONTINGENCIES, continued

f -- 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.

g -- 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, 2003 are as follows (in thousands):

| Governmental Activities | Business-type Activities | | | | |
|----------------------------|--------------------------|-------------------------|---------|----------|----------|
| | Electric | Water and Wastewater | Airport | Nonmajor | Total |
| \$ 1,688 | 436 | 477 | 2 | 135 | \$ 1,050 |

h -- 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 2004 Capital Budget includes new appropriations of \$401.1 million for the City's enterprise funds and \$72.2 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

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

| Project | Spent-to-Date | Remaining Commitment |
|--|---------------|-------------------------|
| Governmental activities: | | |
| Parks development and improvements | \$ 109,815 | 29,132 |
| Financial and administrative | 135,204 | 17,871 |
| Transportation improvements | 321,543 | 126,453 |
| Other governmental | 219,190 | 45,667 |
| Business-type activities: | | |
| Electric system improvements | 1,068,373 | 285,924 |
| Water and wastewater system improvements and annexations | 1,038,258 | 1,471,509 |
| Airport improvements | 81,919 | 111,439 |
| Nonmajor enterprise | 137,567 | 28,183 |
| Total | \$ 3,111,869 | 2,116,178 |

i -- 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 \$9.8 million in fiscal year 2003 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately \$5.6 million during fiscal year 2003 for providing physician services to patients in the first two programs.

14 – COMMITMENTS AND CONTINGENCIES, continued

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

| | Cost | Accumulated Depreciation |
|--|-------------|-------------------------------------|
| Land and other nondepreciable assets | \$ 803 | -- |
| Property, plant and equipment in service | 73,990 | (37,363) |

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, 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 \$7.4 million reported as accrued landfill closure and postclosure costs at September 30, 2003, represents the cumulative amount reported to date based on the use of 81.2% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of \$1.7 million as the remaining estimated capacity is filled over the next nine 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 2003. 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.

k -- Risk-Related Contingencies

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

| <u>Fund name</u> | <u>Description</u> |
|-----------------------|--|
| Employee Benefits | City employees and retirees may choose between a self-insured PPO or an HMO. Approximately 23% of City employees and 57% of retirees use the HMO option; approximately 77% of City employees and 43% 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 beginning in calendar year 2002 and \$150,000 per calendar year prior to calendar year 2002, up to a maximum of \$1 million. During fiscal year 2003, one claim exceeded the stop loss limit of \$500,000; no claims exceeded the stop loss limit of \$500,000 in fiscal year 2002; and two claims exceeded the stop loss limit of \$150,000 in fiscal year 2001. City coverage is limited to \$1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

14 – 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. There have been no claims settlements in excess of the insurance coverage that has been procured. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Worker's Compensation Fund; liabilities for the Liability Reserve Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 2003. The possible range of loss is \$34.7 to \$45.4 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 | |
|---------------------------------------|------------------------------|--------------|------------------------------|---------------|----------------------------------|--------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Liability balances, beginning of year | \$ 4,618 | 4,470 | 21,899 | 12,700 | 6,864 | 6,347 |
| Claims and changes in estimates | 5,328 | 3,569 | 9,586 | 11,065 | 6,587 | 4,663 |
| Claim payments | (4,405) | (3,421) | (11,405) | (1,866) | (4,324) | (4,146) |
| Liability balances, end of year | <u>\$ 5,541</u> | <u>4,618</u> | <u>20,080</u> | <u>21,899</u> | <u>9,127</u> | <u>6,864</u> |

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of \$4.9 million discounted at 5.02% in 2003 and \$5.3 million discounted at 4.87% in 2002.

In early FY2004, the City reached a settlement agreement in a litigation matter with Christopher Ochoa in the amount of \$5.3 million to be paid in FY2004. This amount is included in the financial statements as presented.

l -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of \$7.2 million at September 30, 2003. 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 2004 and future years.

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 \$1.9 million in the financial statements.

m -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2003 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.

14 – COMMITMENTS AND CONTINGENCIES, continued

The City has entered into certain lease agreements, including the certificates of participation, as lessee for financing equipment purchases for Electric and Water and Wastewater Utilities and for financing personal computers for both governmental and business-type departments. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments at their inception date. Refer to Note 10 for the debt service requirements on these leases.

The following summarizes assets recorded at September 30, 2003, under capital lease obligations (in thousands):

| Assets | Governmental Activities | Business-type Activities | | | | |
|---------------------------|----------------------------|--------------------------|-------------------------|---------|----------|-----------|
| | | Electric | Water and Wastewater | Airport | Nonmajor | Total |
| Building and improvements | \$ -- | 21,604 | 12,750 | -- | -- | \$ 34,354 |
| Equipment | 890 | 1,445 | 240 | 58 | 1,808 | 3,551 |
| Accumulated depreciation | (407) | (9,319) | (4,093) | (25) | (862) | (14,299) |
| Net assets | \$ 483 | 13,730 | 8,897 | 33 | 946 | \$ 23,606 |

15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

| <u>Years of Service</u> | <u>Retiree only</u> | <u>Dependent only</u> |
|-------------------------|---------------------|-----------------------|
| Less than 5 years | 16% - 22% | 10% - 31% |
| 5 to 9 years | 24% - 29% | 15% - 35% |
| 10 to 14 years | 40% - 44% | 25% - 43% |
| 15 to 20 years | 56% - 59% | 35% - 54% |
| Greater than 20 years | 80% - 81% | 50% - 76% |

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

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

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits Fund. The estimated cost of providing these benefits for 2,298 retirees was \$12.5 million in 2003, and \$8.6 million in 2002 for 2,135 retirees.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2002, the City's portion of this obligation, \$3,774,761, is not reflected in the financial statements of the Electric Fund.

16 – SUBSEQUENT EVENTS

Airport System Revenue Bond Refunding Issue

In January 2004, the City issued \$54,250,000 of Airport System Prior Lien Revenue Refunding Bonds, Series 2003. Proceeds from the bonds were used to refund \$52,290,000 of Airport System Prior Lien Revenue Bonds, Series 1995A. The refunding resulted in future interest requirements to service the debt of \$31,649,110. An economic gain of \$3,132,423 was recognized on this transaction. The change in net cash flows that resulted was a decrease of \$3,418,051. An accounting loss of \$5,478,957, which will be deferred and amortized, was recognized on this refunding.



General Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2003
(In thousands)

City of Austin, Texas
RSI-1

| | 2003 | | | | | |
|--|------------------|------------------------|----------------------------|----------------|----------------|--|
| | Actual | Adjustments (1) (2) | Actual- Budget Basis | Budget | | Variance Positive (Negative) (3) |
| | | | | Original | Final | |
| REVENUES | | | | | | |
| Taxes | \$ 264,511 | -- | 264,511 | 273,251 | 273,251 | (8,740) |
| Franchise fees | 28,962 | -- | 28,962 | 28,287 | 28,287 | 675 |
| Fines, forfeitures and penalties | 16,966 | -- | 16,966 | 17,458 | 17,458 | (492) |
| Licenses, permits and inspections | 14,737 | -- | 14,737 | 15,771 | 15,771 | (1,034) |
| Charges for services/goods | 15,403 | (1,201) | 14,202 | 13,223 | 13,223 | 979 |
| Interest and other | 19,815 | (4,975) | 14,840 | 14,251 | 14,251 | 589 |
| Total revenues | 360,394 | (6,176) | 354,218 | 362,241 | 362,241 | (8,023) |
| EXPENDITURES | | | | | | |
| General government | | | | | | |
| Municipal Court | 8,909 | (78) | 8,831 | 8,986 | 8,986 | 155 |
| Public safety | | | | | | |
| Police | 152,881 | (1,857) | 151,024 | 155,166 | 155,166 | 4,142 |
| Fire | 82,662 | (737) | 81,925 | 81,126 | 82,517 | 592 |
| Emergency Medical Services | 19,141 | (111) | 19,030 | 19,709 | 19,709 | 679 |
| Transportation, planning and sustainability | | | | | | |
| Public Works and Transportation | -- | -- | -- | -- | -- | -- |
| Transportation, Planning and Sustainability | 9,201 | (400) | 8,801 | 10,083 | 10,083 | 1,282 |
| Street lighting | 179 | -- | 179 | 100 | 100 | (79) |
| Public health: | | | | | | |
| Health | 26,808 | (146) | 26,662 | 29,017 | 29,017 | 2,355 |
| Physician stipend/charity care | 10,501 | 1 | 10,502 | 10,502 | 10,502 | -- |
| Medical Assistance Program | 8,752 | -- | 8,752 | 8,396 | 8,396 | (356) |
| Social services management | 9,985 | (82) | 9,903 | 10,297 | 10,297 | 394 |
| Public recreation and culture | | | | | | |
| Parks and Recreation | 28,170 | 174 | 28,344 | 29,079 | 29,079 | 735 |
| Austin Public Library | 17,023 | 60 | 17,083 | 17,917 | 17,917 | 834 |
| Urban growth management | | | | | | |
| Development Services and | | | | | | |
| Watershed Protection | 8,379 | (27) | 8,352 | 8,573 | 8,573 | 221 |
| Neighborhood Planning and Zoning | 3,259 | (21) | 3,238 | 3,999 | 3,999 | 761 |
| General city responsibilities (4) | 47,029 | (35,700) | 11,329 | 13,654 | 13,654 | 2,325 |
| Total expenditures | 432,879 | (38,924) | 393,955 | 406,604 | 407,995 | 14,040 |
| Excess (deficiency) of revenues over expenditures | (72,485) | 32,748 | (39,737) | (44,363) | (45,754) | 6,017 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Capital leases | 785 | (785) | -- | -- | -- | -- |
| Transfers in | 92,417 | 1,201 | 93,618 | 93,618 | 93,618 | -- |
| Transfers out | (21,129) | (39,726) | (60,855) | (70,012) | (70,012) | 9,157 |
| Total other financing sources (uses) | 72,073 | (39,310) | 32,763 | 23,606 | 23,606 | 9,157 |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | (412) | (6,562) | (6,974) | (20,757) | (22,148) | 15,174 |
| Fund balance at beginning of year | 93,618 | (52,292) | 41,326 | 34,245 | 34,245 | 7,081 |
| Fund balance at end of year | \$ 93,206 | (58,854) | 34,352 | 13,488 | 12,097 | 22,255 |

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.

(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.

(3) Variance is actual-budget basis to final budget.

(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers.

Actual-budget basis expenditures include employee training costs, budgeted payroll accrual, and amounts budgeted as fund-level expenditures.

BUDGET BASIS REPORTING

a -- General

The City of Austin prepares its annual operating budget based on cash and available resources (budget basis) which differs from generally accepted accounting principles (GAAP basis). In governmental funds, encumbrances constitute the equivalent of expenditures for budgetary purposes. In order to provide a meaningful comparison of actual results to the budget, the Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund presents the actual and actual-budget basis amounts in comparison with original and final budgets.

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

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

| | General Fund |
|--|-------------------------|
| Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis | \$ (412) |
| Adjustments - increases (decreases) due to: | |
| Outstanding encumbrances established in current year | (3,491) |
| Payments against prior year encumbrances | 3,905 |
| Tax anticipation notes | (4,800) |
| Advance from Airport Fund | (700) |
| Budgeted transfer for contingency reserve | (1,410) |
| Other | (66) |
| Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis | <u>\$ (6,974)</u> |

c -- Budget Amendments

The original budget of the General Fund was amended once during fiscal year 2003 for increased public safety costs.

The original and amended budget is presented in the accompanying financial statements. The General Fund budget includes other revenues and requirements, which are presented in the general city responsibilities category. The amended expenditure budget for these general city requirements includes the following: tuition reimbursement (\$85,000), accrued payroll (\$2,207,000), expenditures for workers' compensation (\$7,861,811) and liability reserve (\$3,500,000).



APPENDIX C

Form of Bond Counsel's Opinions

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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel,
upon the delivery of the Bonds, assuming no material changes in facts or law.*

**CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT AND REFUNDING BONDS,
SERIES 2004,
DATED SEPTEMBER 1, 2004,
IN THE PRINCIPAL AMOUNT OF \$67,835,000**

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 \$67,835,000. 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,

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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P.,
Bond Counsel, upon the delivery of the Certificates of Obligation,
assuming no material changes in facts or law.*

**CITY OF AUSTIN, TEXAS
CERTIFICATES OF OBLIGATION,
SERIES 2004,
DATED SEPTEMBER 1, 2004,
IN THE PRINCIPAL AMOUNT OF \$25,000,000**

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 \$25,000,000. 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,

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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P.,
Bond Counsel, upon the delivery of the Contractual Obligations,
assuming no material changes in facts or law.*

**CITY OF AUSTIN, TEXAS
PUBLIC PROPERTY FINANCE
CONTRACTUAL OBLIGATIONS,
SERIES 2004,
DATED SEPTEMBER 1, 2004,
IN THE PRINCIPAL AMOUNT OF \$21,830,000**

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 \$21,830,000. 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,

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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel,
upon the delivery of the Bonds, assuming no material changes in facts or law.*

**CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT REFUNDING BONDS,
TAXABLE SERIES 2004A,
DATED SEPTEMBER 1, 2004,
IN THE PRINCIPAL AMOUNT OF \$2,430,000**

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 \$2,430,000. 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

FSA Form of Specimen Insurance Policy

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

APPENDIX E

MBIA Form of Specimen Insurance Policy

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FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

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.

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