OFFICIAL STATEMENT DATED FEBRUARY 12, 2004

NEW ISSUE: Book-Entry-Only

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

$52,715,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004

Dated: February 1, 2004 Due: November 15, as shown on Inside Cover

The $52,715,000 City of Austin, Texas Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004 (the "Bonds") will bear interest from their dated date at the rates set forth on the inside cover page, calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds is payable on May 15, 2004 and semiannually thereafter on November 15 and May 15 of each year until maturity or prior redemption. The Bonds will be registered initially in the name of Cede & Co., a nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Purchases will be made in book-entry form through DTC Participants only in denominations of $5,000 or any integral multiple thereof, and, while the book-entry system is utilized, no physical delivery of Bonds will be made to purchasers. Payments of principal, redemption premium, if any, and interest will be made to purchasers by DTC through its Participants. The City of Austin, Texas (the "City") reserves the right to discontinue such book-entry system. See "DESCRIPTION OF THE BONDS" herein.

The Bonds are subject to optional redemption prior to maturity, in whole or in part, commencing November 15, 2013 and on any date thereafter at a price equal to the principal amount thereof plus accrued interest. See "DESCRIPTION OF THE BONDS" herein.

The Bonds are issued pursuant to Vernon's Texas Codes Annotated, Government Code, Chapter 1207, as amended (the "Act") and an ordinance (the "Ordinance")adopted by the governing body of the City. The Bonds are special obligations of the City payable from and, together with certain outstanding Previously Issued Bonds, equally and ratably secured by a first lien on and pledge of the "Pledged Revenues". The "Pledged Revenues" consist primarily of that portion of revenues derived by the City from a hotel occupancy tax levied by the City pursuant to Vernon's Texas Codes Annotated, Tax Code, Chapter 351, as amended, which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms furnished by hotels in which the cost of occupancy is $2.00 or more a day (the "4.5% HOT") all as described herein. The City, pursuant to the Ordinance, does not grant any lien on or security interest in, or any mortgage of any of the physical properties of the City. The Bonds constitute a series of "Parity Bonds", as defined in the Ordinance.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATION DEBT OF THE CITY AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO REVENUES DERIVED FROM A PORTION OF THE HOTEL OCCUPANCY TAX AS SPECIFICALLY DESCRIBED HEREIN) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS. SEE "SECURITY FOR THE BONDS" HEREIN.

FSA

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

MATURITY SCHEDULE

See Schedule on Inside of Cover Page

The Bonds are offered for delivery when, as, and if issued, subject to the opinion of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. Certain additional legal matters will be passed on for the City by McCall, Parkhurst & Horton L.L.P. Certain additional legal matters will be passed on for the Underwriters by Winstead Sechrest & Minick P.C. It is expected that the Bonds will be delivered through the facilities of DTC on or about March 11, 2004.

ESTRADA HINOJOSA & COMPANY, INC.

BEAR, STEARNS & CO. INC. **CITIGROUP** **FIRST ALBANY CAPITAL**
GOLDMAN, SACHS & CO. **JACKSON SECURITIES** **LOOP CAPITAL MARKETS, LLC**
MERRILL LYNCH & CO. **SOUTHWEST SECURITIES**

MATURITY SCHEDULE

Maturity Date (November 15)	Principal Amount	Interest Rate	Price or Yield	Maturity Date (November 15)	Principal Amount	Interest Rate	Price or Yield
2007	$2,110,000	2.000%	1.900%	2014	$4,230,000	5.000%	3.660%*
2008	3,315,000	2.500%	2.270%	2015	4,455,000	5.000%	3.780%*
2009	3,400,000	2.750%	2.580%	2016	4,680,000	5.000%	3.890%*
2010	3,500,000	3.000%	2.830%	2017	4,920,000	5.000%	4.000%*
2011	3,645,000	5.000%	3.070%	2018	5,170,000	5.000%	4.050%*
2012	3,830,000	5.000%	3.270%	2019	5,435,000	5.000%	4.160%*
2013	4,025,000	5.000%	3.490%				

(Accrued Interest from February 1, 2004)

* Priced to Call Date.

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

CITY OF AUSTIN, TEXAS

Elected Officials

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

Appointed Officials

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

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

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

FINANCIAL ADVISOR
Public Financial Management
Austin, Texas

AUDITORS
KPMG LLP and Richard Mendoza, CPA
Austin, Texas

For additional information regarding the City, please contact:

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

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

No dealer, broker, salesman or other person has been authorized by the City or by the Underwriters 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 Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, 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 Underwriters. 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.

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, 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 BONDS, THE UNDERWRITERS 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.

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

TABLE OF CONTENTS

APPENDICES

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

OFFICIAL STATEMENT

relating to

$52,715,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to set forth information in connection with the issuance and sale by the City of Austin, Texas (the "City") of its Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004, in the original aggregate principal amount of $52,715,000 (the "Bonds").

The Bonds are being issued pursuant to Vernon's Texas Codes Annotated ("V.T.C.A."), Government Code, Chapter 1207, as amended (the "Act") and an Ordinance of the City Council (the "Ordinance") adopted on February 12, 2004. Unless otherwise indicated, capitalized terms used in this Official Statement shall have the meanings established in the Ordinance. See APPENDIX C hereto for selected definitions of terms used in this Official Statement.

The Bonds are special obligations of the City payable from and, together with certain outstanding Previously Issued Bonds, equally and ratably secured by a first lien on and pledge of the "Pledged Revenues". The Pledged Revenues consist primarily of that portion of the revenues derived by the City from the hotel occupancy tax levied by the City pursuant to Vernon's Texas Codes Annotated, Tax Code, Chapter 351, as amended, which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms furnished by hotels in which the cost of occupancy is $2.00 or more a day (the "4.5% HOT"). The City, pursuant to the Ordinance, does not grant any lien on or security interest in, or any mortgage of any of the physical properties of the City. See "SECURITY FOR THE BONDS – Pledge" herein.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATION DEBT OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE PLEDGED HOTEL OCCUPANCY TAX REVENUES) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

The Ordinance permits the issuance of additional bonds (the "Additional Bonds") which rank on a parity with the Bonds and the Previously Issued Bonds. See "SECURITY FOR THE BONDS - Additional Bonds" herein.

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

PLAN OF FINANCE

Purpose

The Bonds are being issued to currently refund the City of Austin, Texas Hotel Occupancy Tax Revenue Refunding Bonds, Series 1993A identified in APPENDIX E hereto (the "Refunded Bonds") and to pay cost of issuance. The Refunded Bonds maturing on and after November 15, 2004 will be redeemed on May 15, 2004, which is the first optional redemption date for the Refunded Bonds, at 100% of the principal amount thereof. The refunding is being undertaken for interest cost savings and will result in present value savings to the City.

Refunded Bonds

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

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

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds in accordance with applicable law. It is the opinion of Bond Counsel that, as a result of such firm banking and financial arrangements, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and cash held for such purpose by the Escrow Agent and such Refunded Bonds will cease to be obligations payable from the Pledged Revenues or otherwise be treated as outstanding obligations of the City.

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

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied as follows:

Sources:	
Par Amount	$52,715,000.00
Original Issue Premium	4,028,857.60
Accrued Interest	260,341.67
Equity Contribution	7,024,231.81
Total	$64,028,431.08
Uses:	
Deposit to Escrow Fund	$62,403,134.76
Underwriter's Discount	283,606.70
Deposit to Debt Service Fund	260,341.67
Costs of Issuance, including Bond Insurance/Surety Premium	1,081,347.95
Total	$64,028,431.08

DESCRIPTION OF THE BONDS

The Bonds are dated February 1, 2004, and mature November 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will accrue from their dated date at the per annum rates shown on the inside cover page, and such accrued interest will be computed or calculated on the basis of a 360 day year of twelve 30-day months. Interest on the Bonds is payable on May 15, 2004, and semiannually thereafter on November 15 and May 15 of each year until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar, initially, JPMorgan Chase Bank, to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

Book-Entry-Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 Bonds 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 Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

Redemption

Optional Redemption. The Bonds having stated maturities on and after November 15, 2014, are subject to redemption prior to maturity, at the option of the City, in whole or in part in principal amounts of $5,000 or any integral multiple thereof (and if within a stated maturity by lot by the Paying Agent/Registrar), on November 15, 2013 or on any date thereafter at the redemption price of par plus accrued interest to the date of redemption.

Notice of Redemption

Not less than thirty (30) days prior to a redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class, postage prepaid, in the name of the City and at the City's expense, to the registered owner of each Bond to be redeemed in whole or in part at the address of the bondholder appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the bondholder.

ANY REDEMPTION NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER ONE OR MORE REGISTERED OWNERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BONDS OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE FROM AND AFTER THE REDEMPTION DATE.

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption with respect to the Bonds or any notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action pertaining to the Bonds that is premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "Book-Entry-Only System" above.

Paying Agent/Registrar

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

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States mail, first-class, postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date with respect to the Bonds means the close of business on the last business day of the month preceding each interest payment date. In the event of a non-payment of interest on the Bonds on one or more maturities on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment for such maturity or maturities (a "Special Record Date") will be established by the Paying Agent/Registrar, if any, when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be l5 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class, postage prepaid, to the address of each registered owner of a Bond of such maturity or maturities appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Registration

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

Neither the City nor the Paying Agent/Registrar shall be required to issue or transfer any Bond called for redemption within 45 days of the dated fixed for redemption of the Bonds; such limitation on transfer is not applicable to an exchange by a bond holder of the unredeemed balance of the Bond called for redemption in part.

Owners' Remedies

The Ordinance does not establish specific events of default with respect to the Bonds. Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. In the event of a default in the payment of the principal of, premium, if any, or interest on any of the Bonds or a default in the performance of any duty or covenant provided by law or in the Ordinance, the registered owner or owners of any of the Bonds may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided in the Ordinance that any registered owner of any of the Bonds may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under the Ordinance, including the application of the Pledged Revenues in the manner required in the Ordinance; provided, however, that the registered owners of the Bonds shall never have the right to demand payment of the principal of, premium, if any, or interest on the Bonds out of any funds raised or to be raised by taxation, other than the Pledged Revenues. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The Ordinance does not provide for the appointment of a trustee to represent the interests of registered owners upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bond holders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce the remedies under the Ordinance would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Defeasance

The Ordinance provides that the City may discharge its obligations to the registered owners of the Bonds by depositing with the Paying Agent/Registrar, or an authorized escrow agent, (i) cash or (ii) "Government Obligations", certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, or (iii) a combination of cash and certified Government Obligations in an amount sufficient to provide for the payment of the Bonds at maturity or to a redemption date. The term "Government Obligations" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. Upon making such deposit in the manner described, the Bonds shall no longer be deemed outstanding obligations secured by the Pledged Revenues, but will be payable only from the funds and Government obligations deposited in escrow and will not be considered obligations of the City for purposes of applying any limitation on the City's ability to issue additional obligations payable from the Pledged Revenues or for any other purpose.

Amendments

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

Amendment of Ordinance Without Consent. The City may, without the consent of or notice to any of the registered owners of the Bonds, amend the Ordinance for certain purposes including, but not limited to, (i) to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the Bonds; or to comply with any applicable provision of law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Bonds; (ii) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes; (iii) to grant to or confer upon the Owners of the Bonds any additional rights, remedies, powers or authority; (iv) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City; (v) to amend any provisions thereof relating to the issuance of Subordinate Lien Bonds, including Variable Rate Obligations, or the incurrence of and security for Reimbursement Obligations or the definition of Variable Rate Obligations provided such amendment does not cause any reduction in any rating assigned to the Bonds by any major municipal securities evaluation services then rating the Bonds; and (vi) to subject to the lien and pledge of the Ordinance additional Pledged Revenues, provided such amendment does not cause any reduction in any rating assigned to the Bonds by any major municipal securities evaluation service then rating the Bonds.

Amendments of Ordinance Requiring Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions of the Ordinance, but if such amendment is not of the character described in the Ordinance as permitted without the consent of or notice to any of the registered owners of the Bonds, only with the consent of the registered owner or owners who own 66-2/3%, or more, of the aggregate unpaid principal amount of the Parity Bonds then outstanding; provided, however, that the foregoing shall not permit (a) an extension of the maturity of the principal of or interest on any Bond issued under the Ordinance, or (b) a reduction in the principal amount of any Bond or the rate of interest on any Bond, or (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such amendment without approval of all owners of the Bonds then outstanding.

SECURITY FOR THE BONDS

Pledge

The Bonds are special obligations of the City payable from and, together with certain outstanding Previously Issued Bonds, equally and ratably secured by first lien on and pledge of the "Pledged Revenues". The Pledged Revenues consist primarily of that portion of the revenues derived by the City from the hotel occupancy tax levied by the City pursuant to Vernon's Texas Codes Annotated, Tax Code, Chapter 351, as amended (the "Tax Act") which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms furnished by hotels in which the cost of occupancy is $2.00 or more a day (the "4.5% HOT" or the "Pledged Hotel Occupancy Tax Revenues"). The City, pursuant to the Ordinance, does not grant any lien on or security interest in, or any mortgage of any of the physical properties of the City.

In addition to the Pledged Hotel Occupancy Tax Revenues, the term "Pledged Revenues" includes (i) interest and other income realized from the investment of amounts on deposit in the funds and accounts (i.e., the Convention Center Hotel Occupancy Tax Bond Debt Service Fund, Tax Fund and the Convention Center Hotel Occupancy Tax Bond Debt Service Reserve Fund) maintained for the payment and security of the "Parity Bonds" (collectively the "Bonds", the "Previously Issued Bonds" and "Additional Bonds", if any, hereafter issued on a parity therewith) to the extent such interest and other income are required to be transferred or credited to the Convention Center Hotel Occupancy Tax Fund, and (ii) any additional revenue, receipts or income hereafter pledged to the Parity Bonds in accordance with the Ordinance.

Excluding the Refunded Bonds, there is one series of Previously Issued Bonds outstanding in the aggregate principal amount of $2,205,000 and having a final maturity date of November 15, 2005. Additionally, there is one series of subordinate lien bonds outstanding payable from the Pledged Hotel Occupancy Tax Revenues totaling in principal amount $109,000,000 and having a final maturity date of November 15, 2020. See "DEBT SERVICE REQUIREMENTS".

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATION DEBT OF THE CITY, AND NEITHER THE TAXING POWER OF THE CITY (EXCEPT WITH RESPECT TO THE PLEDGED HOTEL OCCUPANCY TAX REVENUES) NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED AS SECURITY FOR THE BONDS.

Levy of Hotel Occupancy Tax

The City has levied, and while any Bonds remain Outstanding the City shall continue to levy, a hotel occupancy tax on the cost of occupancy of any sleeping room furnished by any hotel within the corporate limits of the City, in which the cost of occupancy is $2.00 or more a day, at a rate of at least 7% of the consideration paid by the occupant of the sleeping room to the hotel, all as authorized by the Tax Act. A hotel is a building where members of the public obtain sleeping accommodations for consideration, such as a hotel, motel, tourist home, tourist house, tourist court, lodging house, inn, rooming house, or bed or breakfast in the City. A hotel does not include a hospital, sanitarium, nursing home, dormitory or other housing facility owned or leased and operated by a public, private or independent institution of higher education used for the purpose of providing sleeping accommodations for students enrolled or others attending educational programs or other activities at such institution of higher education. The City further covenants in the Ordinance to enforce the provisions of the Ordinance, or any other ordinance levying a hotel occupancy tax, concerning the collection, remittance and payment of the Hotel Occupancy Tax. As described above, the City, pursuant to the Ordinance, has pledged the Pledged Revenues, to the payment of the Bonds.

A number of factors, many of which may be beyond the control of the City, could have an adverse impact on hotel occupancy levels in the Austin market generally, including adverse changes in the national economy and levels of corporate travel and tourism, competition from hotels in other markets, energy costs, governmental rules and policies, potential environmental and other liabilities, and interest rate levels. Corporate travel and tourism are highly dependent upon gasoline and other fuel prices, airline fares, and the national economy. The hotel occupancy tax revenues largely depend on the occupancy and average daily rates at hotels located within the City. Key factors that may adversely affect the amount of hotel occupancy tax rate revenues generated from the rental of hotel rooms include: market support; general levels of convention business; levels of tourism; seasonality; and competition from other markets.

Historical Hotel Occupancy Tax Receipts

Pursuant to state law and an implementing ordinance, the City has been levying a tax upon the cost of occupancy of any Qualified Hotel Room since 1971. The City ordinance authorizing this tax also provides rules and regulations for collection, describes violations, requires reports and provides penalties for violations. In the Ordinance the City has pledged a portion of its Hotel Occupancy Tax revenues (equal to at least $.045 per dollar of consideration paid by occupants of Qualified Hotel Rooms). The Ordinance affirms that at least $.045 per dollar is to be allocated to provide for the payment of the Parity Bonds, all in the manner and with such priority of payment as described herein and in the Ordinance. Historically such revenues have generated coverage in the range of 1.80x – 2.31x. Coverage can be affected by several factors beyond the control of the City. See "SECURITY FOR THE BONDS - Levy of Hotel Occupancy Tax".

The following table reflects the City's hotel occupancy tax collections for the past ten years. Hotel occupancy tax collections are affected by the number of rooms available, the level of occupancy and the average room rate charged. The Austin Convention and Visitor's Bureau report that city-wide occupancy for 2003 through November 2003 was 57.9% with an average room rate of $77.23. Several hotels were built in the City during the 1990's. There are approximately 22,500 rooms available city-wide with another 800 rooms recently made available with the opening on January 5, 2004 of the new Hilton Hotel adjacent to the Austin Convention Center. This hotel is owned by Austin Convention Enterprises, Inc., a non-profit public facilities corporation created by the City to act on its behalf in connection with the development of this hotel.

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

Historical Hotel Occupancy Tax Collections

Table 1

Fiscal Year Ended September 30	1st Quarter October - December	2nd Quarter January - March	3rd Quarter April - June	4th Quarter July - September	Total	Pledged Hotel Tax Revenue	Total Annual Increase/ (Decrease)
	(In thousands)						
1993 (1)	$2,463	$2,260	$2,779	$3,011	$10,513	$ 6,759	15.3%
1994	2,727	2,409	2,897	3,444	11,477	7,378	9.2%
1995	3,115	2,870	3,501	3,654	13,140	8,447	14.5%
1996	3,494	3,203	3,763	3,800	14,260	9,167	8.5%
1997	3,537	3,353	3,860	4,468	15,218	9,783	6.7%
1998 (2)	4,539	4,284	4,936	5,061	18,820	12,107	23.7%
1999	5,612	5,552	6,375	7,073	24,612	12,598	30.8%
2000	6,637	6,264	7,573	8,284	28,758	14,399	16.8%
2001 (3)	7,595	7,671	8,043	7,836	31,145	15,580	8.3%
2002	5,832	5,355	6,350	7,222	24,759	12,380	(20.5%)
2003	5,766	5,874	7,045	6,823	25,508	12,754	3.00%

(1) Tax levy increased to 7% effective October 1, 1984. Ordinance No. 840712-U amended Section 5-3-2(a) of Chapter 5-3 of Title V of the 1981 Code of the City of Austin.
(2) Tax levy increased to 9% effective August 1, 1998. Ordinance No. 980709-G amended Section 5-3-2(a) of Chapter 5-3 of Title V of the 1981 Code of the City of Austin. Additional 2% tax pledged to the City's outstanding Convention Center/Waller Creek Venue Project Bonds, Series 1999A.
(3) Beginning in fiscal year 2001, the City implemented GASB Statement No. 33, which changes the method of reporting tax collections in the City's financial statements. This table will continue to be reported on a cash basis to provide a more meaningful comparison.

Source: City of Austin, Texas.

Top Twenty Hotel Occupancy Taxpayers Fiscal Year 2002/2003

Name	Total Collections	Percent of Total Collections
Four Seasons Hotel	$1,405,337	5.52%
Stouffer Renaissance Austin Hotel	1,249,291	4.91%
Hyatt Regency Austin	1,235,082	4.85%
Austin at the Capitol Marriott	954,690	3.75%
Omni Austin Hotel	950,055	3.73%
Radisson Hotel Town Lake	917,352	3.61%
Embassy Suites - Town Lake #510	718,969	2.83%
Driskill Holdings, Inc.	713,714	2.81%
Intercontinental Hotel	579,672	2.28%
Embassy Suites of Austin #6350	560,721	2.20%
Doubletree Guest Suites Austin	544,793	2.14%
Doubletree Hotel Austin	530,621	2.09%
Omni Austin Southpark	511,168	2.01%
Holiday Inn #181	469,497	1.85%
Hilton - Austin Airport	407,884	1.60%
Embassy Suites	396,982	1.56%
Marriott - Austin South	352,235	1.38%
Austin North Hilton & Towers	346,986	1.36%
The Austin LP	326,020	1.28%
Courtyard by Marriott	290,876	1.14%

Source: City of Austin, Texas.

Historical Hotel Occupancy Data

Fiscal Year Ended September 30	Average Occupancy	Number of Rooms	Average Room Rate
1997	69.60%	17,875	$74.87
1998	67.40%	19,052	$78.36
1999	73.20%	20,518	$84.25
2000	74.90%	21,445	$90.34
2001	62.10%	23,952	$81.98
2002	56.80%	25,373	$78.28
2003	56.30%	25,373	$76.66

Source: Smith Travel Research Data.

Funds and Flow of Funds

Hotel Occupancy Tax Special Funds. In accordance with the ordinance authorizing the issuance of the Previously Issued Bonds, the following special funds and accounts have been created, established and shall be maintained while any of the Bonds remain Outstanding, to wit:

(1) Convention Center Hotel Occupancy Tax Fund ("Tax Fund");
(2) Convention Center Hotel Occupancy Tax Bond Debt Service Fund ("Debt Service Fund"); and
(3) Convention Center Hotel Occupancy Tax Bond Debt Service Reserve Fund ("Debt Service Reserve Fund").

The Debt Service Fund and Debt Service Reserve Fund may also include any additional accounts or subaccounts as may from time to time be designated by the City, including specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, provided such accounts or subaccounts are not inconsistent with the provisions of the Ordinance.

Flow of Funds re Hotel Occupancy Tax Revenues. The City covenants and agrees all Pledged Hotel Occupancy Tax Revenues shall be deposited as received into the Tax Fund. Moneys from time to time credited to the Tax Fund shall be applied as follows in the following order of priority:

First, to transfer all amounts to the Debt Service Fund required by the ordinance authorizing the issuance of Parity Bonds.

Second, to transfer all amounts to the Debt Service Reserve Fund required by the ordinance authorizing the issuance of Parity Bonds.

Third, to transfer all amounts necessary to provide for the payment of Subordinate Lien Bonds (including any Reimbursement Obligations incurred in connection therewith), or to provide reserves for such payment, as may be required by any ordinance authorizing the issuance of Subordinate Lien Bonds.

Fourth, for any lawful purpose under the Tax Act.

In making transfers from the Tax Fund pursuant to the First and Second priorities, Pledged Revenues, other than Pledged Hotel Occupancy Tax Revenues, shall be deemed to have been transferred prior to Pledged Hotel Occupancy Tax Revenues.

Debt Service Fund

In addition to the deposits to the Debt Service Fund for the payment of the Previously Issued Bonds, the City covenants and agrees that prior to each interest payment date, stated maturity date and mandatory redemption date for the Bonds there shall be deposited into the Debt Service Fund from the Tax Fund an amount equal to one hundred per centum (100%) of the amount required to fully pay the amount then due and payable on the Bonds, and such deposits to pay the Bonds at maturity or redemption, as the case may be, and accrued interest thereon shall be made in substantially equal quarterly installments (based on the total annual Debt Service Requirements to be paid on the Bonds divided by the number of Transfer Dates (i.e. February 14, May 14, August 14, and November 15) to occur during the period covered by such calculation) on or before each Transfer Date, beginning on the first Transfer Date to occur after the delivery of the Bonds.

In addition, on each Transfer Date, the City covenants and agrees to cause to be deposited into the Debt Service Fund from the Tax Fund an amount calculated to pay all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Parity Bonds in accordance with their terms, including without limitation, all fees charged or incurred by the Paying Agent/Registrar and for trustee services rendered in connection with the Parity Bonds.

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

Debt Service Reserve Fund

The City shall establish and maintain as hereinafter provided a balance in the Debt Service Reserve Fund equal to the Reserve Fund Requirement for the Parity Bonds. In accordance with the ordinance authorizing the issuance of the Previously Issued Bonds, there is currently on deposit to the credit of the Debt Service Reserve Fund the sum of $6,750,298 (the "Old Reserve Requirement"). By reason of the issuance of the Bonds the amount to be accumulated and maintained in the Debt Service Reserve Fund is the Reserve Fund Requirement ($5,576,625) and immediately following the delivery of the Bonds, the City shall cause to be deposited to the credit of the Reserve Fund a Debt Service Reserve Fund Surety Bond issued by Financial Security Assurance Inc. ("FSA") in an amount equal to the Reserve Fund Requirement.

The amount currently on deposit in the Debt Service Reserve Fund to be replaced with a debt service reserve fund surety bond policy is to be contributed toward the refunding of the Refunded Bonds.

An increase in the Reserve Fund Requirement resulting from the issuance of Additional Bonds shall be funded at the time of issuance and delivery of such series of Additional Bonds by depositing to the credit of the Debt Service Reserve Fund either (A) proceeds of such Additional Bonds or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fully fund the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Bonds has been provided out of proceeds of such Additional Bonds or investment earnings thereon as estimated by the City or from other lawfully available funds other than Pledged Revenues or (B) to the extent permitted by applicable law, a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Reserve Fund Requirement. The City shall not employ any Debt Service Reserve Fund Surety Bond unless (i) the City officially finds that the purchase of such Debt Service Reserve Fund Surety Bond is cost effective, (ii) the Debt Service Reserve Fund Surety Bond does not impose upon the City a repayment obligation (in the event the Debt Service Reserve Fund Surety Bond is drawn upon) greater than can be funded in the manner provided below for reestablishing or restoring the Reserve Fund Requirement and, payable out of Pledged Revenues on the same priority as deposits are required to be made to the Debt Service Reserve Fund on such Transfer Dates, (iii) any interest due in connection with such repayment obligations does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Debt Service Reserve Fund Surety Bond, and (iv) the rating either for the long term unsecured debt of the issuer of such Debt Service Reserve Fund Surety Bond or for obligations insured, secured or guaranteed by, such issuer have a rating in the highest letter category by two major municipal securities evaluation services.

In any Transfer Period in which the Debt Service Reserve Fund contains less than the Reserve Fund Requirement for the Parity Bonds (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Bonds as above provided) or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the next succeeding Transfer Date after making all required transfers to the Debt Service Fund, there shall be transferred into the Debt Service Reserve Fund from the Tax Fund, to the extent money is available therein, such amount as shall be necessary to reestablish in the Debt Service Reserve Fund the Reserve Fund Requirement for the Parity Bonds and satisfy any repayment obligations to the issuer of any issuer of a Debt Service Reserve Fund Surety Bond. After such amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any issuer of a Debt Service Reserve Fund Surety Bond and while such fund contains such amount and all such repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such fund shall be transferred to the Tax Fund. But if and whenever the balance in the Debt Service Reserve Fund is reduced below the Reserve Fund Requirement or any Debt Service Reserve Fund Surety Bond repayment obligation exists, transfers to the Debt Service Reserve Fund shall be resumed and continued in the manner provided above to restore the Reserve Fund Requirement and to pay such reimbursement obligations.

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

Deficiencies in Funds or Accounts

If on any Transfer Date there shall not be transferred into any fund or account maintained pursuant to the Ordinance the full amounts required therein, amounts equivalent to such deficiency shall be set apart and transferred to such fund or account from the first available and unallocated Pledged Revenues, and such transfer shall be in addition to the amounts otherwise required to be transferred to such fund or account on any succeeding Transfer Dates.

Investment of Funds; Transfer of Investment Income

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

All interest and income derived from deposits and investments credited to any funds and accounts shall be transferred to the Tax Fund not less frequently than monthly, except as provided below; provided that at any time when the Debt Service Reserve Fund has on deposit an amount less than the Reserve Fund Requirement, all interest and income from deposits and investments credited to such fund shall remain therein.

Notwithstanding anything to the contrary contained in the Ordinance, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be (i) transferred into any rebate account or subaccount and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained in an order, resolution or ordinance to prevent interest on any Parity Bonds or Subordinate Lien Bonds from being includable within the gross income of the owners thereof for federal income tax purposes.

Additional Bonds

The City reserves the right to issue, for any lawful purpose, one or more installments of Additional Bonds payable from and, together with the Previously Issued Bonds and the Bonds, equally and ratably secured by a parity lien on and pledge of the Pledged Revenues and special funds; provided, however, that no such Additional Bonds shall be issued unless:

(a) <u>No Default; Proper Fund Balances</u>. The City's Director of Financial Services (or other officer of the City then having primary responsibility for the financial affairs of the City) shall certify that, upon the issuance of such Additional Bonds, (i) the City will not be in default under any term or provision of any Parity Bonds then Outstanding or any ordinance pursuant to which any of such Parity Bonds were issued and (ii) the Debt Service Fund will have the required amounts on deposit therein and the Debt Service Reserve Fund will contain the applicable Reserve Fund Requirement or so much thereof as is required to be funded at such time.

(b) Coverage for Additional Bonds. The City's Director of Financial Services (or other officer of the City then having primary responsibility for the financial affairs of the City) shall provide a certificate showing that, for the City's most recent complete Fiscal Year or for any consecutive 12 month period out of the most recent 18 months, (A) the Pledged Hotel Occupancy Tax Revenues for the above period are equal to at least 130% of the maximum annual Debt Service Requirements on all Parity Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Bonds proposed to be issued, and (B) the Pledged Hotel Occupancy Tax Revenues after deducting an amount equal to the maximum annual Debt Service Requirement applied in satisfying the coverage requirement in clause (A), together with any other revenues pledged in whole or in part to the payment of Parity Bonds and Subordinate Lien Bonds, for the above period are equal to at least 130% of the maximum annual Debt Service Requirement on all Subordinate Lien Bonds then Outstanding and scheduled to occur in the then current or any future Fiscal Year; provided, however, at such time as the Previously Issued Bonds are no longer Outstanding, the coverage requirement for the issuance of additional parity bonds in clause (A) above shall be reduced to 125% and the coverage requirement of clause (B) shall provide that the Pledged Hotel Occupancy Tax Revenues, together with any other revenues pledged in whole or in part to the payment of Parity Bonds and Subordinate Lien Bonds, for the above period are equal to at least 100% of the combined maximum annual Debt Service Requirements on all Parity Bonds and Subordinate Lien Bonds then Outstanding and scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Bonds proposed to be issued. In making a determination of the Pledged Hotel Occupancy Tax Revenues, the City may take into consideration an increase in the portion of the Hotel Occupancy Tax pledged and dedicated to the payment of Parity Bonds and Subordinate Lien Bonds that became effective during the period for which Pledged Hotel Occupancy Tax Revenues are determined and, for purposes of satisfying the above coverage tests, make a pro forma determination of the Pledged Hotel Occupancy Tax Revenues for the period of time covered by such certification based on such increased portion of the Hotel Occupancy Tax pledged and dedicated to the payment of the Parity Bonds being in effect for the entire period covered by the certificate.

(c) Refunding Bonds. If Additional Bonds are issued for the purpose of refunding less than all Parity Bonds then Outstanding, the certifications described in (b) above shall not be required if the maximum annual and the average annual Debt Service Requirements for all Parity Bonds to be Outstanding in any Fiscal Year after the issuance of such Additional Bonds will not exceed the maximum annual and the average annual Debt Service Requirements for all Parity Bonds Outstanding in any Fiscal Year prior to the issuance of Additional Bonds with respect to the maximum annual Debt Service Requirements and in the prior Fiscal Year with respect to the average annual Debt Service Requirements.

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

(e) Subordinate Lien Bonds. Provision is made in the Ordinance for the City to issue or incur, for any lawful purpose, bonds, notes or other obligations secured in whole or in part by liens on the Pledged Revenues junior and subordinate to the liens on Pledged Revenues securing Parity Bonds ("Subordinate Lien Bonds"). Except as described below, while the City's Hotel Occupancy Tax Revenue Taxable Refunding Bonds, Series 1999 (the "Taxable Series 1999 Bonds") are Outstanding, no Subordinate Lien Bonds shall be issued unless (i) the City's Director of Financial Services (or other officer of the City then having primary responsibility for the financial affairs of the City) shall provide a certificate showing that, for the City's most recent complete Fiscal Year or any consecutive 12 month period out of the most recent 18 months, the "Net Pledged Hotel Occupancy Revenues" (all Pledged Hotel Occupancy Tax Revenues received by the City, less all amounts required to provide for the payment of the Parity Bonds then Outstanding and provide reserves for such payment) plus revenues other than the Pledged Revenues, that are pledged or to be pledged, in whole or in part, to the payment of such Subordinate Lien Bonds were equal to at least 130% of the combined maximum annual principal and interest requirement for all Parity Bonds and Subordinate Lien Bonds to be outstanding after giving effect to the issuance of the Subordinate Lien Bonds then being issued, and (ii) provision is made in the ordinance authorizing issuance of the Subordinate Lien Bonds for the complete funding of any reserves for payment of principal of and interest on such Subordinate Lien Bonds as of the initial delivery thereof.

At such time as the Taxable Series 1999 Bonds are no longer Outstanding or if the City obtains a written consent from the insurance company insuring the payment of the Taxable Series 1999 Bonds, or its assigns, expressly consenting to the issuance of Subordinate Lien Bonds, the conditions in the preceding paragraph shall not govern the issuance of

Subordinate Lien Bonds and only the following conditions shall be applicable to the issuance of such Subordinate Lien Bonds, to wit: (i) the City's Director of Financial Services (or other officer of the City then having primary responsibility for the financial affairs of the City) shall provide a certificate showing that, for the City's most recent complete Fiscal Year or any consecutive 12 month period out of the most recent 18 months, the "Net Pledged Hotel Occupancy Revenues" (all Pledged Hotel Occupancy Tax Revenues received by the City, less all amounts required to provide for the payment of the Parity Bonds then Outstanding and provide reserves for such payment) plus revenues other than the Pledged Revenues, that are pledged or to be pledged, in whole or in part, to the payment of such Subordinate Lien Bonds were equal to at least 100% of the combined average annual principal and interest requirement for all Parity Bonds and Subordinate Lien Bonds to be outstanding after giving effect to the issuance of the Subordinate Lien Bonds then being issued, and (ii) provision is made in the ordinance authorizing issuance of the Subordinate Lien Bonds for the complete funding of any reserves for payment of principal of and interest on such Subordinate Lien Bonds as of the initial delivery thereof.

The current outstanding principal balance of the Taxable Series 1999 Bonds is $2,205,000, and the final maturity of said bonds is November 15, 2005.

BOND INSURANCE

The information contained or referred to in this Official Statement relating to Financial Security Assurance Inc. (the "Insurer") has been provided by such insurer. Reference is made to Appendix F for a specimen of the Insurer's policy.

Bond Insurance Policy

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

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

Financial Security Assurance Inc.

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

At September 30, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately $2,021,327,000 and its total unearned premium reserve was approximately $1,281,769,000 in accordance with statutory accounting practices. At September 30, 2003, Financial Security's total shareholders' equity was approximately $2,208,123,000 and its total net unearned premium reserve was approximately $1,098,686,000 in accordance with generally accepted accounting principles.

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

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

THE CONVENTION CENTER

The Facilities

The Convention Center is located at 500 East First Street, Austin, Texas on six city Blocks on the east side of the City's central business district. The construction of the Austin Convention Center commenced in late 1989 and the Convention Center opened for business in early July of 1992. In June of 1992 the City acquired a 10-story, 1,100 space parking garage as a part of the Austin Convention Center located at 201 East 2nd Street, approximately two blocks from the Austin Convention Center. An expansion of the Convention Center was completed in June of 2002 that effectively doubled the size of the facility. Five Exhibit Halls, two ballrooms, fifty four Meeting Rooms and Show Offices are contained in the Austin Convention Center's 811,400 square feet of enclosed space. In addition, the Convention Center has two complete kitchen facilities and support space. The City has entered into a management contract with Fine Host Corporation to provide catering and beverage services at the Austin Convention Center that expires September 30, 2012. In addition, the City owns and operates the new Palmer Events Center and parking garage as a part of the Convention Center. The Palmer Events Center and parking garage are located at 900 Barton Springs Road next to Town Lake and are utilized for arts and craft shows, concerts, trade shows and small conventions. The Palmer Events Center has approximately 70,000 square feet of exhibit space and five meeting rooms. The parking garage has 1,200 parking spaces. On January 5, 2004, a new Hilton Hotel adjacent to the Convention Center opened for business. This hotel is owned by Austin Convention Enterprises, Inc., a non-profit public facilities corporation created by the City to act on its behalf in connection with the development of this hotel.

Operations and Management

The Convention Center is operated by the City as a City Department and a separate enterprise fund of the City. The Convention Center Department was created by the City Council in 1989 and initially included the Austin Convention and Visitor's Bureau which is now a separate non-profit corporation. The current director of the Austin Convention Center Department, Robert Hodge, has been with the City since January 1994. Prior to coming to Austin, Mr. Hodge was the director of the Grand Center in Grand Rapids Michigan for over ten years.

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

Convention Center Fund

Schedule of Revenues, Expenses and Net Income/Change in Net Assets
Year Ended September 30, 2003
With Comparative Totals for Years Ended September 30, 2002, 2001, 2000 and 1999
(In thousands)

	1999	2000	2001	2002	Unaudited 2003 (1)
OPERATING REVENUES					
User fees and rentals	$ 9,428	$ 9,649	$11,072	$10,376	$15,040
Total Operating Revenues	$ 9,428	$ 9,649	$11,072	$10,376	$15,040
OPERATING EXPENSES					
Operating Expenses Before Depreciation	$12,206	$12,527	$15,646	$18,927	$21,778
Depreciation and Amortization	2,584	2,443	2,500	5,643	5,270
Total Operating Expenses	$14,790	$14,970	$18,146	$24,570	$27,048
Operating Income (Loss)	$ (5,362)	$ (5,321)	$ (7,074)	$(14,194)	$(12,008)
NONOPERATING REVENUES (EXPENSES)					
Interest and Other Revenues	$ 2,247	$10,639	$10,041	$ 3,277	$ 893
Interest on Revenue Bonds and Other Debt	(6,523)	(13,445)	(14,458)	(14,693)	(14,517)
Interest Capitalized During Construction	-	1,853	3,090	2,930	1,052
Amortization of Bond Issue Cost	(84)	(167)	(168)	(168)	(168)
Other Nonoperating Expense	(576)	(1,201)	(356)	(74)	60
Total Nonoperating Revenues (Expenses)	$ (4,936)	$ (2,321)	$ (1,851)	$ (8,728)	$(12,680)
Income (Loss) Before Contributions and Transfers	$(10,298)	$ (7,642)	$ (8,925)	$(22,922)	$(24,688)
Transfers In	$17,613	$22,469	$33,198	$23,833	$22,895
Transfers Out	(50)	(70)	(75)	(75)	(75)
Net Income (Loss)	$ 7,265	$14,757	$24,198	N/A	N/A
Change in Net Assets (2)	N/A	N/A	N/A	$ 836	$ (1,868)

(1) Audited numbers anticipated to be available prior to April 1, 2004.
(2) City of Austin implemented GASB 34 effective Fiscal Year End 2002.

The revenues reflected in this table do not constitute a portion of the Pledged Revenues securing the Bonds.

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

DEBT SERVICE REQUIREMENTS

Date	Prior Lien 4.5 Cent HOT Debt Service* (a)	The Bonds Principal	The Bonds Interest	Total Prior Lien 4.5 Cent HOT Debt Service	Subordinate Lien 4.5 Cent HOT Debt Service*	2.0 Cent Hot Debt Service*	Combined Debt Service Payable from 4.5 & 2.0 Cent HOT
9/30/2004	$ 75,255	$ -	$ 676,888	$ 752,143	$ 3,088,387	$ 654,050	$ 4,494,580
9/30/2005	1,179,300	-	2,343,075	3,522,375	7,642,649	1,752,635	12,917,659
9/30/2006	1,179,045 (b)	-	2,343,075	3,522,120	7,574,024	1,755,890	12,852,034
9/30/2007	-	-	2,343,075	2,343,075	8,251,296	1,757,490	12,351,861
9/30/2008	-	2,110,000	2,321,975	4,431,975	8,251,069	1,757,385	14,440,429
9/30/2009	-	3,315,000	2,259,438	5,574,438	8,248,064	1,760,400	15,582,901
9/30/2010	-	3,400,000	2,171,250	5,571,250	8,240,146	1,761,650	15,573,046
9/30/2011	-	3,500,000	2,072,000	5,572,000	8,227,609	1,761,245	15,560,854
9/30/2012	-	3,645,000	1,928,375	5,573,375	8,217,371	1,763,888	15,554,634
9/30/2013	-	3,830,000	1,741,500	5,571,500	8,205,071	1,764,418	15,540,989
9/30/2014	-	4,025,000	1,545,125	5,570,125	8,185,934	1,767,488	15,523,546
9/30/2015	-	4,230,000	1,338,750	5,568,750	8,162,784	1,768,113	15,499,646
9/30/2016	-	4,455,000	1,121,625	5,576,625	8,143,684	1,766,638	15,486,946
9/30/2017	-	4,680,000	893,250	5,573,250	8,118,034	1,767,931	15,459,215
9/30/2018	-	4,920,000	653,250	5,573,250	8,102,706	1,766,863	15,442,818
9/30/2019	-	5,170,000	401,000	5,571,000	8,097,221	1,763,431	15,431,653
9/30/2020	-	5,435,000	135,875	5,570,875	8,088,799	1,767,375	15,427,049
9/30/2021	-	-	-	-	8,081,737	1,762,250	9,843,987
9/30/2022	-	-	-	-	8,075,190	1,762,850	9,838,040
9/30/2023	-	-	-	-	8,015,180	1,760,150	9,775,330
9/30/2024	-	-	-	-	8,015,170	1,754,150	9,769,320
9/30/2025	-	-	-	-	8,011,745	1,754,575	9,766,320
9/30/2026	-	-	-	-	8,013,745	1,751,150	9,764,895
9/30/2027	-	-	-	-	8,014,865	1,743,875	9,758,740
9/30/2028	-	-	-	-	8,013,945	1,742,475	9,756,420
9/30/2029	-	-	-	-	8,014,680	1,736,675	9,751,355
9/30/2030	-	-	-	-	8,010,765	1,731,338	9,742,103

(a) Excludes Refunded Bonds.
(b) Final Maturity November 15, 2005.

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

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

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

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

Investment Policies

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

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

Additional Provisions

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

Current Investments

As of December 31, 2003, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	18.7%
U. S. Agencies	54.0%
Money Market Funds	0.4%
Local Government Investment Pools	26.9%

The dollar weighted average maturity for the combined City investment portfolios is 1.31 years. The City prices the portfolios weekly utilizing a market pricing service. Market value, as of December 31, 2003 was 101.56% of book value.

TAX EXEMPTION

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

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

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

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

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

Tax Accounting Treatment of Discount and Premium Bonds

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

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

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

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

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

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

GENERAL

Ratings

The City has not applied for an underlying rating of the Bonds from any rating agency. The City anticipates that Moody's and S&P will assign their municipal bond ratings of "Aaa" and "AAA", respectively, to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond guaranty insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by the Insurer. An explanation of the significance of such ratings may be obtained from Moody's and S&P. The ratings reflect only the respective views of such organizations, and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

Continuing Disclosure of Information

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

Annual Reports . . . The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Hotel Occupancy Tax of the general type included in the main text of this Official Statement within the numbered tables only. 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 and after 2004. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide 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, 2004 and on March 31 in each succeeding year, unless the City changes its Fiscal Year. If the City changes its Fiscal Year, it will notify each NRMSIR and any SID of the change.

Material Event Notices . . . The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID . . . The City has agreed to provide the foregoing information 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 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 Convention Center or the levy and collection of the Hotel Occupancy Tax, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings . . . During the last five years, the City has complied in all material with respect to prior undertakings under the Rule.

Certain Legal Matters

Legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the approving opinion of the Attorney General of Texas and of Fulbright & Jaworski, L.L.P., Bond Counsel. In rendering such approving opinion, the Attorney General of Texas will review a transcript of proceedings relating to the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Winstead Sechrest & Minick P.C.

Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity, as Bond Counsel, such firm has reviewed the information in this Official Statement to verify that information relating to the Bonds and the Ordinance contained thereunder accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is accurate. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

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

Litigation

As of the date hereof, there is no litigation pending or, to the knowledge of the City, threatened against the City to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or the application of the proceeds thereof as described herein, or in any way contesting or affecting the validity of the Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security for the Bonds or the existence or powers of the City.

Source of Information

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. 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 ("PFM"), Financial Advisor to the City.

Financial Advisor

PFM is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

PFM, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the bond documents with respect to the federal income tax status of interest on the Bonds.

Verification of Mathematical Calculations

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

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

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriters on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the Restricted Acquired Obligations and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Refunding Bonds and the Restricted Acquired Obligations was examined by The Arbitrage Group, Inc.. Such computations were based solely upon assumptions and information supplied by the Underwriters on behalf of the City. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

Underwriting

The Underwriters have jointly and severally agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at an Underwriters' discount of $283,606.70 from the initial offering price to the public. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than the public offering prices set forth on the cover hereof, and such public prices may be changed, from time to time, by the Underwriters.

Forward-Looking Statements

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

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

Additional Information

This Official Statement was approved, and the execution and delivery of this Official Statement authorized, by the City Council under the terms of the Ordinance.

/s/Will Wynn
Mayor
City of Austin, Texas

ATTEST:

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only. No revenues of the City, other than the Pledged HOT Revenues, are available to pay debt service of the Bonds.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

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

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

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

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

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

During the 1990s, over 280,000 jobs were created in Austin; unemployment dropped to less than 2 percent in 2000. Since then, Austin and the Central Texas area have been hit hard by the technology slump. Unemployment in the area has increased sharply over the last three years. Austin's unemployment rate averaged near 5 percent during 2003, with almost 24,000 people unemployed. Statewide unemployment hovered around 6 percent.

A decline in travel has impacted both the City's airport and convention revenues. The airport has experienced a decline in both passenger and cargo traffic. For electric and water and wastewater activities, mild weather conditions resulted in lower than anticipated revenues.

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

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

MAJOR INITIATIVES AND ACHIEVEMENTS

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

Health and Safety Projects

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

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

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

Convention and Cultural Projects

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

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

Economic Development and Transportation Projects

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

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

Utility Projects

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

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

Status of City Services

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

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

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

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

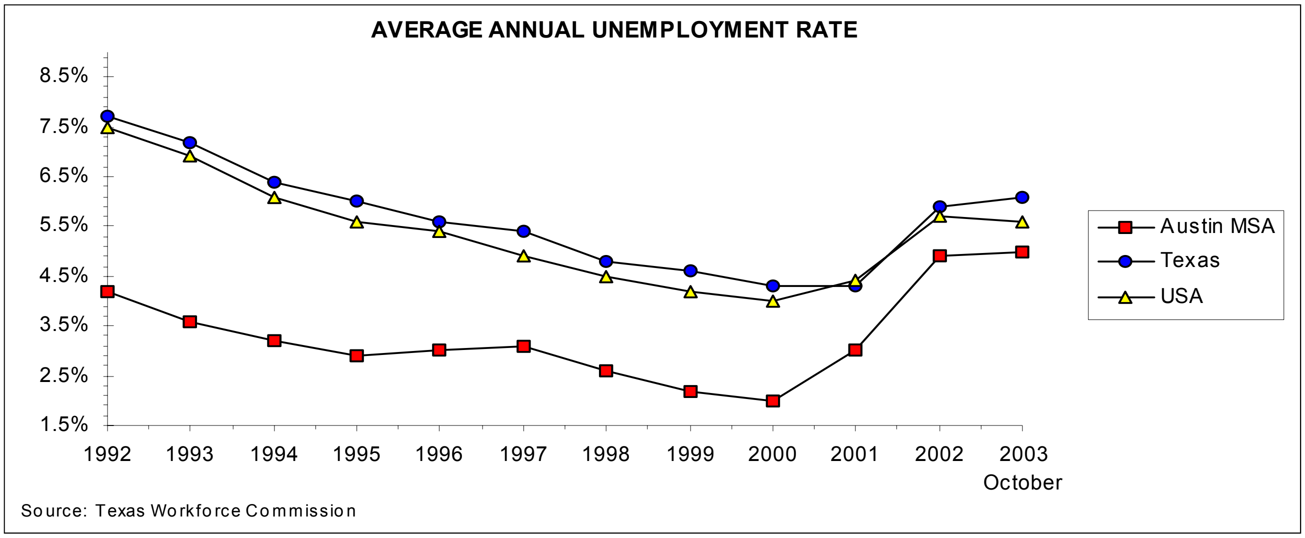
Industrial Classification	1980	% of Total	1990	% of Total	2001	% of Total	2002	% of Total	October 31, 2003	% of Total
Manufacturing	30,550	12.9%	49,300	12.6%	86,500	12.6%	71,200	10.6%	58,600	8.7%
Government	80,950	34.3%	110,400	28.8%	140,700	20.5%	147,900	22.1%	152,500	22.7%
Trade	48,400	20.5%	78,400	20.4%	154,600	22.5%	153,100	22.8%	102,300	15.3%
Services and Miscellaneous	40,950	17.3%	97,200	25.3%	207,900	30.3%	201,800	30.1%	248,100	37.0%
Finance, Insurance and Real Estate	13,700	5.8%	23,400	6.1%	33,000	4.8%	34,100	5.1%	38,300	5.7%
Contract Construction	13,300	5.6%	12,000	3.1%	39,700	5.8%	39,800	5.9%	37,400	5.6%
Transportation, Communications & Utilities	7,200	3.1%	12,100	3.2%	22,400	3.3%	20,700	3.1%	31,400	4.7%
Mining	1,100	0.5%	700	0.2%	1,600	0.2%	1,700	0.3%	1,800	0.3%
Total	236,150	100.0%	383,500	100.0%	686,400	100.0%	670,300	100.0%	670,400	100.0%

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

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

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

Average Annual Unemployment Rate



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

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

City Sales Tax Collections (In Millions)

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

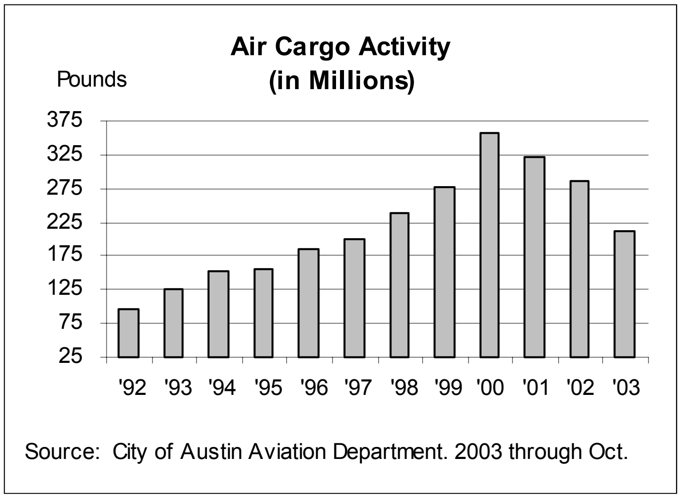
Source: City of Austin, Budget Office.

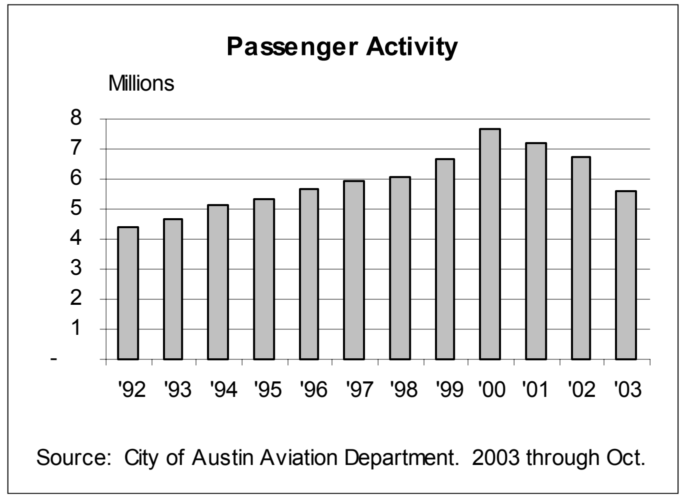
Ten Largest Employers (As of September 30, 2002)

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

Source: 2002 Comprehensive Annual Financial Report.

Transportation





Austin-Bergstrom International Airport

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

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

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

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

Growth Indicators

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

Population

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

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

Connections and Permits

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

Source: 2002 Comprehensive Annual Financial Report.

Wealth and Income Indicators

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

Effective Buying Income and Retail Sales

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

*Group A, $0 - $19,999 Group B, $20,000 - 34,999 Group C, $35,000 - 49,999 Group D, $50,000 and over
Source: 2003 Survey of Buying Power, Sales and Marketing Management.

Housing Units

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

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1992	8,503	$ 887,249,588	$104,345
1993	9,926	1,139,100,456	114,759
1994	10,571	1,272,585,426	120,385
1995	11,459	1,439,915,043	125,658
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,392	3,556,546,121	193,375
2002	18,716	3,695,947,381	197,475
2003 November	19,124	3,756,604,856	196,434

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

City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
1992	82.6%
1993	86.3%
1994	87.9%
1995	88.4%
1996	92.2%
1997	94.7%
1998	93.4%
1999	92.8%
2000	96.0%
2001	81.2%
2002	77.0%
2003 (4th Quarter)	76.7%

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

Education

The Austin Independent School District had an enrollment of 78,499 for the Fall of 2003. This reflects an increase of 1.93% in enrollment from the Spring of 2003. The District includes 107 campus buildings.

School Year	Average Daily Membership	Average Daily Attendance
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	72,950
2000/01	77,050	73,427
2001/02	77,265	73,619
2002/03	77,009	74,752
2003/04 (1)	78,499	74,807

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

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

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

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-San Marcos MSA were $2.4 billion in 2001. There are more than 23,000 hotel rooms available within the Austin Metropolitan Area, as of September 2003. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. Through November of 2003 the citywide occupancy rate for the Austin area was 57.9 percent, with an average room rate of $77.23.

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

APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

[This page intentionally blank.]

KPMG

111 Congress Avenue
Suite 1100
Austin, TX 78701

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

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

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
January 31, 2003

This page intentionally blank.

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

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

FINANCIAL HIGHLIGHTS

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

a -- Government-wide Financial Statements

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

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

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

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

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets

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

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

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

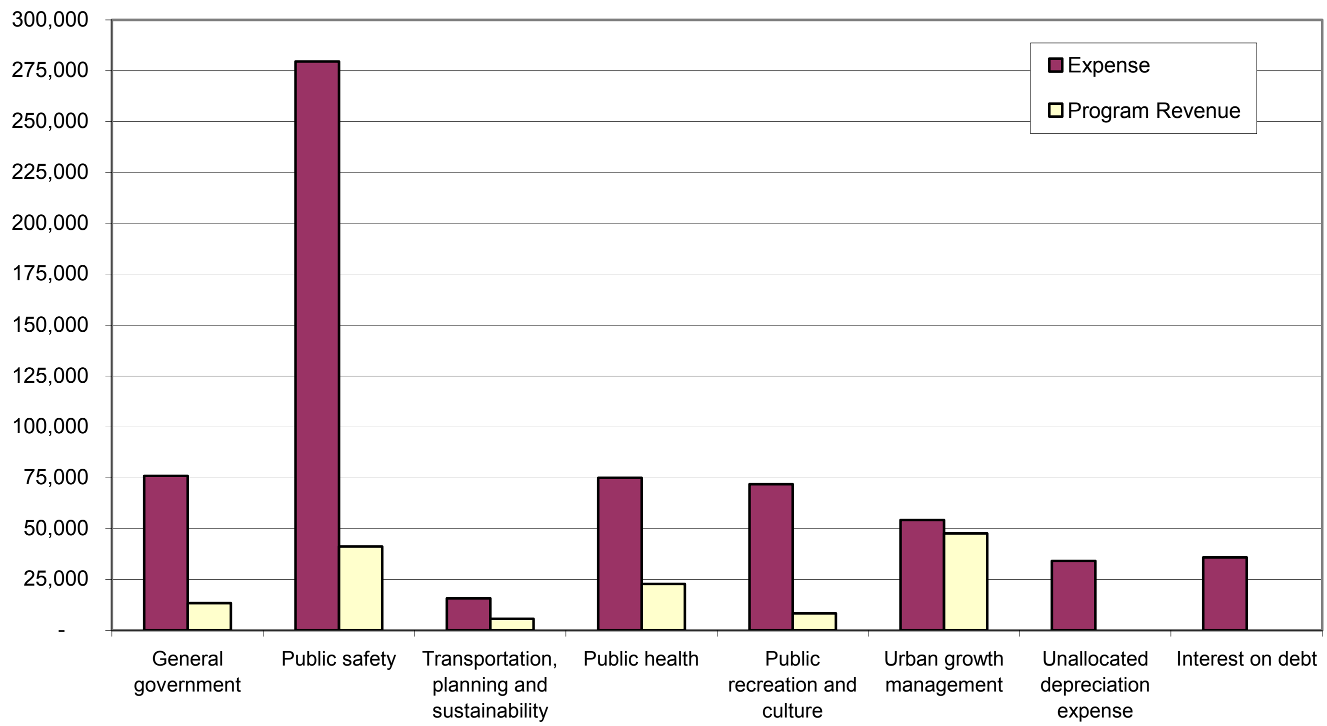
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

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

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

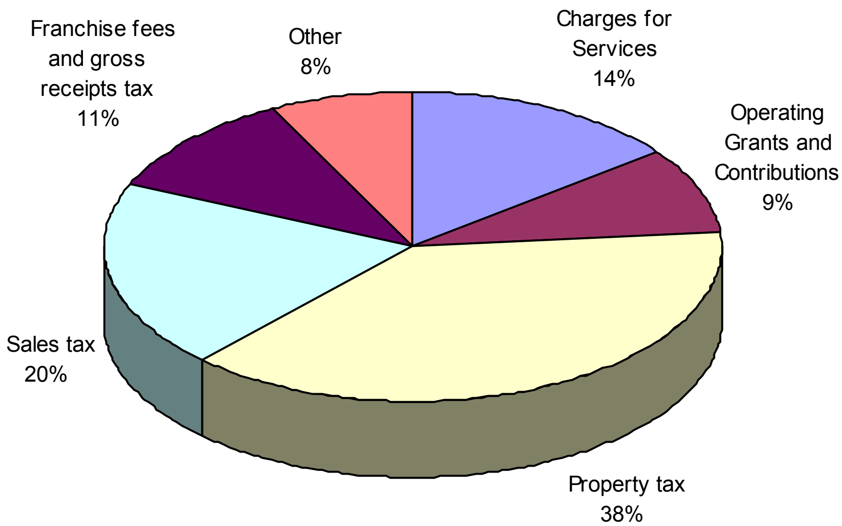
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



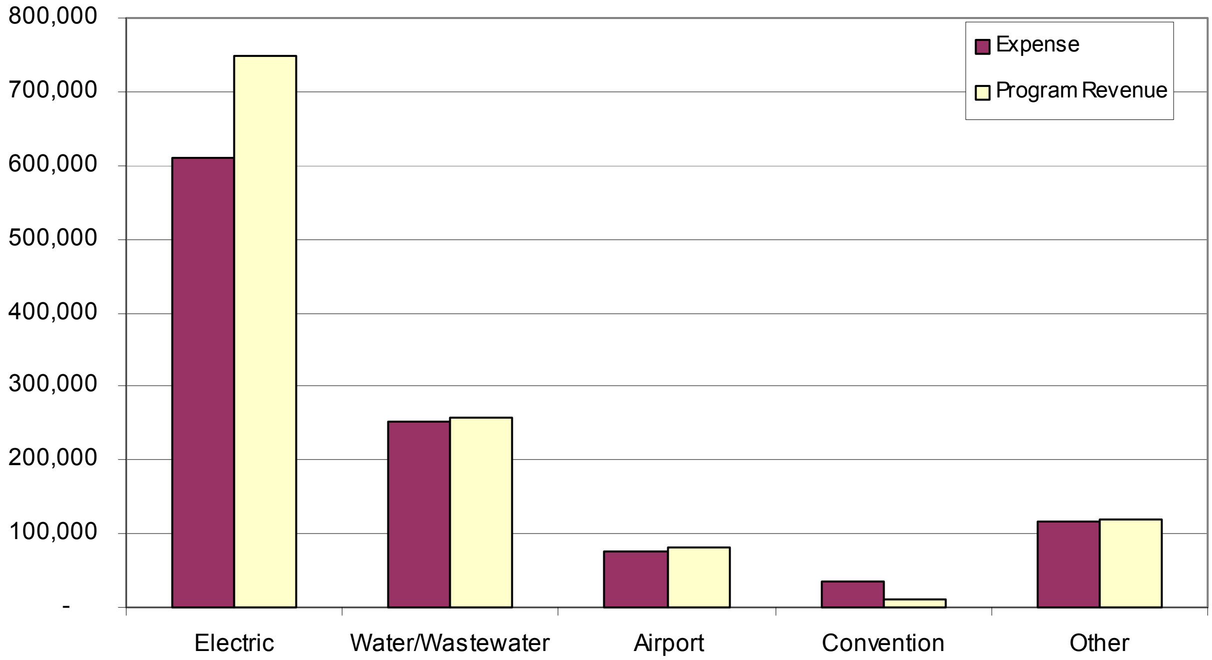
d – Program Revenues and Expenses -- Business-type activities
Business-type activities increased the City's net assets by $82 million, accounting for 66% of the total growth in the City's net assets. Net program expenses and revenues are, as follows:

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

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

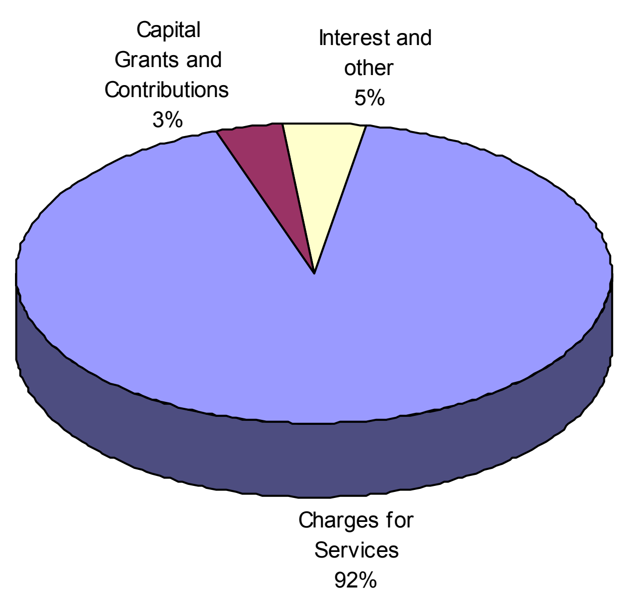
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



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

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER INFORMATION

a -- General Fund budgetary highlights

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

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

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

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

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

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

b -- Capital Assets

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

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

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

OTHER INFORMATION, continued

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

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

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

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

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

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

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

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

OTHER INFORMATION, continued

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

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

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

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

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

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

e -- Requests for Information

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

(In thousands)

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

(Continued)

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

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

(In thousands) | (Continued)

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

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

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

(In thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**2002 Total**
Governmental activities							
General government	$ 75,941	12,964	322	--	(62,655)	--	(62,655)
Public safety	279,533	36,226	5,001	--	(238,306)	--	(238,306)
Transportation, planning and sustainability	15,694	4,948	82	619	(10,045)	--	(10,045)
Public health	75,033	6,969	15,691	202	(52,171)	--	(52,171)
Public recreation and culture	71,863	2,499	5,439	345	(63,580)	--	(63,580)
Urban growth management	54,287	20,743	26,839	37	(6,668)	--	(6,668)
Unallocated depreciation expense	34,074	--	--	--	(34,074)	--	(34,074)
Interest on debt	35,771	--	--	--	(35,771)	--	(35,771)
Total governmental activities	642,196	84,349	53,374	1,203	(503,270)	--	(503,270)
Business-type activities							
Electric	610,374	745,095	--	3,736	--	138,457	138,457
Water and Wastewater	251,171	229,534	--	27,413	--	5,776	5,776
Airport	76,546	72,777	--	8,905	--	5,136	5,136
Convention	36,344	10,376	--	--	--	(25,968)	(25,968)
Other	115,518	116,973	--	3,483	--	4,938	4,938
Total business-type activities	1,089,953	1,174,755	--	43,537	--	128,339	128,339
Total	$ 1,732,149	1,259,104	53,374	44,740	(503,270)	128,339	(374,931)
General revenues:							
Property tax					224,396	--	224,396
Sales tax					115,441	--	115,441
Franchise fees and gross receipts tax					62,576	--	62,576
Grants and contributions not restricted to specific programs					19,137	--	19,137
Interest and other					23,746	58,180	81,926
Special items - purchased land lease rights					(4,000)	--	(4,000)
Transfers					104,519	(104,519)	--
Total general revenues and transfers					545,815	(46,339)	499,476
Change in net assets					42,545	82,000	124,545
Beginning net assets					1,204,892	2,074,704	3,279,596
Ending net assets					$ 1,247,437	2,156,704	3,404,141

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

(In thousands)

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

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

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

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

(In thousands)

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

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

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

For the Year Ended September 30, 2002

(In thousands)

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

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

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

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

(Continued)

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

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

(In thousands)

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

a -- Reporting Entity

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

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

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

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

b -- GASB Statement No. 34 and Related Statements

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

The new reporting model includes the following:

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

The City reports the following major governmental fund:

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

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

The City reports the following major enterprise funds:

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

Water and Wastewater Fund: Accounts for the activities of the City-owned water and wastewater utility.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

> Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, including grant funds.
>
> Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt and HUD Section 108 loan principal, interest and related costs.
>
> Capital Projects Funds account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds and private purpose funds) and funded primarily by general obligation debt, other tax supported debt, interest income and other intergovernmental revenues. A 1981 ordinance requires the establishment of a separate fund for each bond proposition approved in each bond election.
>
> Permanent Funds account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the City's programs. Permanent funds account for the public recreation and culture activity.

The City reports the following proprietary and fiduciary funds:

> Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The City has elected to follow GASB statements issued after November 30, 1989, rather than statements issued by the Financial Accounting Standards Board (FASB), in accordance with GASB Statement No. 20. The nonmajor enterprise funds account for the operations in a variety of areas: convention center, drainage, golf, hospital, recreation activities, primary care clinics, solid waste and transportation.
>
> Internal Service Funds account for the financing of goods or services provided by one City department or agency to other City departments or agencies or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, capital projects management, employee health benefits, fleet services, information services, liability reserve (city-wide self insurance) services, supportive services, wireless communication services and workers' compensation coverage.
>
> Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governments:
>
>> Private-purpose trust funds account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments. Private-purpose trust funds account for various purposes: general government, transportation, public recreation and culture and urban growth management.
>>
>> Agency funds account for net assets held on behalf of others and are purely custodial (assets equal liabilities).

d -- Budget

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

e -- Financial Statement Elements

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

(1) Includes internal service funds

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

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

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

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

f -- Comparative Data

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

g -- Use of Estimates

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

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

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

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

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

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

4 – POOLED INVESTMENTS AND CASH

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

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

5 – INVESTMENTS AND DEPOSITS

a -- Investments

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

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

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

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

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

b -- Deposits

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

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

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

6 – PROPERTY TAXES

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

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

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

6 – PROPERTY TAXES, continued

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

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

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

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

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

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Components of capital assets (in thousands):

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

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

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

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

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

(1) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Activities

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

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

(1) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Activities

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

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

(1) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Activities

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

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

(1) Components of accumulated depreciation increases:

Current year depreciation	$ 16,210
	$ 16,210

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Activities

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

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

(1) Components of accumulated depreciation increases:

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

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

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

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

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

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

8 – RETIREMENT PLANS

a -- Description

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

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

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

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

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

8 – RETIREMENT PLANS, continued

b -- Funding Policy

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

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

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

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

c-- Annual Pension Cost and Net Pension Obligation

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

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

8 – RETIREMENT PLANS, continued

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

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

d -- Trend Information (Unaudited)

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

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

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

9 – SELECTED REVENUES

a -- Major enterprise funds

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

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

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

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

b – Nonmajor enterprise funds

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

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

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

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

9 – SELECTED REVENUES, continued

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

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

10 – DEBT AND NON-DEBT LIABILITIES

a – Short-Term Debt

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

b – Long-Term Liabilities

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

(continued)

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

c – Governmental Activities Long-Term Liabilities

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

d – Business-Type Activities Long-Term Liabilities

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

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

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

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

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

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements (in thousands)

Governmental Activities

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Electric Business-Type Activities

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Water and Wastewater Business-Type Activities

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

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

(continued)

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Water and Wastewater Business-Type Activities

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Airport Business-Type Activities

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Nonmajor Business-Type Activities

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Business-Type Activities

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

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

(continued)

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e – Debt Service Requirements, continued (in thousands)

Business-Type Activities

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

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

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

11 – CONDUIT DEBT

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

The City has issued various facility revenue bonds to provide for facilities located at the airport and convention center. These bonds are special limited obligations, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The original issues totaled $367.4 million, with $364.4 million outstanding at September 30, 2002.

The above bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2002, are as follows (in thousands):

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

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

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

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

12 – INTERFUND BALANCES AND TRANSFERS, continued

Interfund operating transfers are authorized through City Council approval. Significant transfers include the Electric and Water and Wastewater transfers to the General Fund, which are comparable to a return on investment to owners. The transfers above include a nonroutine transfer from the Hospital Fund of $33 million to establish a public health reserve in the General Fund.

13 – SEGMENT INFORMATION

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

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

14 – PARTICIPATION AGREEMENTS

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

a -- Fayette Power Project

Austin Energy's coal-fired electric generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the Lower Colorado River Authority (LCRA, Project Manager). Austin Energy has an undivided 50 percent interest in Units 1 and 2, and LCRA wholly owns Unit 3. Austin Energy's investment is financed with City funds, and its pro-rata share of operations is recorded as if wholly owned. Austin Energy's equity in FPP was $23.7 and $19.3 million as of September 30, 2002 and 2001, respectively. The increase in equity indicates that the FPP is accumulating additional financial resources. The equity interest in the FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within the City's financial statements.

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

A management committee of four members governs the Project; each participant administratively appoints two members. As managing partner, LCRA is responsible for the operation of the Project and appoints Project management.

b -- South Texas Project

Austin Energy is one of four participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Reliant Energy, formerly known as Houston Lighting and Power Company, Central Power and Light Company and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2002 Austin Energy's investment in the STP was approximately $637 million, net of accumulated depreciation.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated and the STP Nuclear Operating Company (STPNOC), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. Each participant is responsible for its own funding for STP. The City's portion is financed through operations, revenue bonds or commercial paper, which are repaid by the Electric Fund (see Note 10). In addition, each participant has the obligation to finance any deficits that may occur.

Each participant appoints one member to the board of directors of STPNOC, as well as one other member to the owner's committee. A member of the owner's committee may serve on the board of directors in the absence of a board member. The City's portion of STP is classified as plant in service, construction in progress and nuclear fuel inventory. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

14 – PARTICIPATION AGREEMENTS, continued

c -- South Texas Project Decommissioning

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant operating license submit information to the NRC indicating the minimum funding required to decommission the plant. In addition, reasonable assurance must be demonstrated that sufficient funds are being accumulated to provide the minimum requirement for decommissioning. This amount must be adjusted annually as required by the NRC. At September 30, 2002 and 2001, the City had funded its share of the estimated decommissioning liability as follows:

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

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

d -- Sandhill Power Project

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

e -- Municipal Utility Districts

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

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

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

15 – LITIGATION

a -- Water and Wastewater Litigation

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

15 – LITIGATION, continued

b -- Other Litigation

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2002. These liabilities include amounts for lawsuits settled subsequent to year-end, which is reported in the government-wide statement of net assets.

16 – COMMITMENTS AND CONTINGENCIES

a -- Certificates of Participation

The City has entered into several capital lease arrangements through the issuance of Certificates of Participation as follows:

$23,060,000 Certificates of Participation, City of Austin, Texas Electric Utility Office Project, Series 1987

$14,000,000 Certificates of Participation, City of Austin, Texas Water and Wastewater Utility Office Project, Series 1987

The certificates represent proportionate interests in lease payments to be made by the City to a third-party lessor. The City has title to the office projects, pursuant to general warranty deeds; however, the trustee maintains a vendor's lien and superior title to the properties until all sums due are paid in full.

The City's obligations under the lease agreements are subject to and dependent upon annual appropriations by the City Council and do not obligate the City to levy or pledge any form of taxation. Thus, the certificates are treated as capital lease obligations rather than as long-term bonds and are recorded as a liability in the respective utility's funds.

The following table presents information regarding these certificates:

Description	Electric Fund Office Project (1)	Water and Wastewater Fund Office Project (1)
Date issued	February 1987	August 1987
Amount issued	$23,060,000	$14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and September 15	May 15 and November 15
Maturity dates	September 15 1988 - 2007	November 15 1989 - 2007
Present value of lease payments	$8,670,000	$6,600,000
Reserve Fund (2)	$ 2,000,000	$1,250,000

(1) Subject to mandatory redemption upon the occurrence of certain events.
(2) Held by trustee, to be used to make final payments.

b -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and State grant programs, financed primarily by the U.S. Housing and Urban Development (HUD) Department, U.S. Health and Human Services (HHS) Department, and U.S. Department of Transportation (DOT). The City's programs are subject to program compliance audits by the granting agencies. Management believes that no material liability will arise from any such audits. In 2002, the City was required to repay HUD $1.25 million, with payments due in 2002 and 2003. At September 30, 2002, the City owed HUD $500,000, as reported in the statement of net assets.

16 – COMMITMENTS AND CONTINGENCIES, continued

c -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate funds to the federal government. The estimated amounts payable at September 30, 2002 are as follows (in thousands):

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

d -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* (Capital Budget) that is an anticipated spending plan for projects in the upcoming and future years. The City's 2003 Capital Budget includes new appropriations of $369.1 million for the City's enterprise funds and $105.9 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

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

Project	Spent-to-Date	Remaining Commitment
Governmental activities:		
Parks development and improvements	$ 116,219	59,448
Street and bridge reconstructions	85,829	37,471
Transportation improvements	282,689	152,885
Other governmental	143,290	45,601
Business-type activities:		
Electric system improvements	1,005,644	233,694
Water and wastewater system improvements and annexations	1,087,085	547,478
Airport improvements	73,723	152,287
Nonmajor enterprise	234,477	86,921
Total	$ 3,028,956	1,315,785

e -- Operating lease with Daughters of Charity Health Services of Austin

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton"). Under the terms of the lease, Seton will operate City-owned Brackenridge Hospital and will provide all necessary medical services for residents of Austin regardless of their ability to pay. The City will reimburse Seton for services provided through three programs. Under the Charity Care Program, the City will reimburse Seton a maximum of $5.6 million annually for providing medical care to the medically indigent; provided however, that Seton must first provide charity care in the amount of 4% of net revenues as required by State law. Under the Medical Assistance Program (MAP), the City paid Seton approximately $8.6 million in fiscal year 2002 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately $5.5 million during fiscal year 2002 for providing physician services to patients in the first two programs. The amounts for MAP and Physician Services Programs will be adjusted annually for the next three years.

16 – COMMITMENTS AND CONTINGENCIES, continued

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

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

f -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports in the Solid Waste Services Fund, a nonmajor enterprise fund, a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The $7.2 million reported as accrued landfill closure and postclosure costs at September 30, 2002, represents the cumulative amount reported to date based on the use of 79.2% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.9 million as the remaining estimated capacity is filled over the next ten years. The total estimated costs of $9.1 million include costs of closure in 2012 of $2.4 million and postclosure costs over the subsequent thirty years of $6.7 million. These amounts are based on what it would cost to perform all closure and postclosure care in 2002. Actual costs may be higher due to inflation, changes in technology or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

g -- Risk-Related Contingencies

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

Fund name	Description
Employee Benefits	City employees and retirees may choose between a self-insured PPO or an HMO. Approximately 18% of City employees and 37% of retirees use the HMO option; approximately 82% of City employees and 63% of retirees use the PPO, which is self-insured. Costs are charged to City funds through a charge per employee per pay period.
Liability Reserve	Self-insured. Includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	Self-insured. Premiums are charged to other City funds each year based on historical costs.

The City purchases stop loss insurance for the City's PPO. This stop loss insurance covers individual claims that exceed $500,000 per calendar year in calendar year 2002 and $150,000 per calendar year prior to calendar year 2002, up to a maximum of $1 million. During fiscal year 2002, no claims exceeded the increased stop loss limit of $500,000. During fiscal year 2001, two claims exceeded the stop loss limit of $150,000; and four claims exceeded the stop loss limit in fiscal year 2000. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

16 – COMMITMENTS AND CONTINGENCIES, continued

The City is self-insured for much of its risk exposure; however, the City purchases commercial insurance coverage for loss or damage to real property, theft and other criminal acts committed by employees, and third party liability associated with the airport, owned aircraft, and electric utility operations. Due to the tragic event of September 11th, significant reductions in insurance coverage have occurred. Deductibles and self-insured retention amounts have increased and terrorism and flood coverage provisions have been reduced or eliminated. There have been no claims settlements in excess of the insurance coverage that has been procured. The City also purchases a broad range of insurance coverage through a program that provides workers' compensation, employer's liability and third party liability coverage to contractors working on designated capital improvement project sites.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund; liabilities for the Liability Reserve Fund and Workers' Compensation Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 2002. The possible range of loss is $33.3 to $52.6 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

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

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

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

h -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Seaholm Power Plant. The financial statements include a current liability of $3.4 million at September 30, 2002. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2003.

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

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

i -- Downtown Development Projects

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

16 – COMMITMENTS AND CONTINGENCIES, continued

j -- Enron Bankruptcy

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

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

k -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2002 was $19.8 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

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

The following summarizes utility assets recorded at September 30, 2002, under capital lease obligations (in thousands):

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

17 – OTHER POST-EMPLOYMENT BENEFITS

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

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

17 – OTHER POST-EMPLOYMENT BENEFITS, continued

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

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

Years of Service	Retiree only	Dependent only
Less than 5 years	5% - 20%	1% - 18%
5 to 9 years	14% - 28%	4% - 24%
10 to 14 years	32% - 43%	15% - 38%
15 to 20 years	50% - 58%	26% - 54%
Greater than 20 years	77% - 81%	43% - 77%

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

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits Fund. The cost of providing these benefits for 2,135 retirees and 9,928 active employees in 2002 and 2,090 retirees and 9,713 active employees in 2001 is not separable and cannot be reasonably estimated. Total payments to the Employee Benefits Fund for retirees and active employees were $50 million in 2002 and $39 million in 2001.

As more fully described in Note 14, the City is a participant in the South Texas Project Nuclear Operating Company (STPNOC) and as such is liable for certain post-employment benefits for STPNOC employees. At December 31, 2001, the City's portion of this obligation, $3,151,826, is not reflected in the financial statements of the Electric Fund.

18 – SUBSEQUENT EVENTS

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

APPENDIX C

SELECTED DEFINITIONS

Additional Bonds - the additional parity hotel occupancy tax revenue bonds permitted to be issued by the City pursuant to Section 5.01 of the Ordinance.

Bond Act - Vernon's Texas Codes Annotated, Government Code, Chapter 1207, as amended.

Bond Year - the period of time that commences on the day following the interest payment date on the Parity Bonds occurring in November of any year and ending on the interest payment date on the Parity Bonds occurring in November of the following year.

Bonds - the City of Austin, Texas, Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004, authorized by the Ordinance.

City - the City of Austin, Texas, and, where appropriate, the City Council thereof, or any successor thereto.

Debt Service Fund - the Fund so designated in Article Four of the Ordinance.

Debt Service Requirements - for any particular Bond Year, an amount equal to the sum of the principal of and interest and any redemption premium on the Bonds then Outstanding which will become due and owing during such Bond Year.

Debt Service Reserve Fund - the Fund so designated in Article Four of the Ordinance.

Debt Service Reserve Fund Surety Bond - any surety bond, insurance policy, letter of credit or other guaranty issued to the City for the benefit of the Holders of the Parity Bonds to satisfy any part of the Reserve Fund Requirement as provided in Section 4.06 of the Ordinance.

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

Hotel Occupancy Tax - the tax, levied by the City pursuant to the Tax Act, on the cost of occupancy of any sleeping room furnished by any hotel located within the corporate limits of the City, in which the cost of occupancy is $2.00 or more a day, which tax is currently levied at a rate of 7% of the consideration paid by the occupant of the sleeping room to the hotel.

Legal Holiday - a day on which a Paying Agent/Registrar for the Bonds is authorized by law to close.

Ordinance - the Ordinance No. 040212-45 and all amendments and supplements thereto.

Outstanding - when used with reference to any Parity Bonds or Subordinate Lien Bonds means, as of a particular date, all Parity Bonds or Subordinate Lien Bonds, or both, theretofore and thereupon delivered except: (a) any such Parity Bond and Subordinate Lien Bond paid, discharged or canceled by or on behalf of the City at or before said date; (b) any such Parity Bond and Subordinate Lien Bond defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such Parity Bond or Subordinate Lien Bonds in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinances authorizing the issuance of such Parity Bonds or Subordinate Lien Bonds.

Owner or Holder - when used with respect to any Bond shall mean the person or entity in whose name such Bond is registered in the Security Register. Any reference to a particular percentage or proportion of the owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then Outstanding under the Ordinance.

Parity Bonds - the Previously Issued Bonds, the Bonds and each series of Additional Bonds from time to time hereafter issued pursuant to Section 5.01 of the Ordinance.

Paying Agent/Registrar - with respect to the Bonds, JPMorgan Chase Bank, and its successors in that capacity.

Pledged Hotel Occupancy Tax Revenues - that portion of the revenues derived by the City from the Hotel Occupancy Tax which is equal to at least 4.5% of the consideration paid by occupants of sleeping rooms furnished by hotels located within the corporate limits of the City, in which the cost of occupancy is $2.00 or more a day.

Pledged Revenues - collectively, (i) the Pledged Hotel Occupancy Tax Revenues, (ii) interest and other income realized from the investment of amounts on deposit in the funds and accounts to be maintained pursuant to Article Four of the Ordinance to the extent such interest and other income are required to be transferred or credited to the Tax Fund, and (iii) any additional revenue, receipts or income hereafter pledged to the Parity Bonds in accordance with Section 8.02 of the Ordinance.

Previously Issued Bonds - the outstanding "City of Austin, Texas, Hotel Occupancy Tax Revenue Taxable Refunding Bonds, Series 1999", dated June 15, 1999, originally issued in the principal amount of $6,445,000.

Reimbursement Obligation - any obligation entered into by the City in connection with any Subordinate Lien Bonds pursuant to which the City obligates itself to reimburse a bank, insurer, surety or other entity for amounts paid or advanced by such party pursuant to a letter of credit, line of credit, standby bond purchase agreement, credit facility, liquidity, facility, insurance policy, surety bond or other similar credit agreement, guaranty or liquidity agreement to secure any portion of principal of, interest on or purchase price of any Subordinate Lien Bonds or reserves in connection therewith or otherwise relating to any Variable Rate Obligation. Reimbursement obligations may be payable from and secured by a lien on Pledged Revenues which must be junior and subordinate to the lien securing the Parity Bonds but may be on a parity with the lien on Pledged Revenues securing the Subordinate Lien Bonds.

Reserve Fund Requirement - the amount required to be maintained in the Debt Service Reserve Fund. Such amount shall be recomputed upon the issuance of each series of Additional Bonds to be the lesser of (i) 10% of the principal amount or (ii) the maximum annual Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Parity Bonds then Outstanding, including the series of Additional Bonds then being issued or (iii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of Section 148 of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder. Upon issuance of the Bonds, the Reserve Fund Requirement shall be $5,576,625.

Security Register - the books of registration kept by the Paying Agent/Registrar in which are maintained the names and addresses of and the principal amounts registered to each Owner.

Subordinate Lien Bonds - the City of Austin, Texas, Hotel Occupancy Tax Subordinate Lien Revenue Bonds, Series 1999, dated September 1, 1999, issued in the original principally amount of $110,000,000 and obligations hereafter issued on a parity therewith.

Tax Act - Vernon's Texas Codes Annotated, Tax Code, Chapter 351, as amended.

Tax Fund - the Fund so designated pursuant to Article Four of the Ordinance.

Transfer Date - each February 14, May 14, August 14, and November 14, beginning May 14, 2004.

Transfer Period - the period of time beginning on any Transfer Date and ending on the day immediately preceding the next succeeding Transfer Date.

Variable Rate Obligations - any series of Subordinate Lien Bonds, (i) the payment of principal of which is either (a) payable on demand by or at the option of the holder at a time sooner than a date on which such principal is scheduled for payment, or (b) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term through the issuance of additional Variable Rate Obligations pursuant to a commercial paper or other similar financing program and (ii) the purchase price, payment or refinancing of which is additionally secured by a letter of credit, line of credit, standby purchase agreement, bond insurance, surety bond or other credit or liquidity facility which does not impose a reimbursement obligation payable over a period shorter than three years.

APPENDIX D

FORM OF BOND COUNSEL OPINION

Fulbright & Jaworski L.L.P.
A Registered Limited Liability Partnership
2200 Ross Avenue, Suite 2800
Dallas, Texas 75201-2784
www.fulbright.com

telephone (214) 855-8000 facsimile: (214) 855-8200

WE HAVE ACTED as Bond Counsel in connection with the issuance by City of Austin, Texas (the "City") of the "City of Austin, Texas Hotel Occupancy Tax Revenue Refunding Bonds, Series 2004" (the "Bonds") in the aggregate principal amount of $52,715,000, dated February 1, 2004, solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the City's outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of $5,000 or any integral multiple thereof within a maturity. The Bonds mature on November 15 in each of the years 2007 through 2019, unless redeemed in accordance with applicable redemption provisions. Interest accrues on the Bonds from their date at the rates per annum stated in the ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), and such accrued interest is payable on May 15 and November 15 in each year, commencing May 15, 2004, to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (identified in the Ordinance and the Certificates).

IN RENDERING THE OPINIONS herein we have examined and rely upon original or certified copies of the proceedings had in connection with the issuance of the Bonds, including the Ordinance, an Escrow Agreement (the "Escrow Agreement") between the City and JP Morgan Chase Bank (the "Escrow Agent"), a special report of The Arbitrage Group, Inc., Certified Public Accountants (the "Accountants") and an executed initial Bond; certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and to certain other facts within the knowledge and control of the City; and such other material and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

Based on our examination and the above assumption, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding, and enforceable special obligations of the City, payable solely from and, together with the Previously Issued Bonds, equally and ratably secured by a first lien on and pledge of the Pledged Revenues (as defined in the Ordinance), including the receipts from the collection of a Pledged Hotel Occupancy Tax (as defined in the Ordinance) in the manner and as provided in the Ordinance, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a trust clearing account with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of V.T.C.A., Government Code, Chapter 1207. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes. Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust, or a financial asset securitization investment trust) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with subchapter "C" earnings and profits, owners of interests in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

EHE:dfc

APPENDIX E

SUMMARY OF BONDS REFUNDED

Bond Series	Maturity Date	Coupon	Par Amount	Call Date	Call Price
Hotel Occupancy Tax Revenue Refunding Bonds, Series 1993A	11/15/2004	4.700%	$ 2,550,000	5/15/2004	100
	11/15/2005	4.750%	2,675,000	5/15/2004	100
	11/15/2006	4.800%	2,805,000	5/15/2004	100
	11/15/2007	4.900%	2,950,000	5/15/2004	100
	11/15/2008	5.000%	3,100,000	5/15/2004	100
	11/15/2009	5.000%	3,255,000	5/15/2004	100
	11/15/2014	5.125%	19,030,000	5/15/2004	100
	11/15/2019	5.125%	24,595,000	5/15/2004	100
Total Refunded Bonds			$ 60,960,000		

APPENDIX F

FORM OF SPECIMEN INSURANCE POLICY

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

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

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

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

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

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

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

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

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

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By _______________________ By _______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022
(212) 826-0100

Form 500NY (5/90)