OFFICIAL STATEMENT

CITY OF AUSTIN, TEXAS

$12,190,000
Public Improvement Refunding Bonds, Series 2002

$2,495,000
Public Improvement Refunding Bonds, Taxable Series 2002

Dated: June 27, 2002

OFFICIAL STATEMENT

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA+"
Fitch Ratings: "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 Series 2002 Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "TAX MATTERS – Tax Exemption-Series 2002 Bonds" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

$12,190,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2002

Dated: June 15, 2002 **Due: March 1, as shown below**

Interest on the $12,190,000 City of Austin, Texas (the "City") Public Improvement Refunding Bonds, Series 2002 ("Series 2002 Bonds"), will accrue from the dated date as shown above and will be payable September 1 and March 1 of each year, commencing March 1, 2003, 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 "BOND INFORMATION – Book-Entry-Only System").

The Series 2002 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 2002 Bonds (see "BOND INFORMATION – Security for the Bonds").

Proceeds from the sale of the Series 2002 Bonds will be used to refund portions of the City's outstanding general obligation debt and to pay certain costs of issuance of the Bonds (see "PLAN OF FINANCING – Purpose" and APPENDIX D – "Summary of Obligations Refunded").

MATURITY SCHEDULE

CUSIP Prefix: 052394

Maturity (March 1)	Amount	Interest Rate	Price or Yield	Maturity (March 1)	Amount	Interest Rate	Price or Yield
2005	$ 245,000	3.000%	2.500%	2012	$1,265,000	4.125%	4.020%
2006	250,000	3.000%	2.800%	2013	1,320,000	4.125%	4.180%
2007	255,000	3.125%	3.090%	2014	1,385,000	4.250%	4.300%
2008	265,000	3.500%	3.400%	2015	1,450,000	4.375%	4.400%
2009	265,000	3.750%	3.600%	2016	1,520,000	4.400%	4.510%
2010	1,165,000	4.000%	3.820%	2017	1,595,000	4.500%	4.610%
2011	1,210,000	5.000%	3.920%				

(Plus Accrued Interest from June 15, 2002)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above will produce compensation to the Purchasers of $73,030.00.

The City reserves the right, at its option, to redeem Series 2002 Bonds having stated maturities on and after March 1, 2013, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on March 1, 2012, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. See "BOND INFORMATION – Redemption of Bonds".

The Series 2002 Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Bonds (see Appendix C – "Form of Bond Counsel's Opinions").

It is expected that the Series 2002 Bonds will be delivered through the facilities of DTC on or about July 24, 2002.

OFFICIAL STATEMENT

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

NEW ISSUE – Book-Entry-Only

The Taxable Series 2002 Bonds are exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended. In the opinion of Bond Counsel, as of the date of the issuance of the Taxable Series 2002 Bonds, the Taxable Series 2002 Bonds are not obligations described in section 103(a) of the Internal Revenue Code of 1986. See "TAX MATTERS – Taxable Series 2002 Bonds" herein.

$2,495,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
PUBLIC IMPROVEMENT REFUNDING BONDS, TAXABLE SERIES 2002

Dated: June 15, 2002 **Due: March 1, as shown below**

Interest on the $2,495,000 City of Austin, Texas (the "City"), Public Improvement Refunding Bonds, Taxable Series 2002 ("Taxable Series 2002 Bonds"), will accrue from the dated date as shown above and will be payable September 1 and March 1 of each year, commencing March 1, 2003, 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 "BOND INFORMATION – Book-Entry-Only System").

The Taxable Series 2002 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 Taxable Series 2002 Bonds (see "BOND INFORMATION – Security for the Bonds").

Proceeds from the sale of the Taxable Series 2002 Bonds will be used to refund portions of the City's outstanding general obligation debt and to pay certain costs of issuance of the Taxable Series 2002 Bonds (see "PLAN OF FINANCING – Purpose" and APPENDIX D – "Summary of Obligations Refunded").

MATURITY SCHEDULE

CUSIP Prefix: 052394

Maturity (March 1)	Amount	Interest Rate	Price or Yield
2004	$365,000	4.000%	2.930%
2005	380,000	4.000%	3.380%
2006	400000	4.000%	4.130%
2007	425,000	4.375%	4.460%
2008	450,000	4.625%	4.740%
2009	475,000	5.000%	5.050%

(Plus Accrued Interest from June 15, 2002)

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above will produce compensation to the Purchasers of $4,366.25.

The Taxable Series 2002 Bonds are not subject to redemption prior to their stated maturities.

The Taxable Series 2002 Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Bonds (see Appendix C – "Form of Bond Counsel's Opinions").

It is expected that the Taxable Series 2002 Bonds will be delivered through the facilities of DTC on or about July 24, 2002.

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 2002 Bonds or the Taxable Series 2002 Bonds (collectively referred to herein as the "Bonds"), by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE ORDINANCE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939 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 Series 2002 Bonds and Taxable Series 2002 Bonds.

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2002 BONDS AND TAXABLE SERIES 2002 BONDS, THE PURCHASERS OF EITHER OR BOTH SERIES MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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CITY OF AUSTIN

Elected Officials

Name	Office	Term Expires June 15
Gustavo Garcia	Mayor	2003
Daryl Slusher	Councilmember Place 1	2005
Raul Alvarez	Councilmember Place 2	2003
Jackie Goodman, Mayor Pro Tem	Councilmember Place 3	2005
Betty Dunkerley	Councilmember Place 4	2005
William Wynn	Councilmember Place 5	2003
Danny Thomas	Councilmember Place 6	2003

Appointed Officials

Toby Hammett Futrell	City Manager
Lisa Gordon	Assistant City Manager
John Stephens, CPA	Acting Assistant City Manager
Laura Huffman	Assistant City Manager
Vickie Schubert, CPA	Acting Director of Financial Services
Sedora Jefferson	City Attorney
Shirley A. Brown	City Clerk

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

FINANCIAL ADVISOR
Public Financial Management
Austin, Texas

AUDITORS
KPMG LLP and Richard Mendoza, CPA
Austin, Texas

For additional information regarding the City, please contact:

Vickie Schubert, CPA
Acting Director of Financial Services
City of Austin
P.O. Box 1088
Austin, Texas 78767
(512) 974–3344

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

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 2002 Bonds and Taxable Series 2002 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this data page from this Official Statement or to otherwise use it without the entire Official Statement.

This data page was prepared to present the purchasers of the Series 2002 Bonds and Taxable Series 2002 Bonds (collectively referred to herein as the "Bonds") information concerning the Series 2002 Bonds and Taxable Series 2002 Bonds, the taxes pledged to payment of the Series 2002 Bonds and Taxable Series 2002 Bonds, the description of the tax base and other pertinent data, all as more fully described herein.

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

The City is approximately 265.80 square miles in area (see Appendix A – "General Information Regarding the City").

The Series 2002 Bonds .... The Series 2002 Bonds are being issued in the principal amount of $12,190,000 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 "BOND INFORMATION – Authority for Issuance").

The Taxable Series 2002 Bonds .... The Taxable Series 2002 Bonds are being issued in the principal amount of $2,495,000 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 "BOND INFORMATION – Authority for Issuance").

Security for the Bonds ...... The Bonds constitute direct obligations 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.

Redemption .... The City reserves the right, at its option, to redeem the Series 2002 Bonds having stated maturities on and after March 1, 2013, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2012, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "BOND INFORMATION – Redemption of Bonds"). **The Taxable Series 2002 Bonds are not subject to redemption prior to their stated maturities.**

Tax Exemption................ In the opinion of Bond Counsel, the interest on the Series 2002 Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds will not constitute private activity bonds. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel including the alternative minimum tax consequences for corporations.

In the opinion of Bond Counsel, the Taxable Series 2002 Bonds are not obligations described in section 103(a) of the Internal Revenue Code of 1986, amended. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

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	Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio Net Funded Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
1991	466,530	$17,189,792,203	$36,846.06	$379,909,732	$814.33	2.21%	99.30%
1992	474,715	16,926,074,265	35,655.23	385,028,924	811.07	2.27%	99.60%
1993	478,254	16,977,306,423	35,498.51	418,233,093	874.50	2.46%	99.49%
1994	507,468	18,237,532,094	35,938.29	422,737,988	833.03	2.32%	100.07%
1995	523,352	20,958,589,300	40,046.83	436,867,901	834.75	2.08%	100.10%
1996	541,889	23,303,015,047	43,003.30	443,247,034	817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,147,167	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027,010	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759,139	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,282,278	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,210,746	825.54	1.32%	99.60%
2002	667,705	46,947,780,642 (3)	70,312.16	578,396,821 (4)	866.25 (4)	1.23%	100.20% (5)

(1) Source: City of Austin Planning/Growth Department. Areas annexed for limited purposes are not included.
(2) Excludes general obligation debt issued for enterprise funds, and general fund departments which transfer-in from operating budgets.
(3) Certified Appraised Value, including $3,331,449,023 in property in the appeals process.
(4) Projected.
(5) Estimated collections as of April 30, 2002.

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OFFICIAL STATEMENT

Relating to

$12,190,000
CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2002

and

$2,495,000
CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT REFUNDING BONDS, TAXABLE SERIES 2002

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 $12,190,000 City of Austin, Texas Public Improvement Refunding Bonds, Series 2002 ("Series 2002 Bonds"), and $2,495,000 City of Austin, Texas, Public Improvement Refunding Bonds, Taxable Series 2002 ("Taxable Series 2002 Bonds"). The Series 2002 Bonds and the Taxable Series 2002 Bonds are collectively referred to herein as the "Bonds". The Series 2002 Bonds and the Taxable Series 2002 Bonds are being offered separately at competitive sales by the City, and delivery of each issue is not contingent upon the delivery of the other issue. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the respective ordinance authorizing the issuance of the Series 2002 Bonds (the "Series 2002 Ordinance"), and the ordinance authorizing the Taxable Series 2002 Bonds (the "Taxable Series 2002 Ordinance") except as otherwise indicated herein. The Series 2002 Ordinance and the Taxable Series 2002 Ordinance are collectively referred to herein as the "Ordinances".

There follows in this Official Statement descriptions of the Bonds 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.

PLAN OF FINANCING

Purpose of Refunding Bonds

The Bonds are being issued to refund $13,900,000 of the City's currently outstanding Tax Notes, Taxable Series 1997, (the "Refunded Obligations") and to pay costs of issuance. The refunding is for cash flow restructuring. See Appendix D for a listing of the Refunded Obligations.

Refunded Obligations

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

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

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

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

Sources and Uses of Funds

The proceeds of the Bonds will be applied substantially as follows:

Sources of Funds:	
Principal Amount of the Series 2002 Bonds	$12,190,000.00
Principal Amount of the Taxable Series 2002 Bonds	2,495,000.00
Cash Premium	3,257.60
Accrued Interest	67,781.32
Total Available Funds	$14,756,038.92
Application of Funds:	
Deposit to Escrow Fund	$14,518,869.17
Costs of Issuance	160,000.00
Deposit to the Series 2002 I&S Fund	63,733.19
Deposit to the Taxable Series 2002 I&S Fund	13,436.56
Total Available Funds	$14,756,038.92

BOND INFORMATION

Authority for Issuance

The City is authorized to issue the Bonds under authority granted by Chapter 1207, Texas Government Code and by the Ordinances.

General

Each series of Bonds is dated June 15, 2002 and shall bear interest on the unpaid principal amounts from such date, at the respective per annum rates shown on the cover pages hereof. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the bondholder. The Bonds 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 for the Bonds

The Bonds 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.

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 Bonds and also creates a pledge of such tax to the payment of the Bonds.

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 therefor, 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 Bonds 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, 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 Bond Ordinances.

The enforcement or claim for payment of principal 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 of Bonds

Optional Redemption. The City reserves the right, at its option, to redeem Series 2002 Bonds having stated maturities on and after March 1, 2013, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2012, 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 2002 Bonds 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 The Depository Trust Company, New York, New York ("DTC") while the Series 2002 Bonds are in Book-Entry-Only form) shall determine by lot the Series 2002 Bonds, or portions thereof, within such maturity to be redeemed.

At least thirty days prior to a redemption date, the City shall cause a written notice of such redemption to be deposited in the United States mail, first class postage prepaid, to the registered owners of each Series 2002 Bond to be redeemed at the address shown on the Security Register and subject to the terms and provisions relating thereto contained in the Series 2002 Ordinance. If a Series 2002 Bond (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 2002 Bond (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.

The Taxable Series 2002 Bonds are not subject to redemption prior to their stated maturity dates.

Defeasance of Bonds

The Ordinances provide for the defeasance of the Bonds when the payment of the principal of and premium, if any on the Bonds, 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 Bonds. The Ordinances provide that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or it equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that rated as to investment quality by a nationally recognized investment rating firm not less that 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 Bonds 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 Bonds, to call for redemption at an earlier date, Bonds which have been defeased to their maturity date, if the City; (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Book-Entry-Only System

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

DTC will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity 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 Bonds is The Bank of New York Trust Company of Florida, N.A., or its successor. Interest on and principal of the Bonds will be payable, and transfer functions will be performed at the corporate trust office of the Paying Agent/Registrar in Jacksonville, Florida (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 Bonds 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 Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar, in lieu of the Bond being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds 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 Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Series 2002 Bonds Called for Redemption

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Series 2002 Bond 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 2002 Bond.

TAX INFORMATION

Ad Valorem Tax Law

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

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

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

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

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

(2) An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000.

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

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

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

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

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

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

Tax Valuation

January 1, 2002 Appraised Valuation (1)		$52,296,579,619
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead over 65	$1,057,208,819	
Homestead 10% Increase Cap	2,620,907,115	
Disabled Veterans	34,832,614	
Agricultural and Historical Exemptions	324,277,691	
Disability Exemption	85,954,151	
Freeport Exemption	1,225,618,587	5,348,798,977
January 1, 2002 Net Taxable Assessed Valuation (1)		$46,947,780,642

(1) 2002 Certified Appraised Value includes $3,331,449,023 in property in the appeals process.
(2) Exemptions or adjustments to assessed valuation granted in 2002 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

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

	As of April 1, 2002 (1)	
Public Improvement Bonds	$613,340,000	
Certificates of Obligation	106,275,000	
Contractual Obligations (1)	30,840,000	
Assumed Bonds (2)	16,276,011	
Contract Tax Bonds (3)	450,000	
Series 2002 Bonds	12,190,000	
Taxable Series 2002 Bonds	2,495,000	
Total		$781,866,011
Less Self–Supporting Debt:		
Assumed Bonds (2)	$ 13,572,753	
Contract Tax Bonds (3)	450,000	
Airport (4)	921,635	
Austin Energy (4)	2,635,812	
CMTA Mobility (5)	29,500,000	
Convention Center (4)	10,481,152	
Fleet Management (4)	5,495,503	
Golf (4)	9,105,507	
Solid Waste (4)	21,536,010	
Transportation (4)	379,027	
Utility Customer Service Office	268,574	
Water and Wastewater (4)	21,153,464	
Watershed Protection (4)	2,206,108	$ 117,705,545
Interest and Sinking Fund, All Public Improvement Bonds (6)		78,109,206
Net Debt (7)		$586,051,260
Ratio Total Debt to 2002 Net Taxable Assessed Valuation		1.67%
Ratio Net Debt to 2002 Net Taxable Assessed Valuation		1.25%

2002 Population (Estimate) – 667,705(8)
Per Capita Net Taxable Assessed Valuation – $70,312.16
Per Capita Net Debt Outstanding – $877.71

(1) Excludes the Refunded Obligations.
(2) Represents bonds of utility districts annexed by the City.
(3) Represents bonds of certain utility districts 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) Airport, Austin Energy, Convention Center, Fleet Management, Golf, 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, Convention Center, Fleet Management, Golf, Solid Waste, Transportation, Utility Customer Service Office, 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. Fleet Management is an internal service fund, which generates revenue through charges to user departments.
(5) The City entered into a interlocal agreement with Capital Metro Transit Authority (CMTA), whereby CMTA will pay the required debt service to the City through a transfer of funds 20 days prior to each debt service payment date.
(6) Represents estimate of cash plus investments at cost on April 1, 2002.
(7) As of April 31, 2002Various 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 $38,038,730.
(8) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

Revenue Debt

In addition to the above, on a pro forma basis, the City had outstanding (as of April 1, 2002) $1,979,948,261 Combined Utility Systems Revenue Bonds payable from a prior and subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System; $210,450,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System; $420,760,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and $290,189,000 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 April 1, 2002) $398,990,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding (as of April 1, 2002) $244,850,000 in Convention Center Bonds, payable from hotel/motel occupancy 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 $10,085,000 and $6,600,000, respectively, of Certificates of Participation are outstanding 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.

Valuation and Funded Debt History

Fiscal Year Ended 9–30	Estimated Population (1)	Net Taxable Assessed Valuation	Net Taxable Assessed Valuation Per Capita	Net Funded Tax Debt (2)	Ratio Net Funded Debt To Taxable Assessed Valuation	Per Capita Net Funded Tax Debt
1991	466,530	$17,189,792,203	$36,846.06	$379,909,732	2.21%	$814.33
1992	474,715	16,926,074,265	35,655.23	385,028,924	2.27%	811.07
1993	478,254	16,977,306,423	35,498.51	418,233,093	2.46%	874.50
1994	507,468	18,237,532,094	35,938.29	422,737,988	2.32%	833.03
1995	523,352	20,958,589,300	40,046.83	436,867,901	2.08%	834.75
1996	541,889	23,303,015,047	43,003.30	443,247,034	1.90%	817.97
1997	560,939	25,823,385,257	46,036.00	476,147,167	1.84%	848.84
1998	608,214	27,493,058,735	45,202.94	500,027,010	1.82%	822.12
1999	619,038	32,458,349,755	52,433.53	509,759,139	1.57%	823.47
2000	628,667	35,602,840,326	56,632.27	540,282,278	1.52%	859.41
2001	661,639	41,419,314,286	62,601.08	546,210,746	1.32%	825.54
2002	667,705	46,947,780,642 (3)	70,312.16	578,396,821 (4)	1.23% (4)	866.25 (4)

(1) Source: City of Austin Planning/Growth Department. Areas annexed for limited purposes are not included.
(2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer-in from operating budget.
(3) Certified Appraised Value, including $3,331,449,023 in property in the appeals process.
(4) Projected.

Tax Rate, Levy and Collection History

Fiscal Year Ended 9–30	Tax Rate	Distribution General Fund	Distribution Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
1991	$0.5695	$0.2984	$0.2711	$97,895,866	97.31%	99.30%
1992	0.6027	0.3265	0.2762	102,013,450	97.81%	99.60%
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	220,320,509	99.68% (1)	100.20% (1)

(1) Estimated collections as of April 30, 2002.

Ten Largest Taxpayers

Name of Taxpayer	Nature of Property	January 1, 2001 Taxable Assessed Valuation	% of 2001 Total Taxable Assessed Valuation
Motorola Corporation	Manufacturing	$1,055,495,494	2.25%
Applied Materials, Inc.	Manufacturing	605,727,899	1.29%
Advanced Micro Devices, Inc.	Manufacturing	579,717,695	1.23%
Samsung (1)	Manufacturing	334,630,405	0.71%
Solectron	Manufacturing	320,847,496	0.68%
IBM Corporation	Manufacturing	311,692,951	0.66%
Southwestern Bell Telephone Company	Telephone Utility	282,073,660	0.60%
Blue Star Austin Investments	Commercial	154,271,800	0.33%
State Street Bank and Trust	Banking	150,705,379	0.32%
Prudential Insurance Company	Insurance	148,200,000	0.32%
TOTAL		$3,943,362,779	8.40%

(1) The Samsung Corporation received an abatement for $272,445,768 in real and personal property value.
Source: Travis Central Appraisal District.

Property Tax Rate Distribution

	Fiscal Year Ended September 30 1998	1999	2000	2001	2002
General Fund	$.3304	$.3265	$.3222	$.3011	$.3041
Interest and Sinking Fund	.2097	.1877	.1812	.1652	$.1556
Total Tax Rate	$.5401	$.5142	$.5034	$.4663	$.4597 (1)(2)

(1) Approved Budget.
(2) Approved at one cent above the Effective Tax Rate.

Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended 9–30	Valuation Date	Real Property Amount	Real Property % of Total	Personal Property Amount	Personal Property % of Total	Net Taxable Assessed Valuation	Total Tax Levy	% Current Collections	% Total Collections
1991	1-1-90	$13,961,549,227	81.22%	$3,228,242,976	18.78%	$17,189,792,203	$ 97,895,866	97.31%	99.30%
1992	1-1-91	13,461,306,863	79.53%	3,464,767,402	20.47%	16,926,074,265	102,013,450	97.80%	99.60%
1993	1-1-92	13,518,317,808	79.60%	3,458,988,615	20.40%	16,977,306,423	108,824,534	98.03%	99.49%
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	39,915,723,464	85.02%	7,032,057,178	14.98%	46,947,780,642	220,320,509	99.68% (1)	100.20% (1)

(1) Estimated collections through April 30, 2002.

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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 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*

Debt Service Requirements

Fiscal Year Ending 09/30	Public Improvement Bonds	Certificates of Obligation	Short - Term Obligations (a)	Contract Tax Bonds	Assumed MUD & WCID Bonds	The Bonds		Grand Total Requirements	Less Self-Supporting Requirements (c)	Net Total Requirements	Percent Principal Payout
						Principal	Interest				
2002	$ 54,748,353	$ 6,899,887	$ 4,484,560	$ 10,795	$ 2,627,786	$ -	$ -	$ 68,771,382	13,818,857	$ 54,952,525	
2003	67,068,596	10,305,469	14,024,529	172,948	3,415,711	-	757,760	95,745,013	19,622,952	76,122,061	
2004	68,014,611	10,310,939	8,301,903	160,705	3,453,944	365,000	618,374	91,225,476	18,766,561	72,458,914	
2005	70,138,610	10,170,328	6,331,493	148,553	2,805,925	625,000	599,799	90,819,706	17,707,926	73,111,780	
2006	67,849,600	9,759,663	3,771,455	-	2,353,724	650,000	576,774	84,961,215	14,422,215	70,539,000	
2007	62,149,233	9,778,738	1,337,244	-	1,261,653	680,000	551,743	75,758,609	12,635,829	63,122,780	41.12%
2008	54,460,043	9,798,035	456,275	-	1,111,385	715,000	523,418	67,064,155	11,765,727	55,298,428	
2009	51,209,338	9,822,595	229,359	-	991,463	740,000	491,530	63,484,284	11,083,201	52,401,083	
2010	52,002,438	9,849,118	-	-	997,573	1,165,000	451,386	64,465,514	10,974,356	53,491,157	
2011	49,720,000	9,873,495	-	-	1,001,480	1,210,000	397,836	62,202,811	10,769,674	51,433,137	
2012	45,190,839	9,918,735	-	-	1,003,240	1,265,000	341,496	57,719,309	10,687,832	47,031,477	68.92%
2013	40,897,408	9,157,728	-	-	1,017,960	1,320,000	288,180	52,681,275	9,493,951	43,187,324	
2014	38,106,639	5,910,300	-	-	1,214,635	1,385,000	231,524	46,848,098	6,183,364	40,664,734	
2015	34,183,611	5,933,155	-	-	1,213,546	1,450,000	170,374	42,950,686	5,968,412	36,982,275	
2016	29,631,441	5,977,138	-	-	1,229,024	1,520,000	105,215	38,462,818	5,714,541	32,748,277	
2017	25,755,991	6,020,819	-	-	1,011,643	1,595,000	35,888	34,419,340	5,343,402	29,075,938	90.76%
2018	22,080,013	5,887,031	-	-	716,688	-	-	28,683,731	4,713,916	23,969,815	
2019	20,577,275	3,927,200	-	-	-	-	-	24,504,475	3,178,027	21,326,448	
2020	14,366,494	3,473,963	-	-	-	-	-	17,840,456	2,895,123	14,945,333	
2021	7,739,888	1,812,175	-	-	-	-	-	9,552,063	1,770,826	7,781,237	
2022	162,944	-	-	-	-	-	-	162,944	22,719	140,225	100.00%

(a) Excludes the Refunded Obligations.
(b) Includes principal and interest on The Refunding Bonds.
(c) Includes principal and interest on all self-supporting debt (see "Statement of Debt", p. 8).

*As of April 1, 2002

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-01) (in 000's)

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

Taxing Jurisdiction	Total Funded Debt	Estimated % Applicable (2)	Overlapping Funded Debt
City of Austin	$546,211 (1)	100.00%	$ 546,211
Austin Independent School District	448,747	89.59%	402,032
Travis County	349,142	74.00%	258,365
Round Rock Independent School District	447,797	5.00%	22,390
Leander Independent School District	286,968	1.49%	4,276
Pflugerville Independent School District	150,546	3.60%	5,420
Eanes Independent School District	87,734	4.27%	3,746
Williamson County	234,165	2.64%	6,182
Del Valle Independent School District	76,700	78.00%	59,826
Manor Independent School District	35,782	2.10%	751
Austin Community College	51,155	80.10%	40,975
North Austin Municipal Utility District No. 1	20,599	100.00%	20,599
Northwest Austin Municipal Utility District No. 1	21,110	100.00%	21,110
Northwest Travis County Road District No. 3	6,045	100.00%	6,045
Anderson Mill Municipal Utility District	145	0.90%	1
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT			$1,397,929
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (3)			3.38%
Per Capita Overlapping Funded Debt			$ 2,112.83

(1) Excludes general obligation debt reported in proprietary funds.
(2) Source: Taxing jurisdiction.
(3) Based on assessed valuation of $41,419,314,286. Based on 2001 estimated population of 661,639.

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Authorized General Obligation Bonds

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Unissued Balance
Brackenridge 2000	10-22-83	$ 50,000,000	$40,785,000	$ 9,215,000
Drainage and Flood Control	09-08-84	48,535,000	46,544,000	1,991,000
Parks Improvements	09-08-84	9,975,000	9,648,000	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	5,395,000
Asbestos Abatement, ADA Compliance and East Austin Health Clinic	08-08-92	18,800,000	17,730,000	1,070,000
Erosion & Flood Control	08-08-92	21,570,000	19,643,000	1,927,000
Communications Equipment	05-03-97	38,000,000	38,000,000*	0*
Walnut Creek Watershed	05-02-98	10,000,000	4,590,000	5,410,000
Traffic Signals	11-03-98	152,000,000	67,130,000	84,870,000
Park and Recreation Facilities	11-03-98	75,925,000	27,565,000	48,360,000
Public Safety Facilities	11-03-98	54,675,000	32,420,000	22,255,000
Cultural Arts and Land Acquisition	11-03-98	46,390,000	14,120,000	32,270,000
Drainage and Flood Control	11-03-98	10,750,000	10,750,000	0
Road	11-07-00	150,000,000	15,000,000	135,000,000
Land Purchase	11-07-00	13,400,000	5,985,000	7,415,000
TOTAL				$355,505,000

* The City issued $24,420,000 of this total in Contractual Obligations and therefore applied the amount toward the authorized general obligation bonds total.

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2002. 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.

2001–2002 Capital Budget

The 2001-2002 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 city-wide capital spending in 2001-2002 of $420.9 million in enterprise funds and $174.3 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 2001-02 Capital Budget. Total new approved appropriation for General Government CIP Funds is $106.7 million and total new approved appropriation for Enterprise CIP Funds is $430.8 million. Appropriation by department is listed below.

Summary of 2001–2002 Approved Capital Budget (in millions):

Austin Energy	210.4	
Aviation	31.6	
Convention Center	14.6	
Golf	0.4	
Solid Waste Services	3.5	
Water & Wastewater	164.5	
Watershed Protection	5.8	
New Enterprise Appropriations	$430.8	
Emergency Management Services	$ 2.7	
Fire	0.1	
Fleet Maintenance	0.3	
General Government	6.0	
Health and Human Services	0.3	
Information Systems	7.2	
Library	4.1	
Neighborhood Housing	3.1	
Parks and Recreation Department	38.0	
Austin Police Department	0.1	
Public Works and Transportation	15.9	
Redevelopment Services	0.5	
Transportation, Planning and Development	28.3	
General Government Appropriations	$106.7	(1)
TOTAL PROPOSED NEW APPROPRIATIONS	$537.5	

(1) Differences between this and the sum of the above numbers are due to rounding

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 2001. 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 2001-2002 approved budget is in compliance with these requirements.

2001–2002 Budget (Amounts are in thousands)

The approved budget was prepared in accordance with guidelines provided by the City Council and included a tax rate of $0.4597 per $100 assessed valuation, a decrease of 1.44% as compared to the 2000-2001 rate of $0.4663. The City Council held work sessions and conducted public hearings on the budget prior to its adoption. The following is a summary of the approved 2001-2002 General Fund Budget.

Beginning Balance, October 1, 2001 (Budget Basis) (000's omitted)		$ 22,355
Summary of Budgeted General Fund Resources		
Revenue:		
General Property Taxes	$142,727	
City Sales Tax	127,102	
Other Taxes	3,535	
Gross Receipts/Franchise Fees	30,303	
Miscellaneous	50,811	
Total Revenue		$354,478
Transfers In:		
Electric Light and Power System	$ 68,933	
Water and Wastewater System	19,340	
Other Transfers	1,264	
Total Transfers In		$ 89,537
Total General Fund Resources		$444,015
Summary of Budgeted General Fund Requirements		
Departmental Appropriations:		
Administrative Services	$ 9,885	
Urban Growth Management	12,540	
Public Safety	239,477	
Public Works	10,322	
Public Health and Human Services	55,344	
Public Recreation and Culture	50,393	
Total Departmental Appropriations		$377,961
Transfers Out:		
Support Services Fund	$ 27,868	
Fleet and Vehicle Acquisition Funds	6,277	
Other Funds	44,423	
Total Transfers Out		$ 78,568
Other Requirements		$ 9,841
Total General Fund Requirements		$466,370
Use of Beginning Balance		$(22,355)
Ending Balance		$ 0
Budgeted Reserve Requirements		
Emergency Reserve	$ 15,000	
Contingency Reserve	4,648	
Total Budgeted Reserve Requirements		$ 19,648

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 of the 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. As a result of unanticipated public safety expenditures incurred by the City after the events of September 11, the City issued $4,800,000 of its Tax Anticipation Notes, Series 2002, which were delivered on April 17, 2002. The Notes will mature April 1, 2003.

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 Chapter 2256, Texas Government Code (The Public Funds Investment Act), the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, is eligible collateral for borrowing from a Federal Reserve Bank and is accepted by a domestic bank whose short-term obligations are rated at least A-l, P-l, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated; (6) commercial paper with a stated maturity of 270 days or less from the date of its issuance that either (a) is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or, (b) is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof; (7) fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas, and secured by obligations described by 1 above (the principal and interest on which are guaranteed by the United States or any of its agencies), pledged with a third party selected or approved by the City, and having a market value of no less than the principal amount of the funds disbursed (the term includes direct security repurchase agreements and reverse security repurchase agreements and the term of any reverse repurchase agreement may not exceed 90 days after the reverse security repurchase agreement is delivered; money received by the City under the terms of a reverse security repurchase agreement may be used to acquire additional authorized investments, but the term of the authorized investment acquired must mature not later than the expiration date stated in the reverse security repurchase agreement); (8) certificates of deposit issued by state and national banks domiciled in Texas that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issues that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the City; (9) certificates of deposit issued by savings and loan associations domiciled in Texas that are (a) guaranteed or insured by the Federal Savings and Loan Insurance Corporation or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates, or in any other manner and amount provided by law for deposits of the City; (10) share certificates issued by a state or federal credit union domiciled in Texas that are (a) guaranteed or insured by the National Credit Union Share Insurance Fund or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates, or in any other manner and amount provided by law for deposits of the City; (11) SEC-regulated, no-load money market mutual funds with a dollar-weighted average stated portfolio maturity of 90 days or less and whose investment objectives include seeking to maintain a stable net asset value of $1 per share; (12) no-load mutual funds registered with and regulated by the SEC that have a dollar weighted average stated maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; the City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund described in clauses (11) or (12); (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) with respect to investment of bond proceeds, local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas; Government Code) as amended, whose assets consist exclusively of the obligations that are described by clauses 1-9 above. A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service. The City also may invest bond proceeds in a guaranteed investment contract.

State law strictly prohibits investment in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index. In addition, the City is prohibited from investing any portion of bond proceeds, reserves and funds held for debt service in no-load mutual funds.

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

Investment Policies

Under State Law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also addresses 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 March 31, 2002, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	13.8%
U. S. Agencies	43.9%
Money Market Funds	24.1%
Local Government Investment Pools	18.2%

The dollar weighted average maturity for the combined City investment portfolios is 1.53 years. The City prices the portfolios daily utilizing a market pricing service.

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GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE

	Fiscal Year Ended September 30				
	1997	1998	1999	2000	2001
Revenues:					
Taxes (1)	$171,109,680	$190,949,086	$215,885,594	$240,663,684	$251,749,818
Franchise Fees	14,743,888	16,861,639	19,671,043	23,699,065	31,452,706
Fines, Forfeitures and Penalties	12,570,388	14,492,863	16,205,548	16,039,732	16,999,766
Licenses, Permits and Inspections	12,888,265	15,540,712	17,252,024	18,173,885	17,630,897
Charges for Services	9,427,193	10,260,908	11,533,686	11,757,818	14,984,531
Interest and Other	5,586,512	13,076,017	6,361,863	9,410,372	10,584,063
Total Revenues	$226,325,926	$261,181,225	$286,909,758	$319,744,556	$343,401,781
Expenditures:					
Administration	$ 6,596,487	$ 6,696,560	$ 7,849,862	$ 8,976,071	$ 9,425,506
Urban Growth Management	7,501,086	8,380,122	9,129,217	10,188,934	11,569,463
Public Safety	144,288,202	162,733,100	173,962,836	191,591,408	210,280,836
Public Services and Utilities	9,675,512	10,128,139	11,098,958	6,098,371	9,519,936
Public Health	43,189,920	37,060,371	40,677,762	41,032,031	41,437,116
Public Recreation and Culture	32,764,540	35,861,623	40,929,063	44,205,341	47,459,639
Social Services Management	6,738,940	8,204,845	8,627,050	9,387,107	8,071,026
Nondepartmental Expenditures	39,823,069	41,130,459)	49,142,610	53,458,609	57,857,261
Total expenditures	$290,577,756	$310,195,219	$341,417,358	$364,937,872	$395,620,783
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	$ (64,251,830)	$ (49,013,994)	$ (54,507,600)	$ (45,193,316)	$ (52,210,002)
Other Financing Sources (Uses):					
Transfers from Other Funds	$ 71,705,860	$ 72,721,264	$ 74,204,480	$ 78,351,603	86,282,962
Transfers to Other Funds	(3,116,124)	(9,846,866)	(26,592,055	(31,293,582))	(29,992,440)
Net Other Financing Sources	$ 68,589,736	$ 62,874,398	$ 47,612,425	$ 47,058,021	$ 56,290,552
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	$ 4,337,906	$ 13,860,404	$ (6,895,175)	$ 1,864,705	$ 4,071,520
Residual Equity Transfer In (Out)	0	0	0	250,594	(500,000)
Fund Balances at Beginning of Year, as Restated for Accounting Changes	31,090,637	35,428,543	49,288,947	42,393,772	44,509,071
Fund Balances at End of Year	$ 35,428,543	$ 49,288,947	$ 42,393,772	$ 44,509,071	$ 48,080,591

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

CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

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

Fiscal Year Ended 9–30	Per Capita Sales and Use Tax	Sales and Use Tax	% of Ad Valorem Tax Levy
1990	$114.32	$ 51,540,272	50.46%
1991	118.75	55,400,628	56.59%
1992	122.72	58,255,348	57.11%
1993	140.21	67,054,207	61.62%
1994	149.33	75,780,061	66.75%
1995	153.77	80,474,693	68.26%
1996	154.43	83,681,314	65.94%
1997	157.15	88,150,309	65.01%
1998	160.44	97,581,417	65.72%
1999	172.59	106,839,032	64.01%
2000	194.31	122,157,210	68.16%
2001	186.23	123,218,291	63.80%
2002 (1)	173.16	115,616,579	52.48%

(1) Current year estimates as of March 2002.

Transfers From Utility Funds

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

Fiscal Year Ended 9–30	Transfers	% of General Fund Requirements
1990	$63,665,887	31.5%
1991	63,054,576	30.0%
1992	73,237,718	33.2%
1993	68,581,868	31.9%
1994	67,914,376	29.9%
1995	71,110,681	28.5%
1996	73,582,839	26.0%
1997	71,449,866	24.6%
1998	72,721,264	23.4%
1999	74,204,480	21.7%
2000	78,351,603	21.5%
2001	85,824,446	19.9%
2002	88,273,092	19.7%

ENTERPRISE FUNDS

Summary of Income, Expenses and Changes in Retained Earnings

The Enterprise Funds account for the activities of the City which render services on a user charge basis to the general public. Set forth on pages 124 and 125 of Appendix F of the City's Comprehensive Annual Financial Report for Fiscal Year 2001 is a condensed summary of the revenues, expenses, transfers and retained earnings of the City's ten enterprise funds for the year ended September 30, 2001.

Electric Utility

The electric industry in Texas has experienced dramatic statutory and regulatory changes in the past several years which have had and will continue to have a significant impact on the Electric Utility and the other electric utilities in Texas. On February 7, 1996, the Public Utilities Commission of Texas ("PUC") adopted its transmission open access rules (the "PUC Open Access Rules") to implement legislation adopted in 1995 which required that all electric utilities that own transmission facilities to provide access to their transmission systems under rates, terms, and conditions comparable to the rates, terms and conditions by which the utilities use their transmission systems for their own sales. The PUC Open Access Rules treat the interconnected Electric Reliability Council of Texas ("ERCOT") transmission grid as a single, integrated system, and all load–serving utilities are responsible for paying a portion of the total costs of the grid. In return, all load–serving utilities have equal rights of access to the system and may use the system in the same manner as the transmission owners. Cost responsibility is based on the size of the load serving entities average 4CP load responsibility to the ERCOT total.

In the 1999 legislative session, Senate Bill 7 ("SB 7") was enacted into law. SB 7 dramatically restructured the electric industry in Texas. SB 7 allowed retail customers of investor owned utilities ("IOUs") to choose their electric supplier beginning January 1, 2002 as well as the retail customers of municipally owned utilities including the Electric Utilities ("Municipal Utilities") and electric cooperatives ("Electric Coops"), provided that such utilities elect to participate in retail competition.

Portions of SB 7 are described below. While certain of the summarized provisions of SB 7 do not apply directly to the Electric Utility, those provisions will effect the transition of the Texas electric industry into a market of retail electric competition.

Provisions for Municipal Utilities and Electric Coops. Municipal Utilities and Electric Coops are largely exempt from the requirements of SB 7. While IOUs will have been subject to open competition since January 1, 2002, the governing bodies of Municipal Utilities and Electric Coops have the sole discretion to determine whether and when to open their service territories to retail competition. However, if a Municipal Utility or Electric Coop has not voted to open its territory, it will not be able to compete for retail customers at unregulated rates outside its traditional service territory. While IOUs must unbundle their generation from transmission and distribution and from retail sales activities, Municipal Utilities and Electric Coops retain the discretion to determine whether to unbundle those business activities.

Municipal Utilities and Electric Coops will also determine the rates for use of their distribution systems after they open their territories to competition, although the PUC will determine the terms and conditions for access to those systems.

SB 7 also permits Municipal Utilities and Electric Coops to recover their "stranded costs" from their customers if so determined by such entities. Unlike IOUs, the governing board of a Municipal Utility determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing board. The stranded costs of Electric Coops is determined pursuant to the PUC Stranded Costs Report. Municipal Utilities and Electric Coops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs.

Unbundling. SB 7 required all IOUs and the Lower Colorado River Authority ("LCRA") to "unbundle" their generation, transmission and distribution, and retail energy service functions by September 1, 2000 and to have further segregated these functions into separate companies by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies that may be owned by a common holding company, but which must operate largely independent of each other. The services offered by such separate entities must be available to other parties on a non–discriminatory basis. LCRA was required to separate its generation and transmission and distribution functions into separate companies or affiliates by January 1, 2002 but need not operate these affiliates independently from one another to the extent required of IOU affiliated companies.

Retail sales activities will be performed by new companies called "Retail Electric Providers" ("REPs") which are the only entities authorized to sell electricity to retail customers. REPs must register with the PUC, demonstrate financial capabilities, and comply with certain consumer protection requirements. They will buy electricity from Power Generation Companies, power marketers or other parties and may resell that electricity to retail customers at any location in the State. Transmission and Distribution Utilities will be obligated to deliver the electricity. Generating assets will be owned by "Power Generation Companies." Power

Generation Companies must register with the PUC and must comply with certain rules that are intended to protect consumers, but they will otherwise be unregulated and may sell electricity at market prices. Owners of transmission and/or distribution facilities will be "Transmission and Distribution Utilities" and will be fully regulated by the PUC. The PUC must approve the construction of new transmission facilities, and may order the construction of new facilities to relieve transmission constraints. Transmission and Distribution Utilities will be required to provide access to both their transmission and distribution systems on a non–discriminatory basis to all eligible customers.

Measures to Foster Competition and Assure Service. SB 7 also provides a number of consumer protection provisions. Every area of the State will have a "Provider of Last Resort" approved by the PUC, except for service areas of municipal utilities, which will establish a process to select the Provider of Last Resort. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUC. The Provider of Last Resort must also serve any customer whose REP has failed to provide service.

Beginning September 1, 1999, each IOU's existing rates were frozen (except for a fuel factor pass through) and were required to continue serving their retail customers at such rates until 2002. Beginning in 2002, the unbundled REP of the IOU that held the certificate to provide retail service to an area (the "Affiliated REP") must have reduced electric rates by 6% below the frozen rates and offered that reduced rate to all retail customers in the area formerly served by the IOU. The Affiliated REP must serve all residential and commercial customers who do not choose a different REP at such reduced rate. The Affiliated REP may not sell electricity to residential or commercial customers (generally small businesses) at any other rate until either 40% of the residential or commercial customers in the area have chosen to be served by other REPs or until January 1, 2005, whichever occurs first. Although the Affiliated REP may thereafter compete by offering prices that differ from the reduced rate, it must continue to offer such rate until January 1, 2007, to assure a maximum price that consumers will have to pay. SB 7 does allows Affiliated REPs to compete for industrial customers, and for certain aggregated commercial loads owned by a common entity.

To prevent concentration of generation in a single Power Generation Company, SB 7 requires IOUs to hold periodic "Capacity Auctions," supervised by the PUC, in which they must sell 15% of their power to others. Affiliated REPs are not allowed to purchase power from a related Power Generation Company. The Capacity Auctions will end four years after retail competition begins. SB 7 also provides protection by limiting the amount of generation that any single Power Generation Company, or group of commonly owned Power Generation Companies may own, to 20% of the available generation within a "power region" which will be certified by the PUC. SB 7 required any IOU (or affiliated Power Generation Company) that owns more that 20% of the installed electric generation within a power region to file a mitigation plan with the PUC by December 31, 2001 whereby (i) its excess generation plants were sold at an independent sale, (ii) its excess generation capacity was auctioned off to an independent party in a Capacity Auction, (iii) selling of its excess capacity for at least a four year period to an independent party, or (iv) some other reasonable mitigation method.

SB 7 provides for a transmission system operator that would be independent of market participants and which will be responsible for directing and controlling the operation of the transmission network within ERCOT.

Stranded Cost Recovery. Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non–economic" assets less market value and certain "above market" purchased–power costs) and "regulatory assets," which recovery is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market based rates in the open competition market. Such stranded costs are based, in large measure, on the amount of stranded costs associated with the respective IOUs determined in the PUC's April 1998 Potentially Strandable Investment (ECOM Report: 1998 Update (the "PUC Stranded Cost Report"). SB 7 establishes the procedure to determine the amount of stranded costs and regulatory assets. Once determined, the stranded costs will be collected through a non–bypassable competition transition charge collected from the end retail electric users, within the IOU's service territory as it existed on May 1, 1999, through, primarily, an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing and refinancing such bonds is secured by a qualified rate order of the PUC that creates the "competition transition charge." Neither the State nor the PUC may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

Miscellaneous Provisions. SB 7 requires all old "grandfathered" power plants – plants that have not previously been required to comply with air quality emissions standards administered by the Texas Natural Resources Conservation Commission – that are owned by IOUs, LCRA, Municipal Utilities and Electric Coops to be brought into compliance with the air quality emissions standards by May 2003. A strong Independent System Operator (ISO) was established to manage the transmission system and coordinate many of the ERCOT operational requirements for a deregulated retail market. In addition, SB 7 established a pilot program that began June 1, 2001, for 5% of the customers of the IOUs in an effort to test the readiness of ERCOT and the ISO for a deregulated retail market.

The City is monitoring and actively participating in, when necessary, the various rulemaking proceedings that are taking place at the PUC to implement SB 7. Further, the City is also participating in various committees that have been formed at ERCOT to align the operations of ERCOT and member utility systems with the requirements of SB 7. As of the date of this Official Statement, the City has not determined whether or when to open its service territory to retail competition. The City reserves the right to make such a determination in the future.

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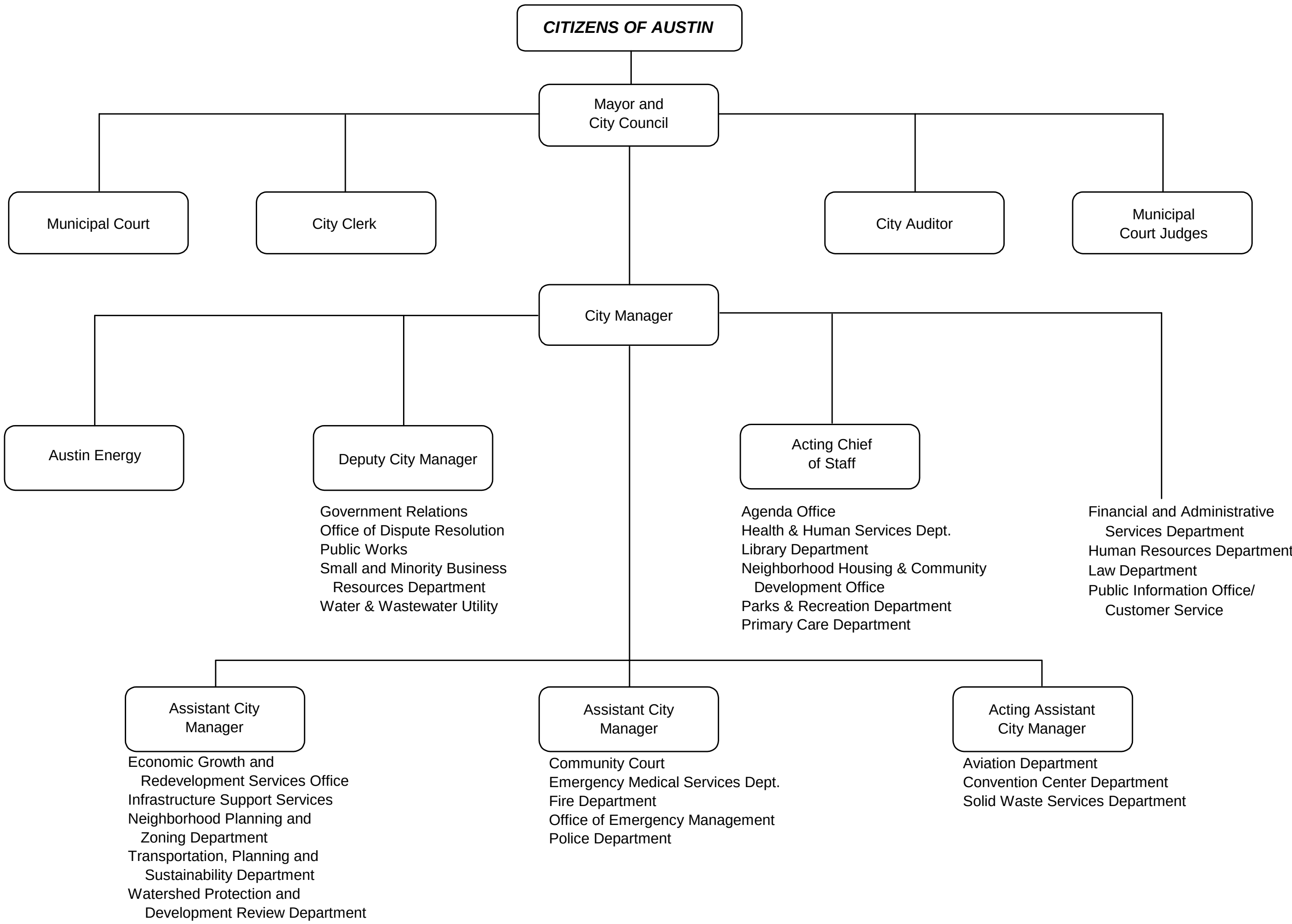
CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

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

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

City Manager – Toby Hammett Futrell

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

Acting Director of Financial Services – Vickie Schubert, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

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

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

Some of the areas which may be considered for annexation include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes (see "Services Financed by Utility Districts"). Existing utility districts, as well as those that may be created from time to time, may issue bonds for their own improvements. Such bonds are generally payable from the receipts of ad valorem taxes imposed by the district and, in some cases, are further payable from the net revenues, if any, derived from the operation of its water and sanitary sewer systems. Texas law generally requires that districts be annexed in their entirety. Upon dissolution, the City assumes the district's outstanding bonds and other obligations and levies and collects on taxable property within the corporate limits of the City ad valorem taxes sufficient to pay principal of and interest on such assumed bonds.

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

The City Charter and the State's annexation laws provide for 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 of Austin annexations since 1991. Negative numbers reflect disannexations in excess of acreage annexed. Total limited purpose acres annexed annually are not reduced by the number of acres converted from limited to full purpose status in the following table.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
1991	2,380	44
1992	960	0
1993	2,795	0
1994	3,057	0
1995	(1,748)	2,770
1996	3,163	0
1997	15,083	0
1998	2,660	1,698
1999	90	588
2000	4,057	4,184
2001	3,908	1,972

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

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

Recent Annexation

The Del Valle area, located near Austin Bergstrom International Airport, 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 Wildhorse Ranch near Decker Lake was annexed for limited purposes in February, 2002.

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

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

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

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

Future Annexation

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

- Avery Ranch – sections of limited purpose areas will continue to be converted to full purpose status.
- Springwoods MUD and adjacent areas – to be annexed in December 2002 (including assumption of debt for drainage improvements and completion/maintenance of drainage projects), may be postponed until 2005.
- Canterbury Trails Annexation Area – December 2002.
- Motorola Campus – limited purpose area with conversion in September 2003.
- Onion Creek Annexation Area – December 2003.
- Anderson Mill MUD and adjacent areas – September 2004
- Wildhorse Ranch – limited purpose area with conversions to full purpose expected to begin in December 2003.

Pension Plans

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

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

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

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

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

The City recognizes the cost of providing these benefits to employees and retirees by expensing the City contributions to the Health Benefits Fund in the year in which the contributions are made. Total contributions were $39,444,283 in 2001 and $37,479,028 in 2000. The cost for providing those benefits for 2,050 retirees and 9,320 active employees in 2000 and 1,930 retirees and 9,020 active employees in 1999 is not separable.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately $12.7 million for claims and damages at the end of fiscal year 2001. 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 Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports – The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all 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 2001 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 Bonds; (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

Tax Exemption- Series 2002 Bonds

Opinion. On the date of initial delivery of the Series 2002 Bonds, 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 thereof ("Existing Law"), (1) interest on the Series 2002 Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Series 2002 Bonds 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 Series 2002 Bonds. See Appendix C - Form of Bond Counsel's Opinions.

In rendering their opinion, Bond Counsel will rely upon (a) the City's federal tax certificate, (b) the verification report of The Arbitrage Group, LLC (see "Verification of Maintenance Calculations", below) and (c) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Series 2002 Bonds and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Series 2002 Bonds.

The law upon which Bond Counsel have based their opinion 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 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 Series 2002 Bonds.

Federal Income Tax Accounting Treatment of Original Issue Discount. The initial public offering price to be paid for one or more maturities of the Series 2002 Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof or one or more periods for the payment of interest on the Series 2002 Bonds 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 the Series 2002 Bonds 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 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 Series 2002 Bonds 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 the Series 2002 Bonds. 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 THE SERIES 2002 BONDS.

Interest on the Series 2002 Bonds 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 Series 2002 Bonds 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 Series 2002 Bonds, 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 Series 2002 Bonds, 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.

Tax-Exempt Status of Bonds. Although it is expected that the Series 2002 Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, as hereinabove described, the tax-exempt status of the Series 2002 Bonds could be affected by future events. The City has covenanted in the Series 2002 Ordinance that it will not take any action that would cause the interest on the Series 2002 Bonds to become taxable. However, future events beyond the control of the City as well as the failure to observe such covenants, could cause the interest on the Series 2002 Bonds to become taxable retroactively to