OFFICIAL STATEMENT
Dated August 19, 2004

Ratings: Moody's: "Aaa/VMIG-1"
Standard & Poor's: "AAA/A-1+"
Fitch Ratings: "AAA/F1+"
(See "BOND INSURANCE" and "OTHER RELEVANT INFORMATION – Ratings.")

NEW ISSUE – Book-Entry-Only

Delivery of the Bonds is subject to the receipt of the opinion of Fulbright & Jaworski L.L.P., Austin, Texas, Bond Counsel, to the effect that, assuming continuing compliance by the City with certain covenants contained in the Seventh Supplement described herein and subject to the matters described under "Tax Exemption" herein, interest on the Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "Tax Exemption" herein, including the alternative minimum tax on corporations.

$132,475,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004

Dated Date: August 12, 2004 **Due: May 15, 2024**

The bonds offered hereby are the City of Austin, Texas (the "City") $132,475,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004 (the "Bonds"). The Bonds are the seventh series of "Parity Water/Wastewater Obligations" issued as bonds pursuant to the Master Ordinance (the "Master Ordinance") and are authorized and being issued in accordance with a supplemental ordinance (the "Seventh Supplement"). The Master Ordinance provides for the terms for the issuance of Parity Water/Wastewater Obligations and the covenants and security provisions related thereto. The City is also incurring additional Parity Water/Wastewater Obligations in connection with the issuance of the Bonds, specifically the City's obligations related to scheduled payments under the Series 2004 Interest Rate Swap Agreement, the Liquidity Facility and the insurance policies issued by Financial Security related to the Bonds, the Series 2004 Interest Rate Swap Agreement, and the Reserve Fund under the Master Ordinance, all as more fully described herein. The City also has outstanding its Prior First Lien Obligations and Prior Subordinate Lien Obligations, which are secured by joint and several pledges of the net revenues of both the City's Water and Wastewater System and its Electric Utility System. The Master Ordinance provides that no additional revenue obligations secured by joint and several pledges of the net revenues of the Water and Wastewater System and Electric Utility System such as Prior First Lien Obligations or Prior Subordinate Lien Obligations shall be issued. Commercial Paper Obligations having a combined pledge of Electric Utility System and Water and Wastewater System revenues may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from and, together with the other outstanding Parity Water/Wastewater Obligations, Previously Issued Prior Subordinate Lien Obligations and Previously Issued Separate Lien Obligations, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Water and Wastewater System as provided in the Master Ordinance and the Seventh Supplement. **Neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" herein.

The Bonds will initially bear interest at an initial rate to be established on or about August 26 and to be in effect during the Initial Rate Period, which shall commence on the date of their initial issuance and delivery and continue through (but not include) September 2, 2004. Thereafter, the Bonds will bear interest at a Weekly Rate and the interest rate on the Bonds will be adjusted on each Wednesday (or the immediately preceding Business Day if Wednesday is not a Business Day) of each week by J.P. Morgan Securities Inc., as the Remarketing Agent. The Bonds will continue to bear interest at a Weekly Rate unless, at the direction of the City and subject to the satisfaction of certain conditions precedent included in the Seventh Supplement, the interest rate on the Bonds is changed to another type of interest rate. **This Official Statement describes terms and provisions applicable to the Bonds only while they are in the Weekly Mode and Daily Mode. In the event of a conversion to another Mode, the Bonds will be subject to mandatory tender and potential purchasers of the converted Bonds will be provided with separate offering materials containing descriptions of the terms of the Bonds applicable to the Mode to which the Bonds are being converted.** The Bonds are subject to optional, extraordinary and mandatory redemption prior to maturity and to optional and mandatory tender, all as described herein. See "DESCRIPTION OF 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.

JPMorgan

The Bonds are issuable only in fully registered form in the denomination of $100,000 or any integral multiple of $5,000 in excess of $100,000, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. The Depository Trust Company (DTC) will act initially as Securities Depository of the Bonds, and individual purchasers of the Bonds will be made in book-entry form only. Principal of and interest on the Bonds will be payable by the Paying Agent named herein to the registered owners of the Bonds (as long as the book-entry only system is in effect and DTC is the Securities Depository, Cede & Co.). Subsequent disbursements of such principal and interest will be made to the individual purchases of beneficial interests in the Bonds. Interest on the Bonds during a Weekly Rate Period will be payable on the fifteenth day of each month (or the next succeeding Business Day if the fifteenth day is not a Business Day) commencing September 15, 2004. Principal at maturity or upon redemption will be payable upon presentation and surrender at the Designated Payment/Transfer Office of the Paying Agent, which is Deutsche Bank Trust Company Americas, New York, New York (the "Designated Payment/Transfer Office"). The purchase price of the Bonds upon optional or mandatory tender for purchase will be payable by the Tender Agent upon presentation and surrender of the Bonds at the designated tender office of the Tender Agent in New York, New York, (the "Tender Office") which shall be established and maintained in accordance with the Seventh Supplement. Notwithstanding the foregoing during any period in which the beneficial ownership of the bonds is determined by a book-entry at a security depository, the requirements in the Seventh Supplement for holding, registering, delivering exchanging or transferring the Bonds are deemed modified to confirm to the arrangements between the City and the securities depository.

Bondholders will (a) have the option to tender their Bonds for purchase at a price equal to the principal amount thereof, plus accrued interest, while in a Weekly Rate Period on seven days prior notice to the Tender Agent and at other times and subject to the conditions described herein, (b) be required to tender their Bonds for purchase upon conversion of the interest rate on the Bonds to any other interest rate Mode that is not a Weekly Mode or a Daily Mode, (c) be required to tender their Bonds for purchase upon the expiration or replacement of the Credit Facility or Liquidity Facility (described herein), and (d) be required to tender their Bonds for purchase under other circumstances described herein. All tenders are required to be made to the Tender Agent (the "Tender Agent"), initially Deutsche Bank Trust Company Americas. Tendered Bonds may be remarketed and remain outstanding. Bonds tendered for purchase will be paid, first from the proceeds of remarketing, if any, and second, from money furnished pursuant to a Standby Bond Purchase Agreement (the "Liquidity Facility") between the City and Landesbank Baden-Württemberg, acting through its New York Branch (the "Standby Purchaser"). **The Liquidity Facility does not constitute security or credit enhancement for the Bonds, but serves as a source of liquidity to pay the purchase price of Tendered Bonds. Under certain circumstances, the obligations of the Standby Purchaser to purchase Bonds may be terminated without notice in which case the Bonds will no longer be subject to tender for purchase. The City has no obligation to purchase tendered Bonds.** (See "STANDBY BOND PURCHASE AGREEMENT – Termination of Commitment Without Purchase.")

In connection with the issuance of the Bonds, the City has entered into an interest rate swap agreement with JPMorgan Chase Bank ("JPM"), in which the City agrees to pay a fixed interest rate of 3.657% to JPM and JPM agrees to pay a floating interest rate to the City (see "THE SWAP AGREEMENT").

Price: 100%

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinion of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. The opinion of Bond Counsel will be printed or attached to the Bonds. (See APPENDIX E "Form of Bond Counsel's Opinion"). Certain legal matters will be passed on for the Underwriter by Andrews Kurth LLP, Counsel to the Underwriter and for the Standby Purchaser by Kutak Rock LLP, counsel to the Standby Purchaser.

It is expected that the Bonds will be delivered through the facilities of DTC on or about August 27, 2004.

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CITY OF AUSTIN

Elected Officials

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

Appointed Officials

Toby Hammett Futrell	City Manager
Joe Canales	Deputy City Manager
Rudy Garza	Acting Assistant City Manager
John Stephens, CPA	Chief Financial Officer
Laura Huffman	Assistant City Manager
Vickie Schubert, CPA	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Brown	City Clerk

BOND COUNSEL
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

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

Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

The price and other terms representing the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the bonds into investment accounts. In connection with the offering and sale of the Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in open markets. Such stabilizing, if commenced, may be discontinued at any time.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

Neither the City, the Financial Advisor nor the Underwriter make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system, as such information has been furnished by the Depository Trust Company. 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 the 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.** See "OTHER RELEVANT INFORMATION – Forward-Looking Statements."

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OFFICIAL STATEMENT

CITY OF AUSTIN, TEXAS

$132,475,000

Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City" or the "Issuer") of its $132,475,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004 (the "Bonds"). The Bonds are authorized to be issued pursuant to authority conferred by the laws of the State of Texas, an ordinance adopted by the City Council on June 8, 2000 (the "Master Ordinance") providing the terms upon which Parity Water/Wastewater Obligations are to be issued and the covenant and security provisions related thereto, and a supplemental ordinance of the City Council adopted by the City Council on August 12, 2004 (the "Seventh Supplement") providing the specific terms of the Bonds. A summary of certain provisions of the Master Ordinance is attached hereto as APPENDIX C. **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance, the Seventh Supplement or the Bond Ordinance (hereafter defined), as applicable (see APPENDICES C and D)**. As noted under "Plan of Financing" below, the City is not permitted to issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations but must comply with the covenants contained in the bond ordinances authorizing the issuance of such obligations (collectively, the "Prior Lien Ordinance") while such obligations are outstanding. A summary of certain provisions of the Prior Lien Ordinance is attached hereto as APPENDIX D. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

PLAN OF FINANCING

Authorization and Purpose

The Bonds are being issued to refund $126,605,000 of the City's outstanding Combined Utility Systems Revenue Bonds issued for the Water and Wastewater System (the "Refunded Bonds"). See APPENDIX G for a listing of the Refunded Bonds. The refunding will result in debt service savings to the City. Proceeds of the Bonds will also be used to pay costs of issuance. The Bonds are the seventh series of Parity Water/Wastewater Obligations to be issued as bonds under the Master Ordinance. The City is also incurring additional Parity Water/Wastewater Obligations in connection with the issuance of the Bonds, specifically the City's obligations related to scheduled payments under the Series 2004 Interest Rate Swap Agreement, the Liquidity Facility and the insurance policies issued by Financial Security related to the Bonds, the Series 2004 Interest Rate Swap Agreement, and the Reserve Fund under the Master Ordinance, all as more fully described herein. The City has issued certain Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City's Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance no additional Prior First Lien Obligations or Prior Subordinate Lien Obligations may be issued. At such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all Water and Wastewater System revenue obligations then outstanding shall be Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations or obligations subordinate to the Parity Water/Wastewater Obligations then outstanding, and shall be payable only from and secured only by a lien on and pledge of the Net Revenues of the Water and Wastewater System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Water/Wastewater Obligations and contains covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while any such obligations remain outstanding.

The City has also issued revenue obligations secured solely by the net revenues of the Electric Utility System pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance. As noted under "Debt Payable from Systems Revenues" herein, approximately $1.182 billion of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of June 30, 2004 and no assurances can be given as to when or if such obligations will be defeased or paid so as to allow the Parity Water/Wastewater Obligations (including the Bonds) to be first lien obligations of the Net Revenues of the Water and Wastewater System.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Deutsche Bank Trust Company Americas, New York, New York (the "Escrow Agent"). The

Seventh Supplement provides that the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded 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") to be held in the Escrow Fund. 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 Underwriter the mathematical accuracy of the schedules that demonstrate that 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 effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Government Code, as amended, and the ordinances authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Bonds will no longer be payable from or secured by the Net Revenues of the Water and Wastewater System but will be payable solely from the principal of and interest on the Federal Securities and cash held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and thus will not be included in or considered to be an obligation of the City for the purpose of a limitation on the issuance of revenue bonds or for any other purpose.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds of, or 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 estimated sources and uses of funds are as follows.

Sources:	
Par Amount of Bonds	$132,475,000.00
Total	$132,475,000.00
Uses:	
Deposit to Escrow Fund	$130,778,123.91
Underwriter's Discount	463,662.50
Cost of Issuance, including Insurance Premium	1,233,213.59
Total	$132,475,000.00

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OBLIGATIONS PAYABLE FROM SYSTEMS REVENUES
(As of June 30, 2004)

Combined Utility Systems Obligations	
Prior First Lien Obligations (a)	$ 929,104,134
Prior Subordinate Lien Obligations (a)	253,444,512
Sub-Total	$1,182,548,646
Parity Electric Utility Obligations	$ 542,135,000
Water & Wastewater System Separate Lien Obligations (b)	
Parity Water & Wastewater Obligations (c)	$ 787,535,000
Maple Run MUD	9,130,000
North Austin MUD No. 1	4,510,000
Sub-Total	$ 801,175,000
Commercial Paper (d)	$ 276,026,000
General Obligation Bonds (e)	$ 16,368,476
Assumed Bonds and Obligations	
Assumed District Bonds (f)	$ 11,132,034
Contract Tax Obligations (f)	145,000
Sub-Total	$ 11,277,034
TOTAL (g)	$2,829,530,156

(a) Excludes the Refunded Bonds. Also excludes Prior First Lien Bonds and Subordinate Lien Bonds being redeemed as a result of a cash defeasance with Reserve Fund monies. See "SECURITY FOR THE BONDS – Reserve Fund for Prior First Lien Bonds and Prior Subordinate Lien Bonds".

(b) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only.

(c) Includes the Bonds and the City's obligations related to the Series 2004 Interest Rate Swap Agreement, the FSA insurance policies and the Liquidity Facility.

(d) The City has a Tax-Exempt Commercial Paper Program in place for the Combined Utility Systems in an amount not to exceed $350,000,000 and a Taxable Commercial Paper Program for the Combined Utility Systems for $50,000,000. The Commercial Paper Notes and the reimbursement obligation to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Notes are payable from the Net Revenues of both the Electric Utility System and the Water and Wastewater System after providing for the payment of the Prior First Lien Bonds, the Prior Subordinate Lien Bonds, the Parity Electric Utility Obligations and the Water/Wastewater System Separate Lien Obligations. The City's current Financial Policy provides that Commercial Paper Note proceeds can only be utilized (i) for voter authorized projects (although such voter authorization is not required by State law), or (ii) to finance routine capital improvements required for normal business operation or improvements to comply with local, state and federal mandates without prior voter authorization. The Electric Utility System may utilize commercial paper for all improvements, excluding major generation needs.

(e) Contractual Obligations and Public Improvement Refunding Bonds are payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System.

(f) Such bonds are payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

(g) Does not include Certificates of Participation outstanding of $7,160,000 and $4,725,000 issued for subleases for space to house the administrative offices of the Electric Utility System and the Water and Wastewater System, respectively. The City has funded the required lease payments from the revenues of the respective utility systems, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenues of the Electric Utility System and the Water and Wastewater System are not specifically pledged in such subleases.

SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

The selected financial information below presents selected historical information related to the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the five years ended September 30, 2003 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – Excerpts From the Annual Financial Report.

Operating Summary

	(000's) Fiscal Year Ended September 30				
	2003	2002	2001	2000	1999
Combined Gross Revenues	$1,189,672	$1,022,988	$1,087,541	$1,070,558	$926,692
Combined Maintenance and Operating Expenses	663,651	513,780	561,097	516,441	429,926
Combined Net Revenues	$ 526,021	$ 509,208	$ 526,444	$ 554,117	$496,766
Principal and Interest on Revenue Bonds (1)	$ 173,010	$ 226,537	$ 234,412	$ 236,916	$231,711
Debt Service Coverage on Revenue Bonds (1)	3.04x	2.25x	2.25x	2.34x	2.14x

(1) Prior First Lien Obligations and Prior Subordinate Lien Obligations only.

Water and Wastewater System Only

The selected financial information below presents selected historical information related to the Water and Wastewater System of the City. The financial information for the five years ended September 30, 2003 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – Excerpts From the Annual Financial Report.

Operating Summary

	(000's) Fiscal Year Ended September 30				
	2003	2002	2001	2000	1999
Gross Revenues	$245,943	$239,177	$233,451	$249,950	$222,763
Maintenance and Operating Expenditures	109,416	112,340	102,412	96,366	87,012
Net Revenues	$136,527	$126,837	$131,039	$153,584	$135,751
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Bonds	$ 40,630	$ 59,256	$ 58,921	$ 61,863	$ 57,580
Net Revenues Available for Water and Wastewater System Separate Lien Obligations (1)	$ 95,897	$ 67,581	$ 72,118	$ 91,721	$ 78,171
Principal and Interest on Water and Wastewater Separate Lien Obligations	$ 36,819	$ 19,143	$ 12,406	$ 11,196	$ 11,196
Debt Service Coverage (Separate Lien Obligations)(2)	2.60x	3.53x	5.81x	8.19x	6.98x

(1) Represents only the portion of Prior First Lien Bonds and Prior Subordinate Lien Bonds allocated to the Water and Wastewater System.

(2) The Bonds and the City's obligations related to the Series 2004 Interest Rate Swap Agreement, the FSA insurance policies and the Liquidity Facility will be on a parity with the Previously Issued Separate Lien Obligations and the Previously Issued Parity Water/Wastewater Obligations. The Bonds, the Previously Issued Parity Water/Wastewater Obligations, the Previously Issued Separate Lien Obligations and any additional Parity Water/Wastewater Obligations issued under the Master Ordinance are "Separate Lien Obligations" under the ordinances authorizing the Prior First Lien Obligations and the Prior Subordinate Lien Obligations.

DEBT SERVICE REQUIREMENTS (a)

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds	Outstanding Subordinate Lien Bonds	Total Prior & Subordinate Lien Bond Requirements	The Bonds Principal	The Bonds Interest (b)	Electric Utility System Obligations	Water/Wastewater Separate Lien Obligations	Assumed Bonds & Obligations (c)	Total Separate Lien and Combined Utility Systems Requirements
2005	$ 120,113,206	$ 11,636,056	$ 131,749,263	$ 5,900,000	$ 3,389,689	$ 45,911,450	$ 67,010,450	$ 2,466,480	$ 256,427,331
2006	96,341,678	11,916,500	108,258,178	3,000,000	4,603,249	50,281,825	70,056,630	2,053,841	238,253,723
2007	129,928,191	14,325,160	144,253,351	7,000,000	4,449,655	40,293,375	61,375,183	1,071,855	258,443,419
2008	115,778,681	14,312,053	130,090,734	1,200,000	4,263,148	46,798,138	68,374,735	994,987	251,721,741
2009	133,508,636	15,447,071	148,955,708	-	4,219,264	46,071,219	61,000,132	906,295	261,152,617
2010	159,311,586	15,117,876	174,429,463	-	4,219,264	34,934,069	46,762,115	911,470	261,256,380
2011	155,358,456	15,912,755	171,271,211	830,000	4,219,264	35,192,350	38,179,026	914,612	250,606,464
2012	144,690,813	16,861,853	161,552,665	6,905,000	4,144,935	35,535,175	37,631,394	915,777	246,684,946
2013	102,468,819	17,129,078	119,597,896	6,265,000	3,901,196	65,485,675	49,539,501	930,072	245,719,341
2014	101,934,366	18,579,978	120,514,343	12,095,000	3,686,805	67,636,438	58,310,515	1,077,183	263,320,283
2015	49,591,038	30,478,963	80,070,000	12,945,000	3,242,936	55,531,550	52,809,275	1,078,343	205,677,104
2016	24,259,047	31,239,715	55,498,762	32,730,000	2,735,710	36,213,075	47,202,600	1,088,425	175,468,572
2017	59,910,466	21,563,885	81,474,351	5,955,000	1,587,595	36,201,263	47,096,550	947,019	173,261,777
2018	78,922,600	21,805,425	100,728,025	1,605,000	1,371,284	22,685,000	31,784,300	650,355	158,823,963
2019	49,694,853	21,129,813	70,824,666	505,000	1,312,772	22,734,625	31,777,425	-	127,154,487
2020	20,427,072	23,728,400	44,155,472	4,980,000	1,294,121	22,659,375	31,718,550	-	104,807,518
2021	15,165,959	23,806,325	38,972,284	6,785,000	1,112,642	22,748,000	31,658,800	-	101,276,727
2022	3,927,844	29,843,513	33,771,356	8,745,000	865,520	22,698,000	31,655,700	-	97,735,577
2023	6,187,656	28,853,025	35,040,681	7,370,000	547,179	22,709,500	31,790,200	-	97,457,560
2024	6,850,156	28,640,038	35,490,194	7,660,000	278,846	22,692,500	31,893,950	-	98,015,490
2025	1,571,703	25,298,938	26,870,641	-	-	22,842,500	31,838,075	-	81,551,216
2026	1,573,031	9,630,775	11,203,806	-	-	22,845,000	32,020,075	-	66,068,881
2027	-	10,046,013	10,046,013	-	-	22,900,000	31,642,325	-	64,588,338
2028	-	10,138,313	10,138,313	-	-	22,905,000	31,782,550	-	64,825,863
2029	-	-	-	-	-	22,860,000	31,337,550	-	54,197,550
2030	-	-	-	-	-	9,700,000	23,237,450	-	32,937,450
2031	-	-	-	-	-	9,737,500	15,471,750	-	25,209,250

(a) As of June 30, 2004.
(b) Calculated using Synthetic Fixed Rate of 3.657% to be paid by the City pursuant to the Series 2004 Interest Rate Swap Agreement. See "THE SWAP AGREEMENT".
(c) Includes Assumed MUD's and Contract Tax Obligations, each payable from City ad valorem taxes and additionally payable from surplus Net Revenues of the Water and Wastewater Utility System.

SECURITY FOR THE BONDS

Pledges of Net Revenues

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

Previously Issued Separate Lien Obligations and Parity Water/Wastewater Obligations . . . The Bonds are "Separate Lien Obligations" under the terms of the Prior Lien Ordinance, and represent the seventh series of Parity Water/Wastewater Obligations issued as bonds for the benefit of the City's Water and Wastewater System. The Master Ordinance and the Seventh Supplement pledge the Net Revenues of the Water and Wastewater System to the payment of the "Parity Water/Wastewater Obligations" (the Previously Issued Parity Water/Wastewater Obligations, the Bonds, and additional parity obligations issued and to be issued under the Master Ordinance). The Parity Water/Wastewater Obligations, together with the Previously Issued Separate Lien Obligations (as defined below) and Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water and Wastewater System, subject to the prior claim on and lien on the Net Revenues of the Water and Wastewater System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

Additionally, the Bonds and certain other Parity Water/Wastewater Obligations are, and future Parity Water/Wastewater Obligations may be, secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, the Reserve Fund and any special fund or funds created and maintained for the payment and security of the Parity Water/Wastewater Obligations pursuant to a Supplemental Ordinance and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Water/Wastewater Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance. See "Reserve Fund for Parity Water/Wastewater Obligations" below.

In addition, the City is also incurring additional Parity Water/Wastewater Obligations in connection with the issuance of the Bonds, specifically the City's obligations related to scheduled payments under the Series 2004 Interest Rate Swap Agreement, the Liquidity Facility and the insurance policies issued by Financial Security related to the Bonds, the Series 2004 Interest Rate Swap Agreement, and the Reserve Fund under the Master Ordinance, all as more fully described herein. Such additional Parity Water/Wastewater Obligations are secured by a lien on Net Revenues of the Water and Wastewater System on a parity with the Bonds.

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

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

Rate Covenant Required by Master Ordinance

In the Master Ordinance, the City has agreed to fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues in each Fiscal Year sufficient: (i) to pay all current Operating Expenses, (ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Water and Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding

Parity Water/Wastewater Obligations and Separate Lien Obligations or (y) an amount, when added to Other Available Water and Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Separate Lien Obligations, and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water and Wastewater System reasonably anticipated to be paid from Gross Revenues.

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

Reserve Fund for Parity Water/Wastewater Obligations

The Master Ordinance creates and establishes the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). Except as provided below with respect to Commercial Paper and certain Credit Agreements, the Reserve Fund shall be maintained for the benefit of the owners of the Parity Water/Wastewater Obligations. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. The Reserve Fund is not pledged or available for the Previously Issued Separate Lien Obligations or the Series 2004 Interest Rate Swap Agreement. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the related Parity Water/Wastewater Obligations as they become due or paying principal of and interest on the applicable Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund is required to be an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations (the "Required Reserve Amount"). The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. If the City is required to make a withdrawal from the Reserve Fund, the City shall promptly notify the issuer of a Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues; however, such reimbursement from Net Revenues shall be subject to the following paragraph and, dependent on the terms of the Credit Facility, may be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

In accordance with the provisions of the Master Ordinance and Supplements authorizing the issuance of the Previously Issued Parity Water/Wastewater Obligations, the amount currently on deposit in the Reserve Fund is $21,245,816 (the "Current Reserve"), which Current Reserve is funded in full with surety bonds issued by (i) MBIA Insurance Corporation in the amount of $3,649,128, (ii) Financial Security Assurance Inc. in the amount of $9,676,021, and (iii) AMBAC Assurance Corporation in the amount of $3,580,911, and (iv) MBIA in the amount of $4,339,756. By reason of the issuance of the Bonds, the City shall recalculate the Required Reserve Amount and provide for the difference, if any, between the Required Reserve Amount and the Current Reserve to be fully funded with a Credit Facility in the form of a surety bond issued by FSA.

In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of the Master Ordinance and any Supplement, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

As Parity Water/Wastewater Obligations secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Master Ordinance or a Supplement, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

The Reserve Fund shall not secure Parity Water/Wastewater Obligations issued in the form of commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplement. No deposits to the Reserve Fund shall be required with respect to the City's obligations under the Series 2004 Interest Rate Swap Agreement, the FSA insurance policies, or the Liquidity Facility. The Reserve Fund may not be used to pay the City's obligations with respect to the Series 2004 Interest Rate Swap Agreement.

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

A separate reserve fund has been established under the Prior Lien Ordinance for the benefit of the Prior First Lien Bonds and Prior Subordinate Lien Bonds. In 2002, the City obtained the consent of the holders of at least 51% of the principal amount and Maturity Amount of the outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations to amend the provisions of the Prior Lien Ordinance relating to the Reserve Fund to allow for the funding of all or a part of the Required Reserve with Financial Commitments (defined below) and change the amount required to be maintained in the Reserve Fund (the "Required Reserve") to an amount equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, as determined on (i) the date of the initial deposit of a Financial Commitment to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement, whichever date is the last to occur. The term "Financial Commitments" means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength rated in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by A.M. Best on the date the Financial Commitment is deposited to the credit of the Reserve Fund.

The amount on deposit to the credit of the Reserve Fund under the Prior Lien Ordinance as of June 1, 2004 is in excess of $106,790,325.15 (the Required Reserve) and is funded with cash, securities and a Financial Commitment in the amount of $30,000,000 issued by Financial Security Assurance Inc. The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior First Lien Obligations and Prior Subordinate Lien Obligations in a manner that reduces the principal amount and Maturity Amount of outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations. The City has received a commitment from Financial Security Assurance Inc. for an insurance policy or surety bond to be issued which will provide for the Required Reserve to be funded in full with one or more Financial Commitments, and on or about August 31, 2004, the City anticipates such Financial Commitments will be issued or delivered to the City for the Reserve Fund, and the City will cause the amount of cash and securities released from the Reserve Fund to be deposited to the credit of a special account or fund to fully pay, discharge and defease approximately $130,775,000 aggregate principal amount of outstanding Prior First Lien Obligations. Following the issuance or delivery of such Financial Commitment from Financial Security Assurance Inc. on or about August 31, 2004, the Required Reserve will be fully funded with one or more Financial Commitments.

Issuance of Additional Prior and Subordinate Lien Bonds Precluded

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

Separate Lien Obligations

In the Prior Lien Ordinance, the City has reserved the right to issue or incur, by contract or otherwise, Separate Lien Obligations payable solely from the net revenues of either the Electric Utility System or the Net Revenues of the Water and Wastewater System, but not both, on a parity with the lien and pledge securing the payment of the Prior Subordinate Lien Bonds as to the appropriate utility system. In the case of such obligations secured by Net Revenues of the Water and Wastewater System, such obligations are to be issued on parity with the Parity Water/Wastewater Obligations.

Issuance of Parity Water/Wastewater Obligations

Under the Master Ordinance, the City reserves the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if: (i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in the Master Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of the Master Ordinance and any Supplement contain the amount then required to be therein or the proceeds of sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts; and (ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water and Wastewater System, after deducting amounts expended from the Water and Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water and Wastewater Revenues, are equal to 1.25 times the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations to be Outstanding, after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations. The Bonds are being issued and the City's obligations related to the Series 2004 Interest Rate Swap Agreement, the FSA insurance policies and the Liquidity Facility are being incurred in satisfaction of the requirements described in this paragraph.

For purposes of the Accountant's certification or opinion noted in (ii) above, if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the aforesaid certificate, report or opinion of the Accountant shall give effect to the issuance of the proposed refunding Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded).

In making a determination of Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water and Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water and Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion. There has been no such change in rates since November 1, 2003.

Short-Term Parity Water/Wastewater Obligations

Pursuant to the Master Ordinance the City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of satisfying the Net Revenues coverage test for additional Parity Water/Wastewater Obligations, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, are to be contained in a Supplement relating to their issuance.

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and, subject to obtaining the consent of the Credit Providers of the Credit Agreements for the Commercial Paper, Subordinated Debt may be incurred by the City without limitation.

Credit Agreements

Under the Master Ordinance, payments to be made under a Credit Agreement may be treated as Parity Water and Wastewater Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Water and Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water and Wastewater Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City. The Series 2004 Interest Rate Swap Agreement (other than termination payments thereunder), the Liquidity Facility, and the Insurance Agreements related to the FSA Water/Wastewater Reserve Policy, the policy related to the Series 2004 Interest Rate Swap Agreement and the policy related to the Bonds are Credit Agreements within the meaning of the Master Ordinance and the City's obligations thereunder are Parity Water and Wastewater Obligations.

System Fund

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

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

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

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding and (iii) the special Funds and Accounts for the payment of the Parity Water/Wastewater Obligations.

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

FIFTH: To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water and Wastewater System Surplus Revenue Account.

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

System Surplus Revenue Account

At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water and Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water and Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water and Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water and Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water and Wastewater Funds." The amount so designated as "Other Available Water and Wastewater Funds" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

BOND INSURANCE

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

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

Financial Security Assurance Inc.

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

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

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

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

DESCRIPTION OF THE BONDS

The Bonds will be issued in the aggregate amount of $132,475,000 and will mature on May 15, 2024 (the "Maturity Date") subject to prior redemption. The Bonds shall bear interest as described below.

General

Authorized Denominations. Initially, the Bonds will be issued in denominations of $100,000 and integral multiples of $5,000 in excess thereof. The authorized denominations are subject to change if the Interest Rate Mode is converted to other than the Weekly Mode or the Daily Mode.

Calculation of Interest. Interest on the Bonds in the Weekly Mode or the Daily Mode will be calculated on the basis of a 365-day or 366-day year, as applicable, for the actual number of days elapsed at the applicable Weekly Rate or Daily Rate. Initially the Bonds are issued at the Weekly Rate; provided, that from the date of issuance of the Bonds to, but not including Thursday, September 2, 2004, the Bonds will bear interest at a per annum rate to be established on or about August 26, 2004. The interest rate for the Bonds in the Daily Mode or Weekly Mode is to be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the Bonds in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to the principal amount thereof, plus interest, if any accrued through the Rate Determination Date during the then current Interest Accrual Period. Initially, the Rate Determination Date for Bonds in the Weekly Mode is each Wednesday, or the immediately preceding Business Day if Wednesday is not a Business Day. If the Bonds are converted from a Weekly Mode to a Daily Mode, each Business Day will be a Rate Determination Date.

The Remarketing Agent is required to establish each Weekly Rate by 4:30 p.m., New York City time, and each Daily Rate by 9:30 a.m., New York City time, on the applicable Rate Determination Date, and to make the new rate available by telephone or other means specified in the Seventh Supplement to the City, the Paying Agent/Registrar and to any Holder requesting such rate. If the Remarketing Agent fails for any reason to determine the Weekly Rate or the Daily Rate, then such Bonds shall bear interest during each subsequent Interest Period at the Alternate Rate in effect on the first day of such Interest Period.

In no circumstances, may interest on the Bonds (other than Bonds held by the Standby Purchaser or its assignees) exceed the lesser of (a) 12% or (b) the maximum lawful nonusurious interest rate allowed by applicable law.

Interest Payment Method. Other than as provided in the Seventh Supplement with respect to the Bonds held in the Book-Entry System, interest is to be paid with respect to Bonds in the Weekly Mode or the Daily Mode to each Holder at the address shown in the Registrar on the applicable Record Date (i) by federal funds by wire transfer by the Paying Agent/Registrar to any account within the continental United States upon written instruction from the Holder of at least $1,000,000 in principal amount of Bonds,

(ii) by check dated the Interest Payment Date and mailed by first class mail, postage prepaid, by the Paying Agent/Registrar, or (iii) by such other customary banking arrangement acceptable to the Paying Agent/Registrar at the request of and at the risk and expense of the Holder.

Record Date for Interest Payment. The record date ("Record Date") for the interest payable on any interest payment date on Bonds bearing interest at a Weekly Rate or Daily Rate, means the Business Day immediately preceding the interest payment date.

Interest Payment Dates. Interest on the Bonds in the Weekly Mode or the Daily Mode is to be paid on the 15th day of each month commencing September 15, 2004, in an amount equal to the interest accrued during the Interest Accrual Period preceding the applicable Interest Payment Date. If such date is not a Business Day, such interest will be paid on the next Business Day.

Paying Agent/Registrar. Deutsche Bank Trust Company Americas will serve as Paying Agent/Registrar and may resign at any time and may be replaced in accordance with the Seventh Supplement; provided, however, that any such resignation shall not take effect until a successor is appointed. The address of Deutsche Bank Trust Company Americas for purposes of its duties as Paying Agent/Registrar is 60 Wall Street, 27th Floor, Mail Stop NYC60-2715, New York, New York 10005

Tender Agent. Deutsche Bank Trust Company Americas will serve as initial Tender Agent for the Bonds and may resign at any time and may be replaced in accordance with the Seventh Supplement; provided, however, that any such resignation shall not take effect until a successor is appointed. All notices and Bonds required to be delivered to the Tender Agent shall be delivered by mail delivery/overnight mail to: Deutsche Bank Trust Company Americas (the "Tender Agent"), 60 Wall Street, 27th Floor, Mail Stop NYC60-2715, New York, New York 10005.

Remarketing Agent. J.P. Morgan Securities Inc. has been appointed to serve as the initial remarking agent (the "Remarketing Agent") for the Bonds. J.P. Morgan Securities Inc. may resign or be removed as Remarketing Agent and a successor may be appointed in accordance with the Seventh Supplement. The office of J.P. Morgan Securities Inc. for purposes of its duties as Remarketing Agent is 270 Park Avenue, 6th Floor, New York NY 10017 phone (212) 834-7175.

Interest Rate Modes; Conversion

The Seventh Supplement permits the City, by complying with certain conditions, to convert the interest rate on the Bonds from a Weekly Rate to another interest rate, including a Daily Rate or a different form of adjustable rate, or a rate that is fixed to the maturity of the Bonds. If Bonds are converted from a Weekly Mode to a Daily Mode or from a Daily Mode to a Weekly Mode, Holders will receive notice of such conversion at least 15 days prior to the Mode Change Date. Holders of Bonds are not required to tender their Bonds in connection with a change between a Weekly Mode and a Daily Mode. During each Weekly Mode and Daily Mode, Holders retain their rights, subject to the conditions described herein under the caption "TENDER PROVISIONS – Optional Tender" to tender their Bonds for purchase at a price of the principal amount thereof plus unpaid accrued interest to the tender date.

Upon conversion of the Bonds to any Mode other than a Daily Mode or Weekly Mode, Holders will be required to tender their Bonds for purchase of the principal amount thereof plus unpaid accrued interest to the tender date, as described under the caption "TENDER PROVISIONS – Mandatory Tenders." Holders will not have the option to retain Bonds that are required to be tendered due to such a Mode change.

This Official Statement describes terms and provisions applicable to the Bonds only while they are in the Weekly Mode and Daily Mode. In the event of a conversion to another Mode, the Bonds will be subject to mandatory tender. The converted Bonds would be remarketed and potential purchasers of those converted Bonds will be provided with separate offering materials containing descriptions of the terms of the Bonds applicable to the Bonds in the Mode to which the Bonds are being converted.

Tender Provisions

In order to provide for the payment of the purchase price of tendered Bonds, the City has entered into a Standby Bond Purchase Agreement (the "Liquidity Facility"), with Landesbank Baden-Württemberg, acting through its New York Branch (the "Standby Purchaser"). Subject to the conditions set forth in the Liquidity Facility, during the term of the Liquidity Facility the Standby Purchaser has agreed to purchase Bonds which are tendered to the Tender Agent pursuant to the Seventh Supplement, but not remarketed by the Remarketing Agent, at a purchase price equal to 100% of the principal amount plus interest accrued thereon to the date of tender (the "Purchase Price"). See "STANDBY BOND PURCHASE AGREEMENT." The Bonds are not subject to optional or mandatory tender for purchase if the Standby Purchaser is not obligated to purchase Bonds under the Liquidity Facility.

THE OBLIGATION OF THE STANDBY PURCHASER TO PURCHASE TENDERED BONDS MAY BE TERMINATED WITHOUT NOTICE. SEE "STANDBY BOND PURCHASE AGREEMENT – Events of Default Permitting Immediate Suspension or Termination."

Optional Tender. While the Standby Purchaser is obligated to purchase Bonds pursuant to the Liquidity Facility and the Bonds bear interest at a Weekly Rate or Daily Rate, the Holders of the Bonds may tender their Bonds to the Tender Agent for purchase at the Purchase Price as summarized below in the table under the caption "Summary of Certain Provisions of the Bonds."

Payment of the Purchase Price of Bonds to be purchased upon optional tender as described herein will be made by the Tender Agent at its designated office or by bank wire transfer in immediately available funds, but solely from and to the extent of the funds described below under "Remarketing and Purchase."

Interest on any Bond that the registered owner thereof has elected to tender for purchase and that is not tendered on the tender date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the tender date. The Holder of such untendered Bond will not be entitled to any payment other than the Purchase Price for such Bond, and such untendered Bond will no longer be outstanding or entitled to the benefits of the Seventh Supplement, except for payment of the Purchase Price from money held by the Tender Agent for such payment. On the optional tender date, the Tender Agent is required to authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Mandatory Tender. While in a Weekly Mode or Daily Mode, the Bonds are required to be tendered to the Tender Agent for purchase at the Purchase Price, without the right of retention, on each of the following dates, but only if the Standby Purchaser is then obligated to advance funds under the Liquidity Facility (each a "Mandatory Tender Date"):

- each Mode Change Date to a Mode other than a Daily Mode or a Weekly Mode,
- any date on which an alternate Credit Facility is substituted for the existing Credit Facility
- any date on which an alternate Liquidity Facility is substituted for the existing Liquidity Facility,
- the seventh Business Day prior to any expiration or termination of the Liquidity Facility (but there will be no separate mandatory tender in respect of such an expiration or termination if notice has been given to the Holders of a mandatory tender that will occur prior to such expiration or termination date and the Bonds are not to be subsequently remarketed under the expiring or terminating Liquidity Facility),
- the tenth day after any default on the payment of any interest upon any Bond when such interest becomes due and payable or after any default on the payment of any Purchase Price when due or any principal of (or premium, if any, on) any Bond at its maturity, but only if either (a) Financial Security so directs the Paying Agent/Registrar in writing, or (b) Financial Security is in payment default under the Bond Policy, and
- each date established by the City for mandatory tender as permitted by the Seventh Supplement.

The Paying Agent/Registrar is required to mail notice of mandatory tender to the Holders of the Bonds. See "Summary of Certain Provisions of the Bonds," but the failure to give any such notice shall not affect, or relieve any Holder of, such Holder's obligation to tender Bonds.

PURSUANT TO THE TERMS OF THE LIQUIDITY FACILITY, UPON THE OCCURRENCE AND CONTINUATION OF CERTAIN "EVENTS OF DEFAULT" UNDER THE LIQUIDITY FACILITY, THE OBLIGATION OF THE STANDBY PURCHASER TO PURCHASE TENDERED BONDS SHALL AUTOMATICALLY TERMINATE WITHOUT NOTICE, AND OWNERS SHALL NOT THEREAFTER HAVE THE RIGHT TO TENDER BONDS FOR PURCHASE BY THE TENDER AGENT. See "STANDBY BOND PURCHASE AGREEMENT – Events of Default Permitting Immediate Suspension or Termination," herein.

Payment of the Purchase Price of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its designated office or by bank wire transfer in immediately available funds, but solely from and to the extent of the funds described below under "Remarketing and Purchase."

Interest on any Bond that is not tendered on mandatory tender date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory tender date. Thereafter, the Holder of such Bond will not be entitled to any payment other than the Purchase Price for such bond from money held by the Paying Agent/Registrar for such payment, and such payment, and such bond will not otherwise be outstanding or entitled to the benefits of the Seventh Supplement. On the mandatory tender date, the Paying Agent/Registrar will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. In the event a Bondholder exercises its option to tender Bonds, or if any Bonds become subject to mandatory tender, the Remarketing Agent is required to use its best efforts to sell such Bonds at a price equal to 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming optional or mandatory tender date, subject to certain conditions specified in a Remarketing Agreement with the City.

The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent solely from and to the extent of the following sources in the order of priority indicated: (a) first, from money derived from the remarketing of such Bonds by the Remarketing Agent; and (b) second, from money derived under the Liquidity Facility. If sufficient funds from these two sources are not available for the purchase of all tendered Bonds, no purchase will be consummated. The City is not obligated to purchase tendered Bonds.

Summary of Certain Provisions of the Bonds

The table below summarizes the following information with respect to Bonds bearing interest at a Weekly Rate or Daily Rate:

(a) the dates on which interest will be paid (the "Interest Payment Dates");
(b) the date each interest rate will be determined (the "Rate Determination Date");
(c) the date each interest rate will become effective (the "Effective Date of Rate");
(d) the period of time each interest rate will be in effect (the "Rate Period");
(e) the dates on which Registered Holders may, at their option, tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (the "Optional Tender Dates; Holder's Notice of Optional Tender");
(f) the requirements for physical delivery of tendered Bonds and payment provision therefor ("Physical Delivery of and Payment for Bonds Subject to Optional and Mandatory Tender"), which are not applicable while the Bonds are in book-entry only form;
(g) the notice requirements in order to change from one interest rate Mode to a different interest rate Mode ("Written Notice of Rate Mode Change"); and
(h) the notice requirements for any mandatory tender of the Bonds ("Notice of Mandatory Tender").

All times shown are New York City time. A "Business Day" is defined in the Seventh Supplement to be any business day other than (i) a Saturday or Sunday or (ii) a day on which the designated office of the Tender Agent, Paying Agent/Registrar, Remarketing Agent, FSA, or Standby Purchaser are required or authorized by law or executive order to be closed or (iii) a day on which The New York Stock Exchange is closed or (iv) a day on which the payment system of the Federal Reserve System is not operational.

	Weekly Rate	**Daily Rate**
Interest Payment Dates	15th day of each month.	15th day of each month.
Rate Determination Date	By 4:30 p.m. Wednesday, or if Wednesday is not a Business Day, the immediately preceding Business Day.	By 9:30 a.m. on each Business Day.
Effective Date of Rate; Rate Period	Each Thursday; Weekly Rate effective through Wednesday of next week.	Commences on Rate Determination Date, continues through the next Rate Determination Date.
Optional Tender Dates; Holder's Notice of Optional Tender	Any Effective Date of Rate or, if not a Business Day, the next Business Day; Written notice to Tender Agent by owner at or prior to 3:00 p.m. on any Business Day not less than 7 calendar days prior to optional tender date.	Any Business Day; Written notice to Tender Agent by owner at or prior to 11:00 a.m. on the same Business Day.
Physical Delivery* of and Payment of Bonds Subject to Optional Tender and Mandatory Tender *Subject to DTC Procedures	To Tender Agent by 12:00 Noon on the designated purchase date; payment on designated purchase date.	To Tender Agent by 12:00 Noon on the designated purchase date; payment on designated purchase date.
Written Notice of Rate Mode Change	15 days prior to Mode Change Date.	15 days prior to Mode Change Date.
Notice of Mandatory Tender	15 days prior to designated purchase date, except for certain credit or default related mandatory tenders for which only 5 days' notice will be provided.	15 days prior to designated purchase date, except for certain credit or default related mandatory tenders for which only 5 days' notice will be provided.

Optional Redemption

During any Weekly Mode or Daily Mode, the Bonds are subject to redemption at the option of the City on any Interest Payment Date, in whole or in part, in authorized denominations at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

Mandatory Redemption

Minimum Mandatory Redemption. The Bonds are subject to mandatory redemption from money on deposit in the Interest and Sinking Fund, at a price of par plus accrued interest to the date fixed for redemption, on May 15 and November 15 in each of the years and in the amounts set out below ("Minimum Mandatory Redemption").

Year	Amount	Year	Amount
11-15-2004	$ 4,500,000	5-15-2016	$29,675,000
5-15-2005	1,400,000	11-15-2016	385,000
11-15-2005	1,400,000	5-15-2017	5,570,000
5-15-2006	1,600,000	11-15-2017	305,000
11-15-2006	3,800,000	5-15-2018	1,300,000
5-15-2007	3,200,000	11-15-2018	295,000
5-15-2008	1,200,000	5-15-2019	210,000
5-15-2011	830,000	11-15-2019	305,000
11-15-2011	2,405,000	5-15-2020	4,675,000
5-15-2012	4,500,000	11-15-2020	270,000
11-15-2012	1,925,000	5-15-2021	6,515,000
5-15-2013	4,340,000	11-15-2021	215,000
11-15-2013	1,120,000	5-15-2022	8,530,000
5-15-2014	10,975,000	11-15-2022	135,000
11-15-2014	1,205,000	5-15-2023	7,235,000
5-15-2015	11,740,000	11-15-2023	70,000
11-15-2015	3,055,000	5-15-2024*	7,590,000

*Scheduled Final Maturity Date.

Special Mandatory Redemption

Pursuant to the Seventh Supplement, under certain circumstances Bonds held by the Standby Purchaser may be subject to special mandatory redemption as described therein.

Notice of Redemption

The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each Registered Holder of Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds. Notice of redemption is required to be mailed at least 15 days prior to the redemption date with respect to Bonds in the Weekly or Daily Mode. If notice of redemption is given as described above and if due provision for the payment of the redemption price is made, then the Bonds that are to be redeemed thereby will automatically be deemed to have been redeemed prior to their scheduled maturities, and will not bear interest after the redemption date, nor will they be regarded as being outstanding except for the right of the registered owner thereof to receive the redemption price from the Paying Agent/Registrar.

Defeasance

The City may defease and discharge its obligation to the Holders of any or all of the Bonds to pay the principal of, redemption premium, and interest thereon by depositing with the Paying Agent/Registrar: (a) cash in an amount equal to the principal amount of, redemption premium, and interest to become due on the Bonds to the date of maturity or prior redemption, or (b) Government Obligations consisting of (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United Sates, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and are rated as to investment quality by a nationally recognized investment rating firm no less than AAA or its equivalent; or (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, which Government Obligations are certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to pay the principal of, redemption premium, and interest on such Bonds. If the Bonds are subject to a change in interest rate from the date the defeasance deposit is made and prior to the date of redemption or payment at Stated Maturity, then for purposes of calculating interest requirements on the Bonds, the City shall assume interest at the maximum rate payable on the Bonds during such period, assuming, however, that no Bonds are or will become Liquidity Provider Bonds during such period and that there will be no event of default related to the Bonds during such period. While Bonds are in a Daily or Weekly Mode, the City must receive confirmation from Moody's, S&P and Fitch that defeasance of such bonds will not result in a reduction or withdrawal of its rating assigned to the Bonds.

Amendment of Seventh Supplement with the Consent of the Bondholders

With the consent of Financial Security (so long as Financial Security is not in payment default under the Bond Policy), the Standby Purchaser (so long as the Standby Purchaser is not in payment default under the Liquidity Facility) and the Holders of a majority in Outstanding Principal Amount of the Bonds, the City has the right from time to time to effect any amendment to the Seventh Supplement which may be deemed necessary or desirable by the City; except an amendment that:

(1) Makes any change in the maturity of any of the Outstanding Bonds;
(2) Reduces the rate of interest borne by any of the Outstanding Bonds;
(3) Reduces the amount of the principal payable on the Bonds;
(4) Modifies the terms of payment of principal of, premium, if any, or interest on the Outstanding Bonds or impose any conditions with respect to such payment;
(5) Affects the rights of the Holders of less than all of the Bonds then Outstanding;
(6) Amends the provisions contained in this paragraph; or
(7) Changes the minimum percentage of the principal amount of Bonds necessary for consent to any amendment;

unless such amendment or amendments be approved by the Holders of all of the Bonds then Outstanding affected by the change or amendment.

Amendment of Seventh Supplement without the Consent of the Bondholders

The City by action of its governing body may amend the Seventh Supplement, with the consent of Financial Security and the Standby Purchaser, but without consent of any Holder of Bonds, for any one or more of the following purposes:

(1) To add to the covenants and agreements of the City contained in the Seventh Supplement, other covenants and agreements thereafter to be observed, to grant additional rights or remedies to the Bondholders or to surrender, restrict or limit any right or power reserved to or conferred upon the City in the Seventh Supplement;
(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Seventh Supplement, or in regard to clarifying matters or questions arising under the Seventh Supplement, as are necessary or desirable and not contrary to or inconsistent with the Seventh Supplement and which do not adversely affect the interests of the Bondholders;
(3) To modify any of the provisions of the Seventh Supplement in any other respect whatever, provided that such modification are, and are expressed to be, effective only after all the Bonds outstanding at the date of the adoption of such modification cease to be outstanding;
(4) To make such amendments to the Seventh Supplement as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;
(5) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the Bondholders to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Bonds, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of the Seventh Supplement and which will not adversely affect the interests of the Bondholders;
(6) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Bonds by a Rating Agency or to obtain or maintain a Liquidity Facility or a Credit Facility or to obtain an Alternate Liquidity Facility or an Alternate Credit Facility;
(7) To make such changes, modifications or amendments as may be necessary or desirable, which will not adversely affect the interests of Bondholders, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Bonds;
(8) To make any such changes, modifications, or amendments as may be necessary or desirable to implement or facilitate a change in Mode pursuant to the Seventh Supplement;
(9) So long as a Credit Facility is in effect with respect to the Bonds and the Credit Provider is not in default thereunder to make any other changes, modifications or amendments (other than a change, modification or amendment described above under "Amendment of Seventh Supplement with the Consent of the Bondholders") consented to by the Credit Provider, if there is delivered to the City an Opinion of Bond Counsel to the effect that such amendment will not adversely affect the excludability of interest on the Bonds from the gross incomes of the owners thereof for federal income tax purposes; and
(10) Any other changes, modifications, or amendments which take effect after a mandatory tender, if there is delivered to the City an Opinion of Bond Counsel to the effect that such amendment will not adversely affect the excludability of interest on the Bonds from the gross incomes of the owners thereof for federal income tax purposes.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. While the Bonds are in a Daily Mode or a Weekly Mode, new Bonds registered and delivered in an exchange or transfer shall be in denominations of $100,000 and any integral multiple of $5,000 in excess thereof for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" below for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Bondholders Remedies

The Seventh Supplement does not establish specific events of default with respect to the Bonds. If the City defaults in payment of the principal of or interest on any of the Bonds when due, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Seventh Supplement, any Holder of a Bond is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observance and perform such covenant, obligation, or condition. Under state law there is no right to the acceleration of maturity of the Bonds upon failure of the city to observe any covenant under the Seventh Supplement. Although a Holder of Bonds could presumably obtain a judgment against the City if default occurred in the payment of principal of or interest on any such Bond, such judgment could not be satisfied by execution against any property of the city. Such Holder's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to charge, assess and collect rates for the use of the Water and Wastewater System sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a Holder could be required to enforce such remedy on a periodic basis. The Seventh Supplement does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Seventh Supplement, 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"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, Chapter 9 includes an automatic stay provision that would prohibit, without Bankruptcy court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from its creditors, the ability to enforce 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 opinion of Bond Counsel will note that all opinions relative to the enforceability of the Seventh Supplement and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

BOOK-ENTRY-ONLY SYSTEM

DTC will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, 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 Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

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

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

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

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

THE SWAP AGREEMENT

In connection with the issuance of the Bonds, the City has entered into an interest rate swap transaction under an agreement (the "Series 2004 Interest Rate Swap Agreement") with JPMorgan Chase Bank ("JPM") to enable the City to substantially fix its interest obligation on the debt represented by Bonds. Under the Series 2004 Interest Rate Swap Agreement the City is obligated to make payments to JPM calculated on a notional amount equal to the scheduled outstanding principal amount of the Bonds and a fixed rate of 3.657% per annum, and JPM is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the Bonds and a variable rate equal to 68% of the one-month London Interbank Borrowing Rate (LIBOR) for U.S. deposits. Payments under the Series 2004 Interest Rate Swap Agreement will be made on a net basis on the 15th day of each month, commencing in September 2004 and ending in May 2024.

Arrangements made in respect of the Series 2004 Interest Rate Swap Agreement do not alter the City's obligation to pay principal of and interest on the Bonds. The Series 2004 Interest Rate Swap Agreement does not provide a source of security or other credit for the Bonds. The City's obligations under the Series 2004 Interest Rate Swap Agreement to make scheduled payments are payable on a parity with the City's obligation to pay principal of and interest on the Bonds.

If either party to the Series 2004 Interest Rate Swap Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the Series 2004 Interest Rate Swap Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the Series 2004 Interest Rate Swap Agreement will continue to be in existence. If the Series 2004 Interest Rate Swap Agreement is terminated under certain market conditions, the City may owe a termination payment to JPM or may receive a termination payment from JPM. Such termination payment generally would be based on the market value of the Series 2004 Interest Rate Swap Agreement on the date of termination and could be substantial. In addition, a partial termination of the Series 2004 Interest Rate Swap Agreement could occur to the extent that any Bonds are redeemed pursuant to an optional redemption. If such optional redemption occurs, termination payments related to the portion of the Series 2004 Interest Rate Swap Agreement to be terminated will be owed by either the City or JPM, depending on market conditions. The obligation of the City to pay a termination payment to JPM could result in the City issuing Parity Water and Wastewater Obligations or Subordinated Debt to make a termination payment.

STANDBY BOND PURCHASE AGREEMENT

The City covenants in the Seventh Supplement to maintain a Standby Bond Purchase Agreement or other similar agreement at all times that the Bonds remain outstanding in the Daily Mode or Weekly Mode. Pursuant to such covenant the City is to enter into a Standby Bond Purchase Agreement (the "Liquidity Facility") with Landesbank Baden-Württemberg, acting through its New York Branch (the "Standby Purchaser"). See "APPENDIX H – THE STANDBY PURCHASER" to this Official Statement for certain information concerning the Standby Purchaser.

Description of Purchase Commitment

Subject to the terms of the Liquidity Facility, the Standby Purchaser agrees, at the request from time to time of the Tender Agent on behalf of the City, to purchase Eligible Bonds tendered for purchase in accordance with the Seventh Supplement with respect to which the Tender Agent does not, on the date any such tendered Bonds are required to be purchased pursuant to the Seventh Supplement, have sufficient funds to make such purchase as a result of the remarketing of the tendered Bonds. The obligation of the Standby Purchaser to purchase any Bond on a Purchase Date is subject to: (a) receipt by the Standby Purchaser of a notice of purchase from the Tender Agent given in accordance with the Liquidity Facility; and (b) the condition that the Standby Purchaser's obligation to purchase Eligible Bonds pursuant to the Liquidity Facility has not been suspended or terminated.

"Eligible Bonds" means any Bonds Outstanding under and entitled to the benefits of the Master Ordinance and the Seventh Supplement which bear interest at the Daily Rate or the Weekly Rate and that are tendered or deemed tendered for optional or mandatory purchase pursuant to the terms of the Seventh Supplement other than any such Bond which (a) is a Bond that has been previously purchased with amounts advanced under the Liquidity Facility and continues to be owned by or for the benefit of the Standby Purchaser or its assignee or transferee or (b) is owned by or on behalf of or is held for the account or for the benefit of the City or any affiliate of the City or by the Insurer.

The Standby Purchaser's obligation to purchase Bonds will terminate on December 29, 2015, or, if such day is not a Business Day, on the next preceding Business Day, unless terminated earlier. The Standby Purchaser may terminate its commitment at its option on optional termination dates, the first of which is February 27, 2009. The Standby Purchaser's obligation will also be terminated if an alternate liquidity facility has been delivered to the Tender Agent and is effective. In addition, the Standby Purchaser may terminate its commitment following either of the Events of Default described in clauses (a)(i) or (j) under the heading "Events of Default Not Permitting Immediate Termination" below. The Liquidity Facility provides that the Standby Purchaser will give 20 days advance notice to the Tender Agent of such a termination. Such termination will subject the Bonds to mandatory tender prior to such termination. See "DESCRIPTION OF THE BONDS" – "Tender Provisions" – "Mandatory Tender" herein.

Under certain circumstances the obligation of the Standby Purchaser to purchase Bonds will be immediately and automatically suspended or terminated without notice to the Holders of Bonds, and without providing the Holders a right to tender their Bonds pursuant to optional or mandatory tender. These circumstances are described below under "Events of Default Permitting Immediate Suspension or Termination."

In no event, however, will the Standby Purchaser be obligated to make funds available to the Tender Agent, or otherwise advance funds to purchase Bonds, in an amount in excess of the Standby Purchaser's Available Commitment. "Available Commitment" as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day. "Available Principal Commitment" initially means $132,475,000 and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any reduction of the Available Principal Commitment due to a redemption, repayment or other payment of all or any portion of the principal amount of the Bonds or a conversion of the interest rate Mode applicable to any of the Bonds to a Mode other than the Daily Mode or the Weekly Mode; (b) downward by the principal amount of any Bonds purchased by the Standby Purchaser pursuant to the terms of the Liquidity Facility; and (c) upward by the principal amount of any Bonds purchased by the Standby Purchaser pursuant to the terms of the Liquidity Facility, which are sold or deemed sold by the Standby Purchaser (regardless of the purchase price received for such Bonds) or which the Standby Purchaser declines, pursuant to the terms of the Liquidity Facility, to sell. "Available Interest Commitment" initially means $1,524,370 and, upon any change in the amount of the Available Principal Commitment hereunder, means an amount equal to 35 days of accrued interest at 12% per annum on the Available Principal Commitment then in effect computed on the basis of a year of 365 days.

Upon (a) any redemption (whether mandatory or optional) or repayment of all or any portion of the principal amount of any Bonds or (b) the conversion of the interest rate Mode applicable to any of the Bonds to a Mode other than the Daily Mode or the Weekly Mode, the aggregate Available Principal Commitment will be reduced by the principal amount of the Bonds so redeemed, repaid, or so converted, as the case may be.

Events of Default Not Permitting Immediate Termination

The occurrence of any of the following "Events of Default" does not permit immediate termination of the Standby Purchaser's obligation to purchase tendered Bonds:

(a) The City shall fail to pay when due (i) any installment of the facility fee payable under the Liquidity Facility or (ii) any other any amounts owed by the City to the Standby Purchaser pursuant to the Liquidity Facility, subject to certain cure rights specified in the Liquidity Facility.

(b) Any representation or warranty made by or on behalf of the City in the Liquidity Facility or in other documents relied on by the Standby Purchaser shall prove to have been incorrect or untrue in any material respect when made or deemed to have been made.

(c) The City shall fail to perform certain covenants in the Liquidity Facility.

(d) The City shall fail to perform certain other covenant in the Liquidity Facility or in other documents related to the Liquidity Facility, which failure continues beyond the applicable grace period.

(e) Default by the City in the payment of the principal of or interest on any debt owed to the Standby Purchaser or any other debt secured by Net Revenues of the System or default by the City in the payment of the Bonds (including Liquidity Provider Bonds), any Prior First Lien Obligations, Parity Water/Wastewater Obligations, Prior Subordinate Lien Obligations, Previously Issued Separate Lien Obligations and any other debt secured by a lien on or payable from Net Revenues of the System.

(f) Any provision of the Liquidity Facility or any other documents related to the Liquidity Facility shall cease to be valid and binding on the City, or the City shall contest any such provision, or the City or any agent or trustee on behalf of any of them, shall deny that it has any further liability under any provision of the Liquidity Facility or other documents related to the Liquidity Facility.

(g) Entry of filing of any judgment, writ or warrant of attachment or of any similar process against the City payable from Net Revenues or against any part of the Water and Wastewater System and failure of the affected entity to vacate, bond, stay or contest in good faith such judgment, writ, warrant of attachment or other process for a period of 30 days or failure to pay or satisfy such judgment within 60 days or as otherwise required by such judgment, writ or warrant of attachment.

(h) Any event of default under the Seventh Supplement, the Master Ordinance or any other documents related to the Liquidity Facility.

(i) The occurrence of one or more of the following events with respect to the City: (i) the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of the City; (ii) the commencement by or against the City of a case or other proceeding seeking liquidation, reorganization or other relief with respect to the City or its debts under any bankruptcy, insolvency or other similar state or federal law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for the City or any substantial part of its property; (iii) the making of an assignment for the benefit of creditors by the City; (iv) the failure of the City to generally pay its debts as they become due; (v) the declaration of a moratorium with respect to the payment of the debts of the City; (vi) the City shall admit in writing its inability to pay its debts when due; or (vii) the initiation of any actions to authorize any of the foregoing by or on behalf of the City.

(j) The financial strength rating assigned to Financial Security by the Rating Agencies is withdrawn, suspended or falls below each of "A-" by S&P, "A3" by Moody's and "A-" by Fitch, respectively.

Events of Default Permitting Immediate Suspension or Termination

The occurrence of any of the following "Events of Default" does permit immediate suspension or termination of the Standby Purchaser's obligation to purchase tendered Bonds with no opportunity to tender Bonds before suspension or termination:

(1) Financial Security shall (i) file any petition or commence any case or proceeding under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization, (ii) make a general assignment for the benefit of its creditors or fail to generally pay its debts as they become due, or (iii) have an order for relief entered against it under the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization which is final and nonappealable; or

(2) The commencement of any proceeding in a court of competent jurisdiction or by the New York Department of Insurance or other competent regulatory authority (i) seeking the appointment of a custodian, trustee, agent or receiver for the Financial Security or for all or may material portion of its property, (ii) seeking the liquidation, dissolution, reorganization or rehabilitation of the Financial Security or (iii) authorizing the taking of possession by a custodian, trustee, agent or receiver of the Financial Security or the taking of possession of all or any material portion of the property of the Financial Security and, in the case of any event described in this clause (2), such event is not dismissed within ninety (90) days.

(3) Any principal or interest due on the Bonds is not paid by the City when due and such principal or interest is not paid by Financial Security when, as, and in the amounts required to be paid pursuant to the terms of the Bond Policy.

(4) (i) Any material provision of the Bond Policy at any time for any reason ceases to be valid and binding on Financial Security in accordance with the terms of the Bond Policy or is declared to be null and void in each case by a final non-appealable order of a court or other governmental agency of appropriate jurisdiction, or (ii) the validity or enforceability thereof is contested by Financial Security, the New York Insurance Commission, or other competent regulatory authority, in writing or (iii) Financial Security denies in writing that it has any or further liability or obligation under the Bond Policy.

(5) Financial Security shall fail to make any payment required under any municipal bond insurance policy (other than the Bond Policy) issued by it insuring obligations publicly rated by Moody's, Fitch or S&P when due and such payment default shall continue for a period of seven (7) days.

(6) The financial strength rating assigned to Financial Security by any of the Rating Agencies shall be withdrawn, suspended or reduced below Baa3 by Moody's, BBB- by S&P or BBB- by Fitch, respectively.

(7) Without the prior written consent of the Standby Purchaser, the Bond Policy is canceled or terminated, or amended or modified in any respect which materially and adversely affects the rights of the Standby Purchaser.

Upon the occurrence of an Event of Default hereunder, the Standby Purchaser may take one or more of the following actions:

(i) In the case of any Event of Default specified in clauses (1) through (7), above, the Available Commitment and the obligation of the Standby Purchaser to purchase Bonds shall immediately and automatically terminate without notice or demand, and thereafter the Standby Purchaser shall be under no obligation to purchase Bonds. Upon such Event of Default, the Standby Purchaser shall promptly give written notice of the same to the Tender Agent, the City and the Remarketing Agent; provided, that the Standby Purchaser shall incur no liability of any kind by reason of its failure to give such notice, and such failure shall in no way affect the termination of the Available Commitment and of the obligation of the Standby Purchaser to purchase Bonds pursuant to the Liquidity Facility. The Tender Agent shall immediately notify the Paying Agent/Registrar who shall notify all Bondholders of the termination of the Available Commitment and the obligation of the Standby Purchaser to purchase the Bonds.

(ii) In the case of any Default under clause (2) and prior to the expiration of the 90 day period referenced in clause (2) and, in the case of clause (5) and prior to the expiration of the 7 day period referenced therein, the Standby Purchaser's obligations to purchase Bonds will be automatically and immediately suspended without notice or demand and thereafter the Standby Purchaser will be under no obligation to purchase Bonds until the Available Commitment is reinstated as described in this clause. Promptly upon the Standby Purchaser obtaining knowledge of any such Default, the Standby Purchaser will give written notice of the same to the City, the Tender Agent, the Remarketing Agent and Financial Security of such suspension; provided, that the Standby Purchaser will incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Standby Purchaser's obligations to purchase Bonds. In the case of a Default under clause (2), if such insolvency proceedings are dismissed within the 90 day period referenced in clause (2) then the Standby Purchaser's obligation to purchase Bonds under the Liquidity Facility shall be reinstated unless otherwise terminated under the Liquidity Facility. If such proceedings are not dismissed within such 90 day period then the obligation of the Standby Purchaser to purchase Bonds shall terminate pursuant to clause (i). In the case of a Default under clause (5), if the payment default by Financial Security triggering such event is cured within such 7 day period the obligation of the Standby Purchaser to purchase Bonds under the Liquidity Facility shall be reinstated, unless otherwise terminated under the Liquidity Facility. If such payment default by Financial Security which has caused the Default under clause (5) is not cured within such 7 day period the obligation of the Standby Purchaser to purchase Bonds shall terminate pursuant to clause (i).

(iii) In the case of any Event of Default as specified in clause (a)(i) or (j), above, the Standby Purchaser may give written notice of such Event of Default to the City, the Tender Agent and Remarketing Agent stating that the Liquidity Facility shall terminate twenty (20) days after such notice is received by the Tender Agent and directing that the Bonds be called for mandatory tender pursuant to the Seventh Supplement. The obligation of the Standby Purchaser to purchase Bonds shall terminate twenty (20) days after such notice is received by the Tender Agent, and on such date the Available Commitment shall terminate and the Standby Purchaser shall be under no obligation pursuant to the Liquidity Facility to purchase Bonds.

(iv) Upon the occurrence of any Event of Default under clause (a)(i), or (1) through (7), all amounts owed to the Standby Purchaser under the Liquidity Facility and under any Liquidity Provider Bonds shall bear interest at the Default Rate and the Standby Purchaser shall have all remedies provided at law or equity, including, without limitation, to accelerate all amounts due hereunder and under the Liquidity Provider Bonds and specific performance (provided, however in the case of an Event of Default under clauses (a) through (j) amounts owed under the Liquidity Facility and with respect to Liquidity Provider Bonds shall not be subject to acceleration and, except for the ability of the Standby Purchaser to optionally terminate its obligation to purchase Bonds as described below under the caption "Optional Termination by the Standby Purchaser" and as described in clauses (i), (ii) and (iii) above, the Standby Purchaser shall not have the right to terminate its obligation to purchase Bonds or cause a mandatory tender of Bonds). The Standby Purchaser shall promptly provide written notice to the Tender Agent and the City of any acceleration of the amounts due under the Liquidity Facility.

(v) In the case of any Event of Default under the Liquidity Facility, the Standby Purchaser shall have the right, but not the obligation, to cure any such Event of Default (in which case the City shall reimburse the Standby Purchaser therefor as provided in the Liquidity Facility).

Alternate Liquidity Facility

In the Seventh Supplement, the City covenants that while the Bonds are in the Daily or Weekly Mode, the City will maintain in effect a Liquidity Facility meeting the requirements set forth therein. The City is required to obtain an Alternate Liquidity Facility to replace the Liquidity Facility or cause the Bonds to be converted to bear interest at interest rate mode other than the Daily Mode or the Weekly Mode in the event that (i) the City terminates the Liquidity Facility pursuant to the terms thereof, (ii) the Standby Purchaser furnishes a termination notice to the Tender Agent or (iii) Financial Security shall be downgraded below "Aa3", "AA-" or "AA-" by either Moody's, S&P or Fitch, respectively, and the City does not replace Financial Security with an insurer reasonably acceptable to the Standby Purchaser.

Any Alternate Liquidity Facility must require, as a condition to the effectiveness of the Alternate Liquidity Facility, that the Alternate Liquidity Facility will provide funds to the extent necessary, in addition to other funds available, on the date the Alternate Liquidity Facility becomes effective, for the purchase of all Standby Purchaser Bonds at par plus interest (at the Bank Rate) through the date purchased. On such date any and all amounts owed to the Standby Purchaser shall be payable in full to the Standby Purchaser.

An Alternate Liquidity Facility may not become effective with respect to less than all of the Bonds without the prior written consent of the Standby Purchaser.

If, at any time, the City provides for an Alternate Liquidity Facility by delivering to the Paying Agent/Registrar or Tender Agent (1) an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, (2) an Opinion of Counsel specifying that such change will not adversely affect the excludability of interest on the Bonds subject to the change from the gross incomes of the owners thereof for federal income tax purposes and specifying that the City is authorized to execute the Alternate Liquidity Facility under Texas law, (3) a written Opinion of Counsel for the provider of the Alternate Liquidity Facility to the effect that such Alternate Liquidity Facility is a valid, legal and binding obligation of the provider thereof, (4) the written consent of Financial Security (unless a Credit Facility Failure exists) to the Alternate Liquidity Provider and to the Alternate Liquidity Facility, and (5) unless waived by such entity, written evidence satisfactory to Financial Security and the Liquidity Provider of the provision for purchase from the Liquidity Provider of all Liquidity Provider Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due to the Liquidity Provider under the Master Ordinance and any applicable Credit Reimbursement Agreement on or before the effective date of such Alternate Liquidity Facility, then the Paying Agent/Registrar or Tender Agent, as applicable, is required to accept such Alternate Liquidity Facility and surrender the Liquidity Facility then in effect to the Standby Purchaser on the Substitution Date, but only if all draws in connection with the mandatory tender occurring on such Substitution Date have been honored in full.

The City will provide notice of such proposed substitution by first-class mail to the Holders of the Bonds no less than fifteen (15) days prior to the proposed Substitution Date.

Without the prior written consent of the Financial Security, the City may not substitute an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect, unless the Liquidity Provider is rated at least "A-1" by S&P or "VMIG-1" or "P1" by Moody's or "F1" by Fitch.

Optional Termination by the Standby Purchaser

Not more than one hundred eighty (180) days, nor less than one hundred twenty (120) days, prior to an "Optional Termination Date" the Standby Purchaser may in its sole and absolute discretion deliver an Optional Termination Notice to the City stating that the Available Commitment and the Standby Purchaser's obligation to purchase Bonds shall terminate on the Optional Termination Date specified in such notice and, upon such delivery of an Optional Termination Notice, the Available Commitment and the Standby Purchaser's obligation to purchase Bonds shall terminate on such Optional Termination Date. The "Optional Termination Dates" under the Liquidity Facility are February 27, 2009 and August 27, 2013, if and to the extent that either such date is designated by the Standby Purchaser as an Optional Termination Date.

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THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") and a Water and Wastewater System (also referred to herein as the Water and Wastewater Utility) which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The City is near completion of a new 300 MW combined cycle plant. Testing is currently underway with commercial operation scheduled by late summer 2004. The Electric Utility System had approximately 1,436 full-time regular employees as of September 30, 2003. The Water and Wastewater System had approximately 1,044 full-time regular employees as of the same date.

THE WATER AND WASTEWATER SYSTEM

Management

Name	Title	Length of Service with City
Chris Lippe, P.E.	Director, Water and Wastewater Utility	20 Years, 2 Months
Perwez Moheet, CPA	Assistant Director, Finance and Business Support Services	25 Years, 2 Months
Jane Burazer	Assistant Director, Treatment	10 Years, 8 Months
Reynaldo Cantu, P.E.	Assistant Director, Operations	14 Years, 0 Months
David Juarez, P.E.	Assistant Director, Water Resource Management	13 Years, 3 Months*

*Length of service not continuous.

WATER SYSTEM

Service Area

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

The City has previously acquired the systems and assets of eleven water control and improvement districts. The City has paid off and canceled the bonded indebtedness of all of these districts. The Texas Commission on Environmental Quality (TCEQ, the successor agency to the Texas Natural Resource Conservation Commission, which was the successor agency to the Texas Water Commission) is empowered to grant the City a certificate of convenience and necessity to provide water and wastewater service to retail customers outside the City's boundaries. The City is not required to obtain such a certificate. References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

Water Supply

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

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

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

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

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

1973 – 896,400 Acre Feet	1983 – 587,000 Acre Feet	1993 – 978,000 Acre Feet
1974 – 1,463,000 Acre Feet	1984 – 764,000 Acre Feet	1994 – 708,200 Acre Feet
1975 – 3,039,000 Acre Feet	1985 – 751,000 Acre Feet	1995 – 896,700 Acre Feet
1976 – 992,600 Acre Feet	1986 – 886,500 Acre Feet	1996 – 758,300 Acre Feet
1977 – 1,956,000 Acre Feet	1987 – 3,399,000 Acre Feet	1997 – 3,013,512 Acre Feet
1978 – 885,100 Acre Feet	1988 – 834,000 Acre Feet	1998 – 1,313,831 Acre Feet
1979 – 867,200 Acre Feet	1989 – 667,900 Acre Feet	1999 – 803,240 Acre Feet
1980 – 803,500 Acre Feet	1990 – 692,300 Acre Feet	2000 – 627,370 Acre Feet
1981 – 1,626,000 Acre Feet	1991 – 829,700 Acre Feet	2001 – 1,371,435 Acre Feet
1982 – 1,356,000 Acre Feet	1992 – 5,419,000 Acre Feet	2002 – 1,674,985 Acre Feet

Using the twenty-five years from 1978-2002, the average flow was 1,300,551 acre feet per year. Using the lowest year, 1983, the flow for the Colorado River at Austin was 587,000 acre feet, or 192 billion gallons, which is over 4 times the amount of water treated for distribution (50.2 billion gallons) by the City for the fiscal year ended September 30, 2001.

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

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

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

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

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

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

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

Water Treatment Plants

The City's Water and Wastewater Utility has three water treatment plants (Green, Davis and Ullrich) which have a rated capacity of 260 million gallons per day ("mgd"). The water treatment plants have a combined clear well storage capacity of 38.8 million gallons on site. The City's Water and Wastewater Utility includes a water distribution system having 3,036 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 250 million gallons, 26,160 fire hydrants and forty-two booster pump stations.

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

The Green Plant is located east of Shoal Creek near its junction with the Colorado River and has a rated capacity of 35 mgd. An intake station on the river contains four traveling water screens and four raw water pumps. The Green Plant was constructed in 1924 and expanded in 1935, 1938, 1949 and 1985. The firm pumping capacity (i.e., with one of the largest pumps out of service) is 42 mgd. Water is pumped through a forty-two inch line to the chemical feed building, where it is split into two parallel treatment units. The Green Plant operates on a site that limits any major expansion or upgrading of treatment processes. Its capacity can be replaced by the planned expansion of the Ullrich Plant. If the requirements for the Safe Drinking Water Act ("SDWA") Phase II Disinfection/Disinfection By-Products Rule require expensive space consuming modifications, the aging Green Plant may need to be replaced by the year 2005. Without the restrictions of this proposed rule, it could continue in service.

The Davis Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 118 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, and raw water and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963, 1975 and 1986.

The Ullrich Plant, located on a site south of Red Bud Trail and Forest View Drive, has a rated capacity of 100 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, six upflow-solids contact clarifiers, twelve filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. A 60 mgd upgrade to the Ullrich Plant is currently underway with construction scheduled to be completed in 2005. This expansion will increase the rated capacity of the plant to 160 mgd.

Construction of Water Treatment Plant No. 4 will add incremental initial capacity of up to 50-75 million gallons per day with an intake structure rated at 100 to 300 million gallons per day. Based on revised growth projections, the City anticipates that construction of Water Treatment Plant No. 4 will begin within the next 5 years. $141 million of bonds have been authorized for this project based on an earlier schedule under which the plant would have already been built. That project was deferred in the late 1980's. Additional costs incurred due to the revised timing are anticipated to be funded with current revenues and additional bond authority the Water and Wastewater Utility will seek in a future bond election.

Water Conservation Plan

The Water and Wastewater Utility developed a water conservation plan for emergency purposes in the early 1980's after experiencing an equipment failure in the distribution system during a high summer demand period. Although the problems were short lived, they had sufficient impact to cause the development of a plan for any potential future problems. The plan is designed to educate customers to use water effectively and to reduce the peak demands on the Water and Wastewater Utility. The contingency plan, which is in effect from May 1 to September 30 of each year, has three stages with progressively more restrictive water use provisions. The plan is presently designed to shift from voluntary to mandatory stages when daily pumpage exceeds a specific limit established by the City Manager which relates to treatment capacity. If higher levels of pumpage should occur, the plan would move to one of the more restrictive mandatory levels. Currently, the treatment facilities have a rated capacity of 260 mgd. Mandatory water restrictions were required during the extreme drought conditions of July through September 2000.

Inclining block rates implemented April 1, 1994, are designed to promote water conservation by Single Family Residential Customers. Seasonal rates implemented in 2000 are also designed to promote water conservation.

Water Storage and Pumping Facilities

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

	Total Storage Capacity (Millions of Gallons)	Firm Pumping Capacity (Gallons per Minute)
North System		
Anderson Mill (1)	3	n/a
East Austin	12	33,300
Forest Ridge	3	5,000
Four Points (ground)	7	0
Four Points (elevated)	1	3,600
Guilford Cove	0.275	600
Highland Park	2	1,000
Howard Lane	20	50,000
Jollyville	11	51,000
Martin Hill (1)	34	n/a
North Austin	10	39,800
Pond Springs (1)	3	n/a
Spicewood Springs	10	59,000
South System		
Capital of Texas Hwy (1)	0.5	n/a
Center Street	8	31,400
Davis Lane	20	29,500
La Crosse (1)	2	n/a
Leuthan Lane	3	13,170
Lookout Lane	0.3	3,000
Loop 360	0.439	3,200
Mt. Larson	0.1	100
Never Bend Cove	0.06	1,600
Pilot Knob (1)	10	n/a
Slaughter Lane	6	15,000
Thomas Springs (1)	1.25	n/a
Westlake Drive	0.010	500

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

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Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 1988 through 2003.

Fiscal Year	Total Pumpage (Millions of Gallons)	Percent Change	Maximum Day Pumpage (Million of Gallons)
1988	36,332	6.80	162
1989	38,300	5.40	178
1990	38,311	.03	177
1991	36,125	(5.71)	161
1992	36,989	2.39	169
1993	39,824	7.66	189
1994	39,766	(0.15)	199
1995	39,542	(0.56)	192
1996	45,835	15.91	205
1997	42,812	(6.60)	195
1998	46,438	8.47	211
1999	46,422	(0.03)	216
2000	52,194	12.43	227
2001	50,140	(3.94)	243
2002	50,883	1.48	214
2003	51,111	.45	232

Source: City's Water and Wastewater Utility.

Projected Water Pumpage - TABLE NINE

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

Fiscal Year	Total Pumpage (Million of Gallons)	Maximum Day Pumpage (Million of Gallons)
2004	51,268	241
2005	51,321	247
2006	51,810	253
2007	52,431	259
2008	53,207	265
2009	54,131	271
2010	55,206	277
2011	56,311	281
2012	57,452	285
2013	58,630	289

Source: City's Water and Wastewater Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2003		2002		2001		2000		1999	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		51,110,847		50,883,130		50,184,839		52,326,065		46,679,391
Less: Sales to Other Water Utilities (1)		3,437,043		3,476,482		3,639,468		3,863,466		3,146,201
Thousands Gallons to System		47,673,804		47,406,648		46,545,371		48,462,599		43,533,190
Water Sales:										
Urban	169,839	35,644,803	167,895	36,577,034	165,536	37,653,186	161,243	41,973,466	159,625	35,594,247
Rural	13,512	2,302,234	12,899	2,338,585	11,700	2,219,216	11,242	2,435,328	10,607	1,852,000
	183,351	37,947,037	180,794	38,915,619	177,236	39,872,402	172,485	44,408,794	170,232	37,446,247
City Departments	387	553,582	387	616,775	392	588,880	392	650,006	379	619,553
Total Sales to Ultimate Consumer	183,738	38,500,619	181,181	39,532,394	177,628	40,461,282	172,877	45,058,800	170,611	38,065,800
Used by Water Utility		1,506,146		1,529,717		1,531,430		1,613,380		1,422,526
Other Unmetered Usage		3,460,215		3,448,000						
Loss and Unaccounted For		4,206,824		2,896,537		4,552,659		1,790,419		4,044,864
Thousand Gallons to System		47,673,804		47,406,648		46,545,371		48,462,599		43,533,190
Maximum Daily Consumption		224,592		206,125		240,285		220,305		204,746
Average Daily Consumption in Thousands of Gallons		119,024		122,024		125,020		132,774		119,269

(1) Includes sales to all wholesale customers.

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Large Water Customers - TABLE ELEVEN

Water and Wastewater Utility
Large Water Customers
Five Year Comparative Data (1999 - 2003)

Fiscal Year Ended September 30
(Gallons and Dollars in Thousands) (2)

	2003		2002		2001		2000		1999	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
Motorola, Inc. (1)	1,048,571	$ 2,654	1,277,560	$ 3,202	1,931,463	$ 4,886	1,814,060	$ 4,031	1,781,016	$ 3,855
University of Texas	962,813	2,563	863,720	2,319	1,135,801	4,094	1,029,359	2,341	908,424	2,056
Travis County Water Control and Improvement District No. 10	795,059	1,646	773,882	1,604	848,672	1,666	901,248	1,831	699,180	1,416
Advanced Micro Devices	792,393	2,009	911,042	2,291	979,919	2,340	1,044,510	2,082	1,186,752	2,570
Wells Branch Municipal Utility District	563,339	1,090	575,113	1,092	587,057	1,076	646,054	1,328	544,046	1,107
Anderson Mill Municipal Utility District	486,171	948	477,297	757	486,185	851	546,213	936	510,713	872
Samsung	485,945	1,229	495,548	1,246	492,533	1,153	462,139	1,005	353,927	768
North Austin Municipal Utility District	354,291	718	367,626	910	364,580	712	406,345	850	297,789	622
Lost Creek Municipal Utility District	304,709	655	293,571	612	303,592	608	355,547	758	282,637	600
Shady Hollow MUD	237,135	567	224,608	523	247,103	496	300,277	800	217,346	576
	6,030,426	$14,080	6,259,967	$14,556	7,376,905	$17,882	7,505,752	$15,962	6,781,830	$14,442

(1) Totals for Motorola, Inc. include their east Austin plant site and their west Austin plant sites.
(2) These columns may not add to the totals provided due to rounding.

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WASTEWATER SYSTEM

Service Area

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

Facilities

The Water and Wastewater Utility has three main wastewater treatment plants with a permitted capacity of 130 mgd, one sludge treatment and disposal facility, over 2,311 miles of sanitary wastewater mains and lines, and 105 lift stations. The three treatment plants are the Walnut Creek Wastewater Treatment Plant which began operations in 1977, the Govalle Wastewater Treatment Plant constructed in 1936, and the South Austin Regional Wastewater Treatment Plant completed in 1986. The Hornsby Bend Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 2001 and 2002, the City received from the TCEQ and the U.S. Environmental Protection Agency renewals of discharge permits (TPDES permits) for all its wastewater treatment plants. The permits are renewable again in 2004.

The Walnut Creek Wastewater Treatment Plant is currently permitted to discharge an average flow of 60 mgd. During 2003 average flow was 47 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant is currently underway with construction scheduled to be completed in 2004.

The Govalle Wastewater Treatment Plant was initially constructed in 1937 and has undergone several expansions. It now has a permitted capacity of 20 mgd. During 2003 average flow was 11 mgd. Sludge from this plant is also pumped to the anaerobic digesters at Hornsby Bend. Extensive modernization completed in 1986 and subsequent improvements completed in 1988 have enabled the Govalle plant to reliably produce the quality of effluent required by state and federal permits. A major interceptor tunnel completed in 1988 diverts any excess flows from Govalle to the South Austin Wastewater Treatment Regional Plant.

The South Austin Regional Wastewater Treatment Plant, which replaced the Williamson Creek Treatment Plant, began operation in April 1986. The plant is now permitted to discharge at a rate of 50 mgd. During 2003 average flow was 29 mgd. A major interceptor transports the wastewater to the South Austin plant from the site of the former Williamson Creek plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant. A 25 mgd upgrade to this plant is currently underway with construction scheduled to be completed in 2005.

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

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

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

Lift Stations

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

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

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

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 1993 through fiscal year 2003.

Fiscal Year	Total Wastewater Flow (Millions of Gallons)	Percent Change
1993	26,797	(11.1)
1994	25,257	(5.7)
1995	30,038	18.9
1996	28,140	(6.3)
1997	32,898	16.9
1998	31,609	(3.9)
1999	34,298	8.5
2000	30,684	(10.5)
2001	34,289	11.7
2002	33,361	(2.7)
2003	31,815	(4.6)

Projected Wastewater Flows - TABLE THIRTEEN

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

Fiscal Year	Total Wastewater Flow (Millions of Gallons)
2004	32,194
2005	33,944
2006	34,325
2007	34,827
2008	35,453
2009	36,182
2010	36,906
2011	37,644
2012	38,397
2013	39,165

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

To meet these projections, the capacity of the Walnut Creek Wastewater Treatment Plant is expected to be increased from 60 mgd to 75 mgd by the year 2004 and the South Austin Regional Wastewater Treatment Plant is expected to be expanded to a capacity of 75 mgd by the year 2005.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the current approved FY 2004-008 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately $774.0 million for system improvements. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of $555.2 million additional Parity Water/Wastewater Obligations and (2) the application of $218.8 million of anticipated transfers from current revenues and amounts on hand. The Water and Wastewater System's proposed FY 2005-09 capital spending plan totals $816.4 million which is anticipated to be funded as follows: (1) the issuance of $599.5 million additional Parity Water/Wastewater Obligations and (2) the application of $216.9 million of anticipated transfers from current revenues and amounts on hand. The proposed FY 2005-09 capital spending plan is scheduled for consideration by the City Council in September 2004.

Services Financed by Utility Districts

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

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

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

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

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

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

The City previously consented to the creation of twelve MUDs inside the City's corporate limits, of which ten have been dissolved. Three of the twelve MUDs had their annexation status changed from full purpose to limited dissolved. Moore's Crossing MUD also had its annexation status changed from full purpose to limited purpose and Northwest Austin MUD 1 is annexed for full purposes. The creation of the inside City districts was approved by the TCEQ. They receive retail water and wastewater services as well as other services from the City and will issue bonds and levy an ad valorem tax to finance internal water, wastewater and drainage facilities. Under existing law, the City will not have to assume any of the debt issued for these City districts, so long as they are not dissolved.

Water and Wastewater Rates

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

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

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

Water Service Rates Effective November 1, 2003 – TABLE FOURTEEN

Monthly Customer Charges

Customer Account Charge		Equivalent Meter Charge		
	Customer Account Charge per Month	Meter Size	Retail Meter Charge per Month	Wholesale Meter Charge per Month
Retail Customer Account Charge ($/Month)	$1.71	5/8	$ 1.79	$ 1.79
		3/4	2.32	2.32
Wholesale Customer Account Charge ($/Month)	$1.71	1	3.07	3.07
		1 ¼	4.14	4.14
		1 ½	5.20	5.20
		2	7.34	7.34
		3	16.72	16.72
		4	27.39	27.39
		6	54.06	54.06
		8	80.74	80.74
		10	107.41	107.41
		12	123.41	123.41

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Volume Unit Charge (1)

Unit Cost per 1,000 Gallons	Inside City	Outside City
Single-Family Residential (2)		
0 – 2,000 Gallons	$ .80	$ .80
2,001 – 9,000 Gallons	2.10	2.10
9,001 – 15,000 Gallons	3.55	3.60
15,001 – Over Gallons	6.15	6.20
Multifamily (3)		
Off Peak	$2.37	$2.50
Peak	2.60	2.74
Commercial (3)		
Off Peak	$2.92	$2.92
Peak	3.14	3.14
Large Volume/Industrial (3)		
Off Peak	$2.60	N/A
Peak	2.83	N/A
Golf Courses (3)		
Off Peak	$2.92	$2.92
Peak	3.14	3.14

(1) Wholesale unit charges vary between $1.81 and $3.05 for each 1,000 gallons.
(2) The City of Austin has approved an inclining block rate structure to promote water conservation for the Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.
(3) Off Peak (November 1 – June 30 Bills). Peak (July 1 – October 31 Bills).

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Wastewater Service Rates Effective November 1, 2003 – TABLE FIFTEEN

Customer Account Charge

	Inside City	Outside City	Wholesale Customers
Customer Account Charge ($/month)	$3.50	$3.50	$3.50

Volumes Unit Charge

	Unit Cost per 1,000 Gallons (1)	
	Inside City	Outside City
Retail Inside City:		
Single-Family		
0 - 2,000 Gallons	$2.20	$3.05
2,001 - Over Gallons	4.93	5.46
Multifamily	3.99	3.99
Commercial	4.42	4.42
Large Volume/Industrial	3.93	N/A
Golf Courses	4.42	4.42

Wholesale unit charges vary between $2.79 and $3.46 for each 1,000 gallons.

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

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance, under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 as shown below. There are a number of express exemptions from payment of these fees. The City's current policy is to restrict the use of Capital Recovery Fee receipts to finance growth related capital improvement projects, thus reducing the amount required to be debt financed and saving the Water and Wastewater Utility the related financing costs. The fees listed below are based on one service unit (5/8" meter).

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

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Analysis of Water Bills - TABLE NINE A

	Fiscal Year Ended September 30				
Average Monthly Bill Per Customer - Water	2003	2002	2001	2000	1999
Inside City (Urban)					
Residential	$ 24.67	$ 24.43	$ 24.64	$ 30.13	$ 23.50
Multi-Family	314 22	316.09	306.69	338.37	306.97
Commercial	204.61	207.39	182.12	199.83	166.96
Industrial	93,761.88	103,166.21	86,254.81	95,352.85	90,525.34
City Departments	373.10	431.17	342.98	321.34	315.39
Outside City (Rural)					
Residential	29.72	30.22	33.47	42.02	33.95
Multi-Family	231.67	229.36	194.34	193.96	168.54
Commercial	184.58	204.28	187.77	178.16	127.26
Average Monthly Bill					
Above Customers	50.88	51.56	50.53	57.71	48.23
Sales to Other Water Utilities*	30,360.71	31,499.61	29,057.09	38,611.80	31,045.89
Average Monthly Bill					
All Customers	$ 54.18	$ 54.86	$ 53.80	$ 61.50	$ 51.32
Average Monthly Use in 1000 Gallons - Water					
Inside City (Urban)					
Residential	8.35	8.38	8.73	10.13	8.25
Multi-Family	130.78	132.28	132.98	138.10	125.51
Commercial	69.28	71.52	67.99	81.34	67.58
Industrial	37,231.67	41,127.10	36,881.81	43,836.58	41,787.88
City Departments	123.76	135.77	137.21	154.26	147.32
Outside City (Rural)					
Residential	9.50	9.59	9.96	11.98	9.87
Multi-Family	103.22	101.43	85.62	82.78	71.81
Commercial	68.94	78.82	71.80	76.62	54.05
Average Monthly Use					
Above Customers	18.12	18.58	19.01	21.76	18.62
Sales to Other Water Utilities*	14,858.34	15,576.82	15,164.45	18,938.56	15,422.55
Average Monthly Use					
All Customers	19.74	20.21	20.71	23.62	20.15
Average Revenue Per 1000 Gallons - Water					
Inside City (Urban)					
Residential	$2.95	$2.92	$2.82	$2.97	$2.85
Multi-Family	2.40	2.39	2.31	2.45	2.45
Commercial	2.95	2.90	2.74	2.46	2.47
Industrial	2.52	2.51	2.34	2.18	2.17
City Departments	3.01	3.18	2.50	2.08	2.14
Outside City (Rural)					
Residential	$3.13	3.15	3.36	3.51	3.44
Multi-Family	2.24	2.26	2.27	2.34	2.35
Commercial	2.68	2.59	2.62	2.33	2.35
Average Revenue					
Above Customers	$2.81	2.78	2.66	2.65	2.59
Sales to Other Water Utilities*	2.04	2.02	1.92	2.04	2.01
Average Revenue					
All Customers	2.75	2.71	2.60	2.60	2.55

* Includes all wholesale customers.

Analysis of Wastewater Bills - TABLE NINE B

Average Monthly Bill Per Customer - Wastewater	2003	2002	2001	2000	1999
Inside City (Urban)					
Residential	$ 19.92	$ 20.26	$ 19.87	$ 23.11	$ 19.82
Multi-Family	405.13	408.21	385.39	477.69	413.23
Commercial	193.41	191.68	197.98	253.56	191.99
Industrial	112,135.81	128,387.33	110,619.51	127,044.30	118,340.25
City Departments	211.33	194.64	203.92	176.25	169.76
Outside City (Rural)					
Residential	25.67	25.29	23.51	28.91	23.50
Multi-Family	385.34	373.49	322.64	373.97	295.60
Commercial	436.55	584.21	561.31	668.53	634.63
Average Monthly Bill					
Above Customers	47.16	48.46	48.98	58.34	50.14
Sales to Other Utilities*	25,877.35	27,609.36	29,393.59	28,359.53	23,816.54
Average Monthly Bill					
All Customers	$ 48.53	$ 49.95	$ 50.42	$ 60.15	$ 51.66
Average Monthly Use in 1000 Gallons – Wastewater					
Inside City (Urban)					
Residential	4.67	4.78	4.89	6.08	5.24
Multi-Family	107.51	108.65	105.94	122.67	106.47
Commercial	46.32	46.49	49.83	56.71	47.68
Industrial	31,745.82	37,470.02	32,622.39	38,611.97	36,108.57
City Departments	62.78	54.56	56.14	52.01	50.10
Outside City (Rural)					
Residential	5.07	5.06	5.04	6.46	5.26
Multi-Family	102.51	101.05	88.53	95.76	75.88
Commercial	103.91	132.12	142.72	168.11	160.33
Average Monthly Use					
Above Customers	11.70	12.16	12.76	14.66	13.25
Sales to Other Wastewater Utilities*	8,847.72	9,288.69	11,207.18	10,550.50	8,919.36
Average Monthly Use					
All Customers	12.17	12.66	13.32	15.33	13.81
Average Revenue Per 1000 Gallons - Wastewater					
Inside City (Urban)					
Residential	$4.26	$4.24	$4.06	$3.80	$3.79
Multi-Family	3.77	3.76	3.64	3.89	3.88
Commercial	4.18	4.12	3.94	4.95	4.03
Industrial	3.53	3.43	3.39	3.29	3.28
City Departments	3.37	3.57	3.63	3.39	3.39
Outside City (Rural)					
Residential	5.06	5.00	4.66	4.48	4.47
Multi-Family	3.76	3.70	3.64	3.91	3.90
Commercial	4.20	4.42	3.93	3.98	3.96
Average Revenue					
Above Customers	4.03	3.98	3.84	3.98	3.79
Sales to Other Utilities*	2.92	2.87	2.62	2.69	2.67
Average Revenue					
All Customers	3.99	3.94	3.79	3.92	3.74

* Includes all wholesale customers.

THE ELECTRIC UTILITY SYSTEM
"AUSTIN ENERGY"

Management

Name	Title	Length of Service with City
Juan Garza	General Manager	3 Years, 9 Months
Elaine Hart , CPA	Senior Vice President Finance and Corporate Services	16 Years, 2 Months*
Michael McCluskey	Senior Vice President Wholesale and Retail Markets	18 Years, 1 Months
Cheryl Mele	Senior Vice President Electric Service Delivery	12 Years, 8 Months
Andy Ramirez, P.E.	Senior Vice President Power Production	7 Years, 1 Months
Roger Duncan	Vice President Governmental Relations, Energy and Environmental Policy	14 Years, 7 Months
Bob Kahn	Vice President Legal Services	12 Years, 5 Months
Kerry Overton	Vice President Customer Care	4 Years, 6 Months

*Length of service not continuous.

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for future success. The first is an overarching or "umbrella" strategy that addresses Risk Management. Under this strategy, Austin Energy will carefully manage its exposure when considering future courses of action. It's an approach that prepares Austin Energy for future options without prematurely investing and allows for more information to become known before major commitments are made.

Excellent Customer Service is the second strategy. Under this strategy Austin Energy will build employee and customer satisfaction so that it is positioned for competition or regulation whichever occurs in the future.

The third is the Energy Resource strategy. Under this strategy Austin Energy will first seek renewable energy and conservation solutions to meet customers' new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy will not prematurely commit to unproven technologies, however, it will pursue a leading edge position that will allow Austin Energy to readily identify, evaluate and deploy emerging renewable technologies.

Five objectives were identified to support the strategy including:

- Customer Satisfaction - Austin Energy will be proactive in developing an understanding of our customers by monitoring indicators and conducting customer surveys. Our target is a customer satisfaction score of 83/100 by 2010. Austin Energy will prepare its employees to work successfully in a competitive environment by providing the skill development and information necessary to make informed business decisions. We target an employee satisfaction index showing a 10% improvement in positive responses on the City's Listening to the Workforce Survey by 2010
- Economic Development - Austin Energy will create and sustain economic development by providing contract opportunities for local businesses, attracting new businesses, and supporting the development of a clean energy industry. Austin Energy plans to exceed the City of Austin MWBE goals by 2008.
- Exceptional Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages. The targets are to be met by 2005.
  - SAIFI (system average interruption frequency index) = 0.8 interruptions per year
  - SAIDI (system average interruption duration index) = 60 minutes per year
- Maintain Financial Integrity - Austin Energy plans to achieve an "AA" (Standard & Poor's) Credit Rating by 2010 on its separate lien revenue bonds. Austin Energy provides a return to its citizen owners in the form of financial support for local government.
- Renewable Portfolio Standard - Austin Energy will continue its nationally recognized renewable resources and Green Building programs. By 2020, Austin Energy will achieve a Renewable Portfolio Standard of 20% and 15% demand side management. Austin Energy will demonstrate its commitment to solar energy by implementing a Solar Rebate Program and conducting a study to determine the comprehensive value of solar energy.

The strategic plan includes an ongoing review process that will occur at least annually. The review will examine changing industry trends and recommend course corrections where necessary as well as the effectiveness of current initiatives and recommend adjustments to better meet our strategies and objectives.

Generation – TABLE ONE

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

Unit	Year Installed	Nameplate Rating (MW)	Fuel
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Holly Street Power Plant			
Unit No. 1	1960	100.0	Gas
Unit No. 2	1964	100.0	Gas
Unit No. 3	1966	165.0	Gas
Unit No. 4	1974	193.0	Gas
Decker Power Station			
Unit No. 1	1970	325.0	Gas/No. 2 oil backup
Unit No. 2	1977	405.0	Gas or Nos. 1 through 5 oil
Gas Turbines	1988	200.0	Gas/No. 1 oil backup
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Combined Cycle	2004	300.0	Gas
Domain Combined Heat & Power	2004	4.5	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	200.0	Nuclear
Total Capacity		2,942.5	

See Table Six "Generation and Use Data – System Peak Demand" for further description of peak demand to generation capacity. Generation capacity is adequate to meet native load. Holly Street Power Plant is scheduled for closure with Units 1 and 2 in December 2004 and Units 3 and 4 by December 2007.

Conventional System Improvements

In September 2003, the 2004-2008 Capital Improvements Spending Plan was approved by the City Council in the amount of $691,386,000. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and commercial paper.

The City is currently proceeding with testing of a newly constructed 300 MW combined cycle gas-fired electric generating facility at the Sand Hill Energy Center. The "one-on-one" combined cycle unit consists of one (1) "F' class combustion turbine (CT), one (1) natural circulation, duct fired, heat recovery steam generator (HRSG), one (1) steam turbine and balance of plant equipment and controls. The unit was designed so that a future "F" technology CT/HRSG train may be added to achieve a nominal rating of 500 MW for this power block. The facility was funded with cash from operations.

In 2004, Austin Energy is installing a 95 MVA Static Synchronous Compensator (STATCOM) to facilitate the closing of the aging Holly Power Plant. The STATCOM will help maintain adequate system reliability without the need for Holly generation. The 2004 capital budget was $7.9 million for transmission and substations that are recoverable through Transmission Cost of Service ("TCOS").

In 1995, the Public Utility Commission of Texas ("PUCT") adopted new rules governing the transmission system in ERCOT, which, at the time, was an organization made up of major investor-owned and municipal systems, a state river authority, a municipal joint agency, energy marketers, independent power producers and a number of cooperatives. As part of these new rules, the PUCT established a means for the transmission owners in ERCOT to recover TCOS. TCOS is based on the principle of equal transmission access for all loads and generation in ERCOT. Each load serving entity in ERCOT has been assigned a share of the total cost of transmission in ERCOT based upon the ratio of that load serving entity's load to the entire load in ERCOT. The funds recovered through this mechanism are distributed to transmission owners in ERCOT based upon a ratio of the transmission owner's investment in transmission facilities to the entire transmission investment in ERCOT. Austin Energy's load represents approximately 3.9% of ERCOT and Austin Energy's transmission cost of service is approximately 3.6% of ERCOT's total transmission cost of service. For calendar year 2004, this will result in a net loss of $3.6 million dollars from TCOS. On May 21, 2004, Austin Energy filed for a $12.8 million increase in TCOS with the Public Utility Commission of Texas. This is discussed in further detail under rate regulation.

Transmission and Distribution System

The transmission and distribution lines of the Electric Utility System as of September 30, 2003, are as follows:

Miles	Description
175	345 kV transmission line (Fayette Power Project)
94	345 kV transmission line (South Texas Project)
332	69 kV and 138 kV transmission lines
10,049	Overhead and underground distribution lines

Austin Energy owns the following transmission substations:

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

Austin Energy owns the following distribution substations:

Name	Capacity (MVA)	Name	Capacity (MVA)
Angus Valley	60	Lakeshore	60
Austin Dam	60	Lakeway	60
Balcones	60	McNeil	120
Barton	120	Magnesium	90
Bee Creek	90	Met Center	30
Bergstrom	60	North	60
Brackenridge	210	Northland	100
Brodie	90	Oak Hill	90
Burleson	90	Onion Creek	60
Cameron	90	Patton Lane	130
Cardinal Lane	90	Pedernales	60
Carson Creek	60	River Place	40
Commons Ford	90	Salem Walk	90
Daffin Gin	60	Seaholm	330
Dessau	130	Slaughter Lane	60
Ed Bluestein	200	Sprinkle	30
Fiskville	90	Steck	90
Grove	90	Summit	180
Hamilton	120	Techridge	90
HiCross	120	Trading Post	60
Hidden Valley	30	Walnut Creek	60
Howard Lane	60	Warren	60
Jett	60	Wheless Lane	90
Jollyville	90	Williamson	120
Kingsbery	60	Zilker	20
Koenig Lane	110		

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

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

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

Power and Energy Sales Contracts

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

Power and Energy Purchase Contracts

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

Wind Power Purchase . . . In March 1995, the City signed a 25-year contract with LCRA to purchase up to 39,000 MWh of electric energy per year from the Texas Wind Power Project located in the Delaware Mountains east of El Paso. The project went into commercial operation in September 1995.

In December 1999, Austin Energy signed a 10-year contract to purchase the output of a 20 MW wind energy project built by Texas Wind Power Corporation in Upton County. The original contract provided Austin Energy an option to increase the project capacity by an additional 78.4 MW. On October 26, 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and increasing the project capacity by an additional 56.7 MW. On December 19, 2000 King Wind L.P. assigned the contract to FPL Energy, Inc. The 76.7 MW wind farm began full-scale operation in September 2001.

In the 4th quarter of 2004, RES North America is expected to begin construction of an additional 93 MW of wind capacity near Sweetwater, Texas. Austin Energy will purchase the output from this project under a 12-year contract. Construction is scheduled to be completed by April 2005.

Landfill Gas (Methane) Power Purchase . . . In December 1994, the City signed a contract with Alternative Power Limited Partnership (APLP), an affiliate of Browning-Ferris Industries ("BFI"), to purchase energy from a 3-megawatt landfill gas plant in Austin. Another megawatt of capacity was added in 2003, bringing the total capacity to 4 MW.

In December 1999, Austin Energy signed two contracts for purchase of energy from landfill methane-recovery projects to be developed by Ecogas Inc. and Energy Developments, Inc. ("EDI"). Ecogas Inc. assigned its rights to EDI in October 2000. In October 2002, EDI brought on the first 5.2 MW of landfill methane generation at its Tessman Road facilities located in San Antonio, Texas. Another 2.6 MW of landfill methane generation was added in 2003, bringing the total capacity to 7.8 MW.

Annual Summary of Customer Consumption and Average Price – TABLE FOUR

Austin Energy delivers electricity to an average of approximately 360,000 customers within its service area. The kilowatt-hour sales distributed by customer classification served by Austin Energy are shown in the following table.

	Fiscal Year Ended September 30				
	2003	2002	2001	2000	1999
All Customers*					
Average Monthly kWh Per Customer	2,389	2,393	2,507	2,588	2,377
Average Monthly Bill Per Customer	$187.30	$159.76	$181.07	$179.91	$153.37
Average Monthly Revenues Per kWh	$0.07839	$0.06675	$0.07224	$0.06950	$0.06452
Residential Customers					
Average Monthly kWh Per Customer	969	951	1,008	1,032	945
Average Monthly Bill Per Customer	$85.41	$72.76	$81.64	$83.17	$71.03
Average Monthly Revenues Per kWh	$0.08811	$0.07652	$0.08099	$0.08062	$0.07514
General Customers**					
Average Monthly kWh Per Customer	13,679	13,876	14,264	14,480	13,716
Average Monthly Bill Per Customer	$983.18	$844.40	$952.57	$909.08	$798.62
Average Monthly Revenues Per kWh	$0.07187	$0.06085	$0.06678	$0.06283	$0.05823

* Excludes UT, Nightwatchman and a one-time adjustment for unbilled revenue of $35,810,170.

** Excludes UT, Nightwatchman and the City.

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Generation and Use Data – TABLE SIX

	Fiscal Year Ended September 30									
	2003		2002		2001		2000		1999	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		8,762,574,000		9,914,797,000		10,671,549,000		10,627,483,000		10,054,296,000
kWh Received from ERCOT(1)		2,322,933,000		1,027,954,000		499,596,000		263,551,000		236,149,000
Less: kWh Delivered to ERCOT		(117,125,000)		(135,995,000)		(53,171,000)		(31,160,000)		(36,200,000)
Less: kWh Delivered to Other Utilities		(157,465,000)		(43,394,000)		(46,778)		(355,454,000)		(354,082,000)
Total kWh Delivered to Service Area		10,810,917,000		10,763,362,000		11,117,927,222		10,504,420,000		9,900,163,000
Service Area Energy Use:										
Residential	320,710	3,730,628,647	315,009	3,594,055,810	308,841	3,736,146,850	296,481	3,670,131,218	301,057	3,415,342,333
General Service (Less UT & ENW)	37,987	6,235,607,964	37,250	6,203,425,889	37,080	6,346,850,890	36,553	6,351,518,316	35,790	5,890,650,390
	358,697	9,966,236,611	352,259	9,797,481,699	345,921	10,082,997,740	333,034	10,021,649,534	336,847	9,305,992,723
Public Street Lighting	4	35,072,993	4	34,241,705	4	33,737,705	3	33,530,825	3	33,226,385
City Utility Departments	177	194,839,055	182	202,600,427	185	200,713,675	186	201,953,134	214	195,756,743
Other City Departments	647	112,687,157	626	106,051,939	628	111,991,407	630	112,965,298	536	95,255,030
	828	342,599,205	812	342,894,071	817	346,442,787	819	348,449,257	753	324,238,158
Total Service Area Sales	359,525	10,308,835,816	353,071	10,140,375,770	346,738	10,429,440,527	333,853	10,370,098,791	337,600	9,630,230,881
Sales to UT & ENW (Nightwatchman)		12,561,939		12,354,690		11,911,011		14,609,114		11,074,895
Loss and Unaccounted For		489,519,245		610,621,540		676,575,684		119,712,095		258,857,224
Total kWh Delivered to Service Area	359,525	10,810,917,000	353,071	10,763,362,000	346,738	11,117,927,222	333,853(4)	10,504,420,000	337,600	9,900,163,000
System Peak Demand (kW)		2,350,000		2,247,000		2,211,000		2,383,000		2,239,000

(1) Electric Reliability Council of Texas (formerly Texas Interconnected System).

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Electric Rates – TABLE SEVEN

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

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

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

Annual Adjustment Clause

The City assesses an Annual Adjustment Clause charge based on a formula designed to recover the actual cost of fuel, purchased power, and wholesale fees and charges to meet the City's service area obligations. The intent of the fuel formula is to avoid any over or under recovery of costs associated with fuel.

Green Choice Energy Rider

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

Fuel

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

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

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

Energy Risk Management

During 2003, Austin Energy implemented an energy risk management program to both stabilize the volatility of fuel prices and lock in profit from off system sales. The pilot program was successful, and City Council authorized a full program in 2004 up to $300 million covering a 5 year horizon. Under the program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk.

Rate Regulation

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

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

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

In 1995, PURA was amended as it pertains to the PUCT's original jurisdiction over the City's provision of wholesale transmission service. The PUCT now has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, discriminatory, predatory, or anti-competitive. The PUCT adopted rules relating to wholesale transmission service. The City participated in the rulemaking. The current rules have been challenged in two original petitions filed by Reliant (formerly Houston Lighting & Power Co.) and City Public Service Board of San Antonio seeking a declaratory judgment holding the transmission pricing methodology in the PUCT's new transmission rules invalid and seeking a remand of the rulemaking. The City intervened in the proceedings in defense of the rulemaking. The two proceedings were consolidated and on April 20, 1998, the 98th District Court of Travis County entered final judgment against the plaintiffs, declaring the PUCT rules to be "valid, constitutional, and fully effective." The plaintiffs then appealed to the Third Court of Appeals in Austin. On January 6, 2000, the Third Court of Appeals invalidated those parts of the PUCT rules dealing with transmission rates, reversing the trial court and rendered judgment for the appellants. The City and others petitioned the Supreme Court of Texas for a review of the Third Court of Appeals opinion and the Supreme Court issued a ruling on June 28, 2001 affirming the ruling of the Third Court of Appeals. The PUCT has not taken any action based on the Supreme Court's ruling. However, Reliant and City Public Service Board of San Antonio filed two separate actions in Travis County District Court in January 2002 seeking a declaration by the court as to the amount of refunds due to them as a result of the ruling by the Supreme Court. The City Council approved a proposed settlement of the case in August 2003. The settlement has been presented to the PUCT for consideration. It is unknown when the PUCT will consider the settlement.

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

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

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

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

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

MOUs Which *Do Not* Choose Retail Competition

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

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

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

MOU Local Control Preserved

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

Participation By MOU In Markets Outside Its Area

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

Metering And Billing

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

Other Key MOU Provisions

– Existing contracts are preserved. Tax-exempt status is preserved. MOU "competitiveness provisions" were included in SB 7 to "level" the field for MOUs when preparing for competition including relaxation of open meetings/records and purchasing provisions. No mandated MOU rate reductions.
– The City has not yet made a decision whether to "opt in" for retail competition or not, and the City cannot predict the short term or long term impact on the Electric Utility System or its revenues resulting from a decision to "opt in" or not, or resulting from the deregulation process in general.

Real Estate Taxes

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

Service Area

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

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

Federal Regulation

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

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

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

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

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

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

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

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

Environmental

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

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

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

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

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

Water

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

Other

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

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

Nuclear

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

STP is still protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors expired on August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $10.76 billion per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100.59

million, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

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

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

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

Finally, the NRC maintains its regulations setting forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the required report to the NRC and determined that the minimum amount for decommissioning is $105 million (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with Bank One, National Association. The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at September 30, 2003 was $90,687,258. For Fiscal Year 2004, Austin Energy estimates that it will continue to collect approximately $4,958,221 for decommissioning expense.

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COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS OCTOBER 1, 1998 TO SEPTEMBER 30, 2003

(Thousands Rounded)

	Fiscal Year Ended September 30				
INCOME	2003	2002	2001	2000	1999
Revenue	$1,189,673	$1,022,988	$1,087,541	$1,070,558	$926,692
Operating Expense	663,651	513,780	561,097	516,441	429,926
Balance Available for Debt Service	526,022	509,208	526,444	554,117	496,766
Depreciation and Amortization Expense	141,632	144,493	138,068	133,393	125,279
Earnings Before Interest Expense	384,390	364,715	388,376	420,724	371,487
Interest Incurred on Debt	(183,697)	(172,111)	(187,296)	(183,653)	(177,327)
Other	(17,509)	(5,883)	(1,059)	(2,174)	(9,661)
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	$ 183,184	$ 186,722	$ 200,021	$ 234,897	$184,499
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	55.78%	50.22%	51.59%	48.24%	46.39%
Balance Available for Debt Service	44.22%	49.78%	48.41%	51.76%	53.61%
Depreciation and Amortization Expense	11.91%	14.12%	12.70%	12.46%	13.52%
Earnings Before Interest Expense	32.31%	35.65%	35.71%	39.30%	40.09%
Interest Incurred on Debt	-15.44%	-16.82%	-17.22%	-17.15%	-19.14%
Other	1.47%	-0.58%	0.10%	-0.20%	-1.04%
INCOME BEFORE EXTRAORDINARY GAIN (LOSS)	15.40%	18.25%	18.39%	21.95%	19.91%

(a) Income before transfers to the General Fund and Other Funds, for 12 months ended September 30, 2003, which are as follows:
Transfer to General Fund $92,417,329
Transfers to Other Funds $ 4,733,556
(b) Excludes Combined Utility Funds' deferred costs of ($7,598,414) for twelve months ended September 30, 2003.
(c) There was no extraordinary gain or loss during this twelve-month period.
(d) Excludes capital contributions of $39,122,512 for twelve months ended September 30, 2003.

OPERATING STATEMENT
ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM
(in thousands)

	Fiscal Year Ended September 30				
	2003	2002	2001	2000	1999
REVENUE					
ELECTRIC UTILITY					
Service Area Sales	$ 838,189	$ 668,744	$ 756,246	$ 723,260	$622,489
Sales to Other Utilities (Including Capacity Contract)	51,168	41,625	33,135	50,780	51,566
Rent from Electric Property	1,455	2,002	995	851	878
Customers' Forfeited Discounts and Penalties	3,893	4,738	(36)	1,558	3,964
Miscellaneous	26,944	27,986	15,970	6,280	3,190
Total Electric Utility	$ 921,649	$ 745,095	$ 806,310	$ 782,729	$682,087
WATER UTILITY					
Urban	$ 111,689	$ 104,547	$ 99,156	$ 109,963	$ 91,861
Rural	7,293	6,837	6,439	7,413	5,582
City Utility Departments	0	0	0	0	310
City General Government Departments	0	0	0	(42)	1,087
Sales to Other Water Utilities	7,697	7,164	7,185	7,877	6,333
Water Connections	403	300	237	208	233
Customers' Forfeited Discounts and Penalties	623	784	(5)	263	605
Miscellaneous	2,719	2,403	1,661	4,507	3,610
Total Water Utility	$ 130,424	$ 122,035	$ 114,673	$ 130,189	$109,621
WASTEWATER UTILITY					
Urban	$ 97,495	$ 92,793	$ 92,328	$97,895	$91,672
Rural	3,971	3,311	2,810	2,631	2,229
City Utility Departments	0	0	1	7	546
City General Government Departments	0	0	0	0	42
Service to Other Utilities	2,966	2,983	3,161	3,114	2,858
Wastewater Connections	369	275	217	190	216
Customers' Forfeited Discounts and Penalties	598	733	(3)	260	573
Industrial Waste Surcharge	3,846	3,662	3,730	4,041	3,950
Miscellaneous	2,696	3,742	2,998	2,152	2,335
Total Wastewater Utility	$ 111,941	$ 107,499	$ 105,242	$ 110,290	$104,421
Interest	$ 25,658	$ 48,359	$ 61,316	$ 47,350	$ 30,561
TOTAL REVENUE	$1,189,672	$1,022,988	$1,087,541	$1,070,558	$926,690

OPERATING STATEMENT
ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM – (Continued)
(in thousands)

	Fiscal Year Ended September 30				
	2003	2002	2001	2000	1999
EXPENSE					
ELECTRIC					
Total Electric Utility	$554,235	$401,439	$458,686	$420,075	$342,914
WATER					
Purification	$ 16,834	$ 16,702	$ 15,303	$ 14,225	$ 12,650
Distribution	20,796	20,897	20,197	18,247	15,575
Customers' Accounting and Collection	6,035	6,378	5,202	5,457	3,908
Jobbing and Contract Work	(118)	(78)	52	14	(27)
Design Engineering	708	800	425	1,922	1,251
Administrative and General	14,754	15,296	12,406	12,939	10,764
Total Water Utility	$ 59,009	$ 59,995	$ 53,585	$ 52,804	$ 44,121
WASTEWATER					
Wastewater Lines	$ 5,609	$ 6,299	$ 6,175	$ 7,592	$ 8,563
Sewage Treatment Plant	20,913	21,405	19,172	17,115	17,634
Customers' Accounting and Collection	2,911	3,017	4,374	4,406	2,483
Jobbing and Contract Work	11	24	87	69	56
Design Engineering	7,396	7,437	6,846	1,998	2,312
Administrative and General	13,567	14,164	12,172	12,382	11,842
Total Wastewater Utility	$ 50,407	$ 52,346	$ 48,826	$ 43,562	$ 42,890
TOTAL EXPENSE (1)	$663,651	$513,780	$561,097	$516,441	$429,925
NET REVENUE AVAILABLE FOR DEBT SERVICE	$526,021	$509,208	$526,444	$554,117	$496,765
Electric Customers	359,530	359,368	354,302	350,382	363,178
Water Customers	184,659	182,977	178,608	176,096	173,038
Wastewater Customers	169,330	168,159	163,610	151,744	159,157

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

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the period beginning with the fiscal year ("FY") FY99 through FY03 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY99 through FY03, were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY99 through FY03 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY99 through FY03 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

GASB 34

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34 (GASB 34), Basic Financial Statements- and Management's Discussion and Analysis (MD&A) - for State and Local Governments. Subsequently, the GASB issued related Statement Nos. 37, 38 and 39. The objective of these Statements is to enhance the clarity and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The Statements require a new reporting model for financial statements for governments, with a focus on the entity as a whole.

The City implemented GASB 34 and the related statements for the fiscal year ending September 30, 2002, in compliance with GASB 34 timelines. While adoption of this Statement altered the presentation of the City's financial information, the adoption of GASB 34 did not have any material adverse impact on the City's financial position, results of operation, or cash flows. Consistent with GASB 34, the City has not presented restated fiscal year data for fiscal years prior to the fiscal year ending after September 30, 2002 for the purpose of providing comparative data.

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The Electric Utility System and Water and Wastewater System – TABLE SEVENTEEN
(in thousands)

	Fiscal Year Ended September 30				
	2003	2002	2001	2000	1999
Plant Cost					
Utility Systems					
Electric	$3,399,284	$3,231,331	$3,067,650	$2,842,927	$2,693,238
Water	1,275,501	1,220,643	1,169,575	1,090,912	1,003,650
Wastewater	1,214,498	1,123,646	1,080,759	1,032,885	976,681
Total Cost	$5,889,283	$5,575,620	$5,317,984	$4,966,724	$4,673,569
Allowance for Depreciation:					
Electric	$1,288,675	$1,203,986	$1,131,861	$1,048,947	$ 972,368
Water	299,550	278,757	264,352	242,395	220,478
Wastewater	358,634	337,795	328,640	304,152	280,009
Total Depreciation	1,946,859	1,820,538	1,724,853	1,595,494	1,472,855
Cost after Depreciation	$3,942,424	$3,755,082	$3,593,131	$3,371,230	$3,200,714
Equity in Utility Systems					
Utility Systems	$5,889,283	$5,575,620	$5,317,983	$4,966,724	$4,673,569
Plus: Inventories, Materials and Supplies (1)	32,349	32,980	34,689	32,905	32,227
Net Construction Assets and Unamortized Bond Issue Cost(2)	28,922	125,858	154,576	126,423	145,028
	5,950,554	5,734,458	5,507,248	5,126,052	4,850,824
Less:					
Allowance for Depreciation	1,946,856	1,820,538	1,724,853	1,595,495	1,472,854
Construction Contract Payable	0	0	279	1,149	2,128
Total	1,946,859	1,820,538	1,725,132	1,596,644	1,474,982
Utility Systems, Net	4,003,695	3,913,920	3,782,116	3,529,408	3,375,842
Revenue Bonds and Other Debt Outstanding (3)	2,798,156	2,796,408	2,779,856	2,722,323	2,651,729
Less: Bond Retirement and Reserve Funds	144,410	147,637	170,700	161,597	160,867
Net Debt	2,653,746	2,648,771	2,609,156	2,560,726	2,490,862
Equity in Utility Systems	$1,349,949	$1,265,149	$1,172,960	$ 968,682	$ 884,980
Percentage of Equity in Utility Systems	33.72%	32.32%	31.01%	27.45%	26.22%

(1) Does not include fuel oil or coal inventories of approximately $14.2 million at September 30, 2003. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.
(2) Includes investment in municipal utility districts of $2 thousand.
(3) Includes Revenue Bonds and Tax and Revenue Bonds of $2,622.1 million (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of $16.2 million; Capital Lease Obligation Bonds of $14.9 million; Commercial Paper of $128.4 million (net of discounts); General Obligation Bonds of $8.8 million; and Contractual Obligations of $7.6 million.

LITIGATION

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

Electric Utility System Litigation

Austin Energy and Enron Sandhill Limited Partnership have entered into a joint operation agreement (the Sandhill Power Project). Although Enron Sandhill is not in bankruptcy, its guarantor, Enron North America Corporation is currently under Chapter 11 protection. Prior to the bankruptcy filing, Austin Energy issued a notice of default to Enron Sandhill and Enron North America Corporation stating that Enron and the partnership were in anticipatory breach of their obligations under the joint operation agreement because of past due invoices. The letter also stated that Austin Energy would decline any requests to schedule delivery of energy from Sandhill Energy Center until payment of delinquent invoices had been received and authorized written assurances are given that future invoices would be paid in a timely manner. Austin Energy suspended all bilateral transactions with Enron Corporation, its affiliates and related entities in early November 2001 and no additional energy transactions are contemplated with Enron. On May 7, 2003, Austin Energy entered into a final settlement with Enron Sandhill Limited Partnership and Enron North America Corporation to resolve all outstanding issues between Austin Energy and those entities with respect to the Sand Hill Energy Center. The settlement agreement was approved by the bankruptcy court and is final. Pursuant to the settlement, the joint operation agreement was terminated, Austin Energy took full ownership of the plant, and all claims between Austin Energy and the other parties were settled in exchange for a payment by Austin Energy for outstanding construction cost after accounting for certain offsets. The joint operation agreement was replaced by a Power Allocation Agreement (essentially a call option on certain amounts of power from the plant), which was subsequently assigned by Enron Sandhill to RWE Trading Americas, Inc. That agreement expired by its own terms on November 3, 2003. There are currently no contingencies or litigation risks relating to any Enron entities of the Enron bankruptcy proceedings.

On September 26, 2003, FPL Energy Upton Wind LP, filed a lawsuit against the City of Austin in the United States District Court for the Western District of Texas in Austin, Civil Action A03CA68314. The lawsuit alleged that Austin Energy failed to comply with its obligations under the wind power purchase agreement. The allegations include failure to accept energy from FPL's facility and to make curtailment payments. The lawsuit alleges damages, as of July 2003, in the amount of $3.2 million plus interest. No trial date has been set, and discovery has been ongoing. Austin Energy intends to vigorously defend the lawsuit.

A discussion of the litigation regarding the challenge of Reliant and City Public Services Board of San Antonio to the PUCT rules relating to the wholesale transmission service is contained in the rate regulation section. See 'THE ELECTRIC UTILITY SYSTEM – Rate Regulation".

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that the settlement of these claims and pending litigation will not have a material adverse effect on the City's financial condition. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2003.

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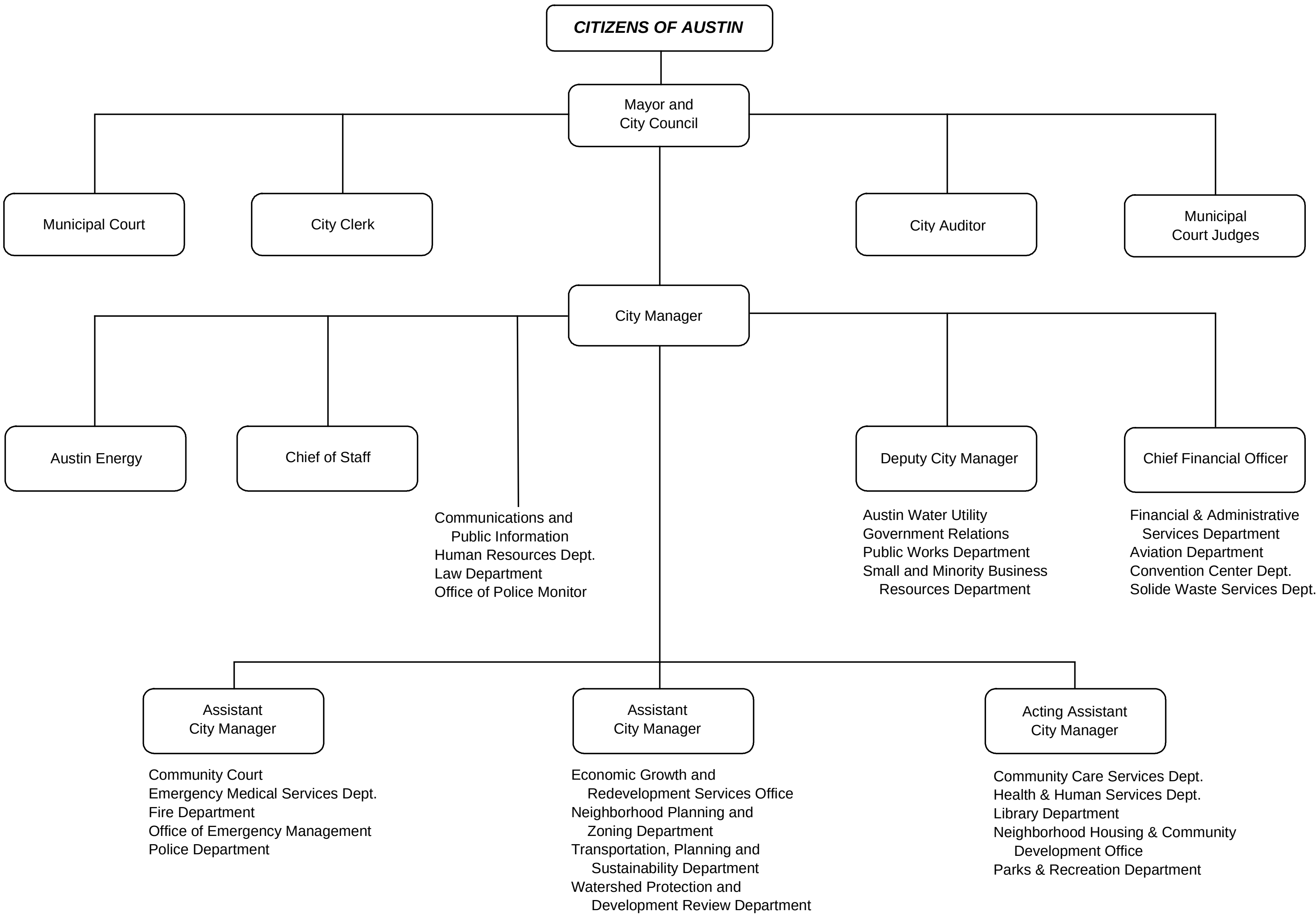
CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

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

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

City Manager – Toby Hammett Futrell

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

Chief Financial Officer – John Stephens, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

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

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

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

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

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

The following table sets forth (in acres) the annual results of the City's annexations since 1994. Negative numbers reflect disannexations in excess of acreage annexed.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
1994	3,057	0
1995	(1,748)	2,770
1996	3,163	0
1997	15,083	0
1998	2,660	1,698
1999	90	588
2000	4,057	4,184
2001	3,908	15
2002	2,019	1,957
2003	3,253	0

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

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

Recent Annexation

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

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

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

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

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

Future Annexation

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

- Avery Ranch – sections of limited purpose area will continue to be converted to full purpose status;
- Walnut Creek Area – full purpose annexation of limited purpose area northeast of Austin scheduled for 2005;
- Wildhorse Ranch – limited purpose area with conversions to full purpose expected to begin in 2004;
- Springwoods MUD and adjacent areas – annexation postponed until December 2007 per terms of the amended SPA (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects); and
- Anderson Mill MUD and adjacent areas – annexation postponed until December 2008 per terms of the amended SPA.

Pension Plans

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

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

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund over 25.7 years and the Firefighter's Fund over 33.4 years.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 2003, was $1,551,830,802. The actuarial accrued liability for the Police Officers' Fund as of December 31, 2002, was $384,992,000. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2003, was $452,668,849. Actuarial studies were performed for the Municipal Employees Fund and Firefighter's Pension Fund as of December 31, 2003, and the Police Officer's Fund as of December 31, 2002. The Municipal Employees Fund had an infinite funding period at year end 2003, and various methods of restoring actuarial soundness are currently being evaluated. See Note 8 to the City's Financial Statements for additional information on the Pension Plans.

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

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

Insurance

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

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 May 31, 2004, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	15.1%
U. S. Agencies	56.8%
Money Market Funds	0.3%
Local Government Investment Pools	27.8%

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

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. A form of Bond Counsel's opinion is attached here to as APPENDIX E.

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

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Seventh Supplement subsequent to the issuance of the Bonds. The Seventh Supplement 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 will note that no opinion is being expressed on excludability from gross income for federal income tax purposes of any action taken under the Seventh Supplement, which action requires that the City receive an opinion of Bond Counsel to the effect that such action will not adversely affect excludability of the interest on the Bonds from the gross income of the owner thereof federal income tax purposes. Such actions that require an opinion of Bond Counsel include, but are not limited to, converting the interest rate on 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 issuer as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on either series of the Bonds, the City may have different or conflicting interests from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Systems of the general type included in the main text of the Official Statement within the numbered tables only and in APPENDIX B. The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year end. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 ("the 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 of each year unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

Material Event Notices

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

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and the SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received unenhanced ratings of "A2" by Moody's Investors Service, Inc. ("Moody's"), "A" by Standard & Poor's Rating Group ("S&P") and "A+" by Fitch Ratings, Inc. ("Fitch"). The Bonds will be rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch as a result of the policy issued by the Insurer (see "Bond Insurance"). Moody's, S&P and Fitch will also assign the Bonds short-term ratings of "VMIG-1", "A-1+" and "F1" based on the obligation of the Standby Purchaser to purchase Bonds pursuant to the Liquidity Facility. See "THE STANDBY BOND PURCHASE AGREEMENT". An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings.

There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the City nor the Financial Advisor will undertake any responsibility to notify bondholders of any such revisions or withdrawals of rating.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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 the sufficiency of the anticipated receipts from the Federal Securities and cash deposited into the Escrow Fund to pay the Refunded Bonds and the yield on the Bonds.

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 Bonds.

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Previously Issued Parity Water/Wastewater Obligations, Prior Subordinate Lien Obligations (identified and defined in the Ordinances) and Previously Issued Separate Lien Obligations (identified and defined in the Ordinances), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest, on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as APPENDIX E.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, "SECURITY FOR THE BONDS," "DESCRIPTION OF THE BONDS," "SWAP AGREEMENT," "STANDBY BOND PURCHASE AGREEMENT," "TAX EXEMPTION," "CONTINUING DISCLOSURE OF INFORMATION," "OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds," 'OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas," "OTHER RELEVANT INFORMATION – Legal Opinions," "APPENDIX C" and "APPENDIX D" to verify that the information relating to the Bonds, the Master Ordinance, the Seventh Supplement and the Bond Ordinance contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the Closing occurring. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Andrews Kurth LLP, counsel to the Underwriter.

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

Financial Advisor

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

Underwriting

J.P. Morgan Securities Inc. agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a price equal to the par amount of the Bonds, less an underwriting discount of $463,662.50. The Underwriter will be obligated to purchase all the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Forward - Looking Statements

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

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

Miscellaneous Information

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

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

/s/Will Wynn
Mayor
City of Austin, Texas

ATTEST:

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

AUSTIN'S GOVERNMENT, ECONOMY AND OUTLOOK

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six Councilmembers. The Mayor and Councilmembers are elected at large for three-year staggered terms, with a maximum of two consecutive terms. A petition signed by a minimum 5 percent of voters waives the term limit for a councilmember. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs.

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

Austin is frequently recognized as a great place to live and/or work, with one of the most recent commendations in *Forbes,* which rated Austin as the number one city on its list of Best Places for Business and Careers. *Forbes* also recognized Austin as the best city for singles. Austin has long attracted a variety of people, and the reasons that draw people to the City are varied. The area has a natural beauty and a first-rate parks department that administers a number of public outdoor recreational facilities, including neighborhood parks, greenbelts, athletic fields, golf courses, tennis courts, a veloway for bicyclists and in-line skaters, miles of hike and bike trails and striped bike lanes, a youth entertainment complex and swimming pools.

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

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

During the 1990s, over 280,000 jobs were created in Austin; unemployment dropped to less than 2 percent in 2000. Since then, Austin and the Central Texas area have been hit hard by the technology slump. Although the Austin area unemployment rate has improved slightly from the previous year, it remains significantly higher than prior to the economic downturn. The unemployment rate for September 2003 was 5.5 percent, which is a slight improvement from the September 2002 rate of 5.7 percent. Statewide, the unemployment rate stands at 6.6 percent, compared to 6.5 percent a year ago.

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

The City's airport continues to see a decline in travel as a result of the 9/11 tragedy and continued security concerns related to air travel. Total airline passengers declined slightly in 2003 from the previous year. Costs related to the operations of the airport increased significantly due to security costs. Parking revenues have also declined significantly due to the decline in travel and an increase in competition from other parking sites located near the airport. The City's Convention Center facilities, with the addition of the expanded Convention Center facility and the new Palmer Events Center, increased revenues significantly from the previous year. The increase in revenues was proportionately higher than the increase in expenses to operate the facilities, in part due to cost-cutting initiatives instituted beginning in 2002. Although water and wastewater revenues were higher than the previous year, they were less than anticipated due to mild weather conditions.

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

For the future, Austin's strengths continue to be the ones that lead to growth in the recent past: a highly capable workforce, innovation and entrepreneurship, clusters in knowledge industries, the presence of a world-class research university and several other institutions of higher learning, strong community assets and a superior quality of life. Austin has recently reorganized its economic development activity to focus on three major areas; traditional economic development (including primary employers), small business development, and cultural vitality.

MAJOR INITIATIVES AND ACHIEVEMENTS

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

Health and Safety Projects

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

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

Convention and Cultural Projects

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

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

Economic Development and Transportation Projects

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

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

Utility Projects

Austin Energy, the City's electric utility, continues its efforts to remain competitive in the new deregulated environment. Deregulation allows Texas residents and businesses served by utilities participating in deregulation to choose the supplier from which they purchase their electricity. The local electric utility continues to deliver the electricity. Deregulation began in Texas on January 1, 2002 for all private electric utilities. These utilities, owned by stockholders, are called investor-owned utilities (IOUs).

Electric cooperatives (Co-ops) and city-owned electric utilities (called municipally owned utilities or MOUs) such as Austin Energy can participate, or "opt-in," by a vote of their board or City Council. Once the City Council votes to participate in deregulation, it cannot later withdraw. The City has not "opted-in," but does continue to prepare for that possibility. A key step in remaining competitive was to begin moving from issuing combined utility debt (combined electric and water and wastewater) to issuing debt specific to the electric utility. To proceed towards that goal, Austin Energy issued$182.1 million in Electric Utility revenue refunding bonds and refunded $100.3 million of the Combined Utility System tax exempt commercial paper and $87 million of the outstanding Combined Utility System taxable commercial paper during 2003. Austin Energy continues to increase participation in the GreenChoice Program, including participation from Concordia University, which is the first college in the nation to subscribe to 100 percent green power. Austin Energy's GreenChoice Program ranks number one in the nation in green power sales according to the Department of Energy.

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

Status of City Services

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

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

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

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

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

	1980	% of Total	1990	% of Total	2002	% of Total	2003	% of Total	May 31, 2004	% of Total
Industrial Classification										
Manufacturing	31,014	12.8%	49,300	12.9%	71,200	10.6%	60,483	9.1%	56,600	8.6%
Government	78,263	32.3%	110,400	28.8%	147,900	22.1%	148,433	22.4%	147,800	22.5%
Trade, transportation & utilities (b)	59,121	24.4%	90,500	23.6%	173,800	25.9%	113,183	17.0%	132,400	20.1%
Services and miscellaneous	44,826	18.5%	97,200	25.3%	201,800	30.1%	265,342	40.0%	242,600	36.9%
Finance, insurance and real estate	14,296	5.9%	23,400	6.1%	34,100	5.1%	37,850	5.7%	40,700	6.2%
Contract Construction	14,053	5.8%	12,000	3.1%	39,800	5.9%	37,008	5.6%	36,300	5.5%
Natural resources and mining	727	0.3%	700	0.2%	1,700	0.3%	1,776	0.3%	1,500	0.2%
Total	242,300	100.0%	383,500	100.0%	670,300	100.0%	664,075	100.0%	657,900	100.0%

(a) Austin-San Marcos MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided. Numbers for 2003 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of May 31, 2004.
(b) Trade, transportation and utilities are reported together as of 2003.
Source: 2003 Comprehensive Annual Financial Report, Texas Workforce Commission.

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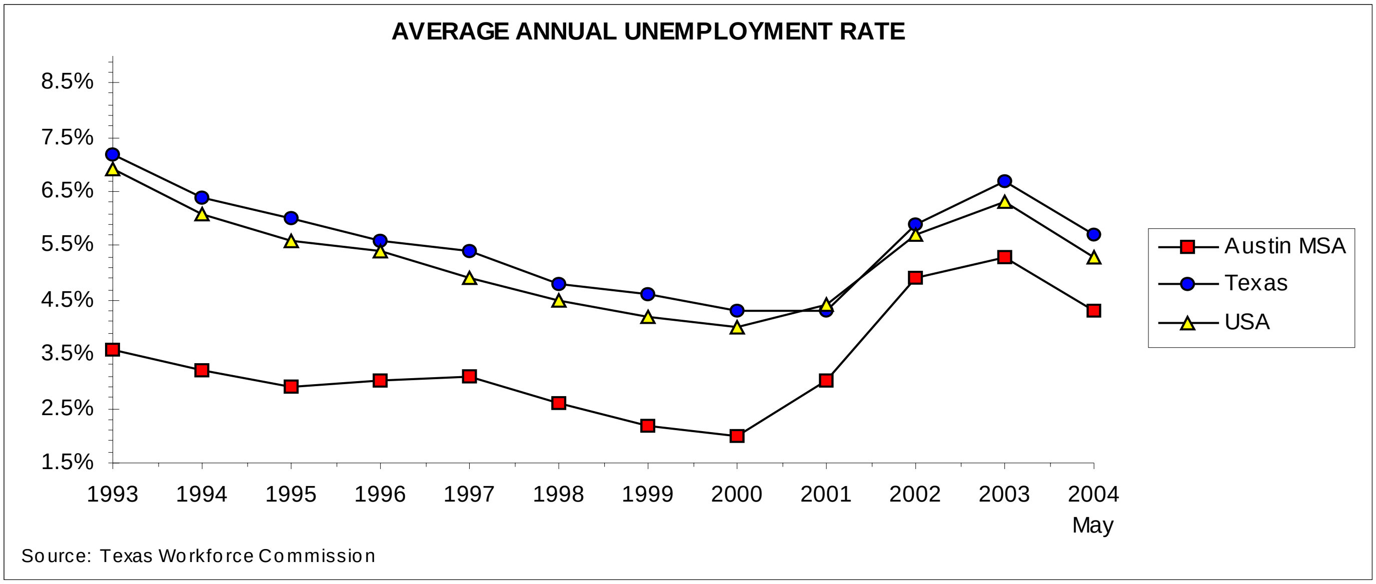
Average Annual Unemployment Rate



	Austin MSA	Texas	U.S.
1993	3.6%	7.2%	6.9%
1994	3.2%	6.4%	6.1%
1995	2.9%	6.0%	5.6%
1996	3.0%	5.6%	5.4%
1997	3.1%	5.4%	4.9%
1998	2.6%	4.8%	4.5%
1999	2.2%	4.6%	4.2%
2000	2.0%	4.3%	4.0%
2001	3.0%	4.3%	4.4%
2002	4.9%	5.9%	5.7%
2003	5.3%	6.7%	6.3%
2004 May	4.3%	5.7%	5.3%

Note: Information is updated periodically, data contained herein is latest provided.
Source: 2003 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

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	2-1-04	12.382
3-1-00	9.078	3-1-01	9.169	3-1-02	8.345	3-1-03	8.218	3-1-04	8.693
4-1-00	8.363	4-1-01	9.243	4-1-02	8.322	4-1-03	7.981	4-1-04	8.534
5-1-00	11.500	5-1-01	12.091	5-1-02	10.746	5-1-03	10.644	5-1-04	10.867
6-1-00	9.344	6-1-01	9.199	6-1-02	9.253	6-1-03	8.519	6-1-04	9.384
7-1-00	9.651	7-1-01	9.605	7-1-02	9.287	7-1-03	7.908		
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		

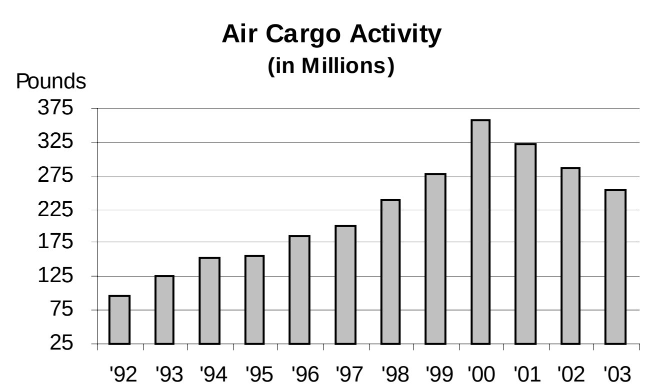
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2003)

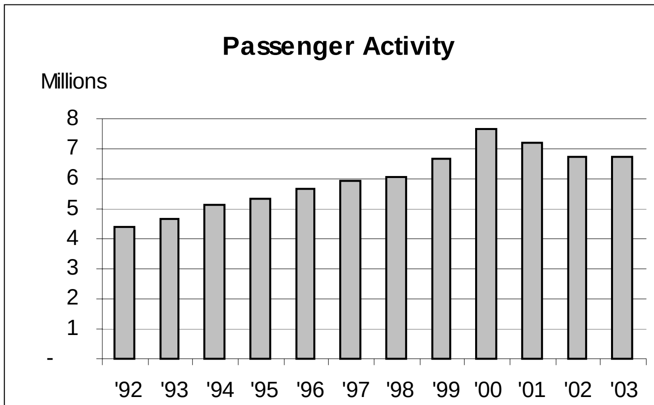
Employer	Product or Service	Employees
The University of Texas at Austin	Education and Research	20,249
Dell Computer Corporation	Computers	16,000
City of Austin	City Government	10,463
Austin Independent School District	Education	10,408
Motorola, Inc.	Electronic Components	8,500
IBM Corporation	Office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

Source: 2003 Comprehensive Annual Financial Report.

Transportation



Source: City of Austin Aviation Department.



Source: City of Austin Aviation Department.

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%
2003	674,719	0.6%	865,497	2.0%	22,118,509	1.6%	290,809,777	0.9%

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

Connections and Permits

	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
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743

Source: 2003 Comprehensive Annual Financial Report.

Wealth and Income Indicators

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

Effective Buying Income and Retail Sales

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 $810 per month, with an occupancy rate of 89% for the fourth quarter 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	19,789	3,898,456,709	197,001
2004 May	8,256	1,626,400,792	196,996

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	76.7%
2004 (2nd Quarter)	79.3%

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

Education

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

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

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

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

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

Tourism

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

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

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APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

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KPMG LLP
Suite 1100
111 Congress Avenue
Austin, TX 78701

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 the City of Austin, Texas ("City"), as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents under "Basic Financial Statements". These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

KPMG LLP

R. Mendoza & Company, P.C.

Austin, Texas
February 6, 2004

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

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

FINANCIAL HIGHLIGHTS

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

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

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

At the close of the current fiscal year, unreserved fund balance for the General Fund was $88 million or 20% of total General Fund expenditures of $433 million.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

a -- Government-wide Financial Statements

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

- The ***statement of net assets*** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Austin is improving or deteriorating.

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

b -- Fund Financial Statements

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

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

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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

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

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

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

c -- Notes to the Financial Statements

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

d -- Other Information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

a -- Net Assets

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

Net Assets
as of September 30
(in thousands)

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

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

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

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

b -- Changes in Net Assets

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

Changes in Net Assets
September 30
(in thousands)

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

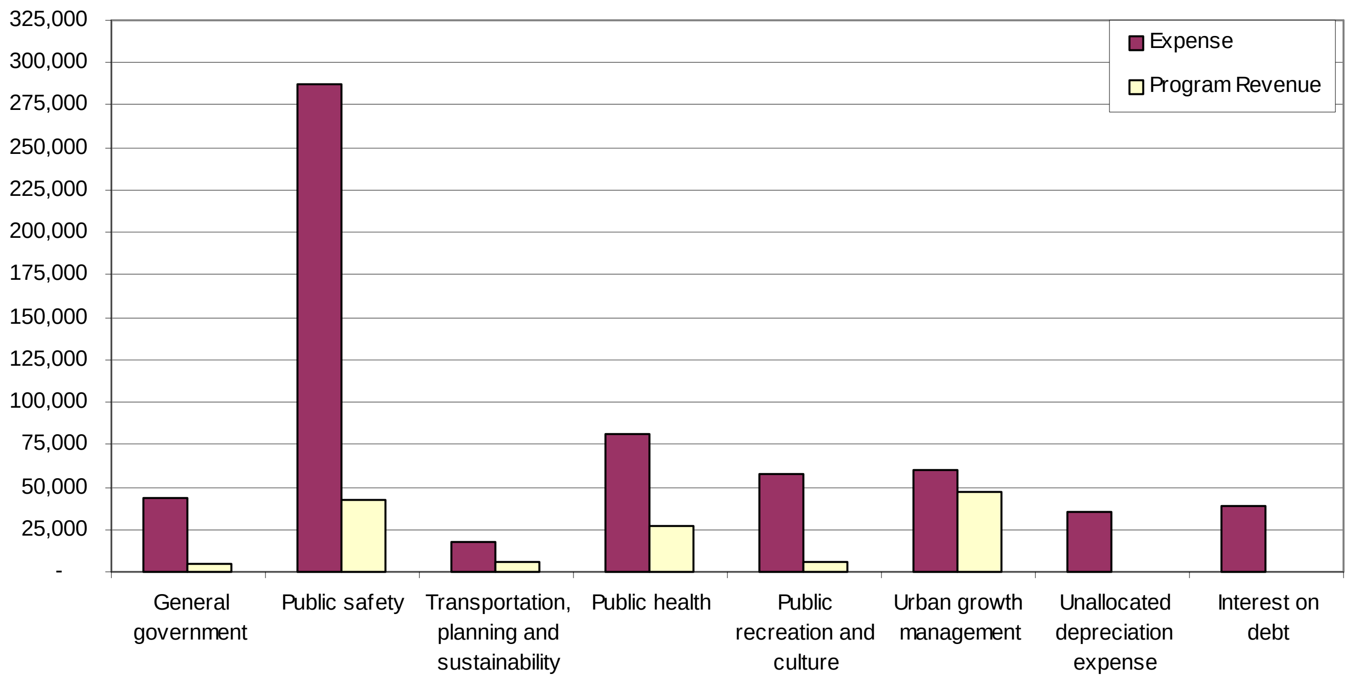
c -- Program Revenues and Expenses -- Governmental Activities

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

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

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

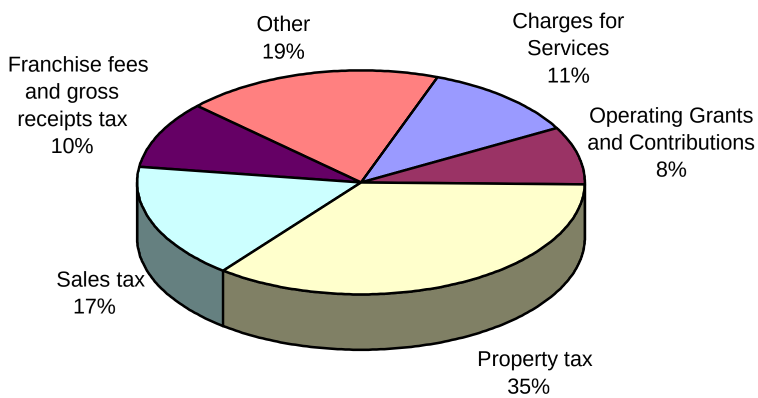
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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

Government-wide Revenues by Source -- Governmental Activities



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

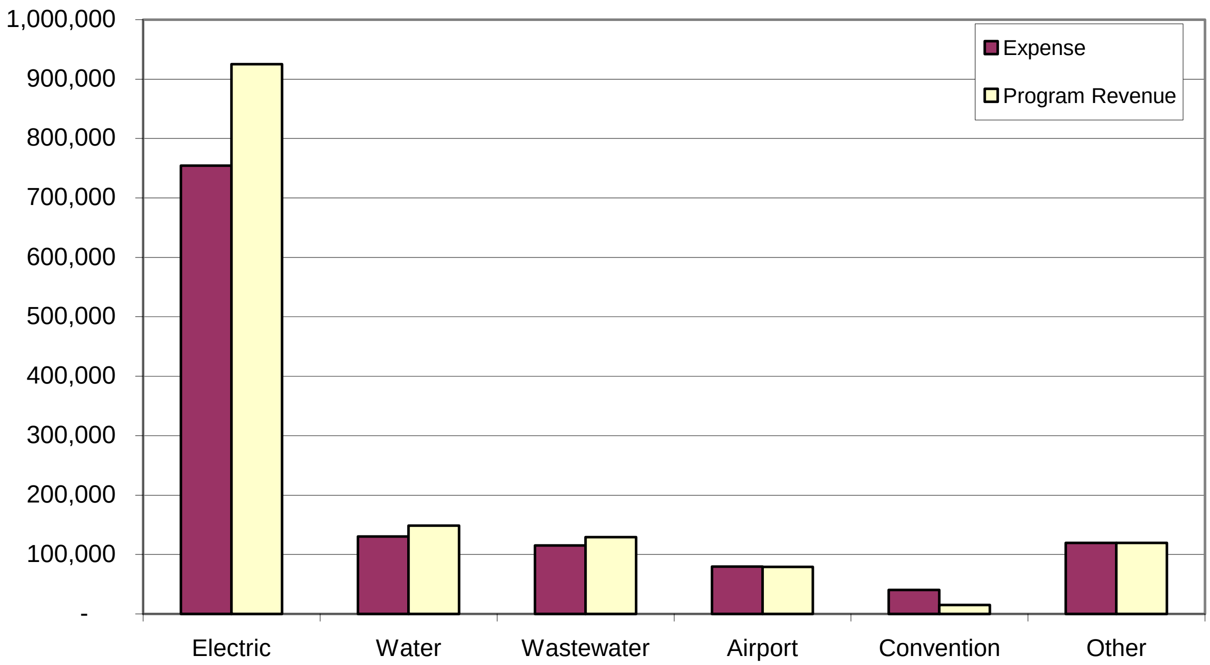
Business-type activities increased the City's net assets by $140.7 million, accounting for a 4% increase in the City's total net assets and 58% of the current year increase in net assets. Net program expenses and revenues are, as follows:

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

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

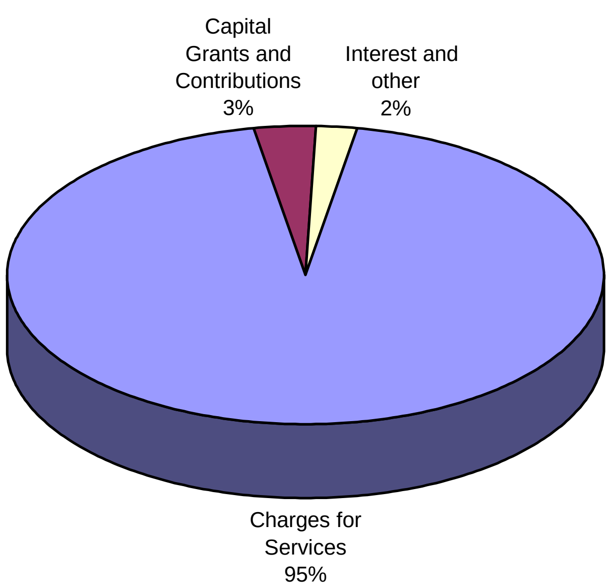
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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



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

Government-wide Revenue by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND LEVEL STATEMENTS

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

a -- Governmental funds

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

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

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $88 million, while total fund balance was $93 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20% of total General Fund expenditures of $433 million, and total fund balance represents 22% of expenditures. The unreserved and undesignated fund balance of the General Fund is $35 million, which may be designated by City Council for specified uses for the future.

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

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

b -- Proprietary funds

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

- Total Electric Fund net assets increased $118 million. Operating revenue for 2003 was $922 million, an increase of approximately 24% from the prior year. This increase was primarily due to increased fuel costs, which are recovered as a component of the electric rate. Operating expense before depreciation for 2003 was $554 million, an increase of approximately 38% from the prior year. This increase was primarily due to increased fuel costs.

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

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

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

OTHER INFORMATION

a -- General Fund budgetary highlights

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

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

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

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

b -- Capital Assets

The City's capital assets for governmental and business-type activities as of September 30, 2003, total $6.8 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, infrastructure, assets not classified, construction work in progress, nuclear fuel and plant held for future use. The total increase in the City's capital assets for the current fiscal year was $373 million (6 percent), with an increase of almost 11 percent for governmental activities and an increase of 4 percent for business-type activities. Additional information on capital assets can be found in Note 7. Capital asset balances are as follows:

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

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

OTHER INFORMATION, continued

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

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

c -- Debt Administration

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

Outstanding Debt
General Obligation and Revenue Debt
(in millions)

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

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

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

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

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

OTHER INFORMATION, continued

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

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

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

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

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

e -- Requests for Information

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

(In thousands)

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

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

(Continued)

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

(In thousands) (Continued)

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

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

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

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

		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**	**2003 Total**
Governmental activities							
General government	$ 43,405	4,791	293	--	(38,321)	--	(38,321)
Public safety	292,411	36,579	6,324	--	(249,508)	--	(249,508)
Transportation, planning and sustainability	17,119	5,142	324	853	(10,800)	--	(10,800)
Public health	80,808	8,100	15,941	3,054	(53,713)	--	(53,713)
Public recreation and culture	58,199	2,551	3,625	49	(51,974)	--	(51,974)
Urban growth management	59,949	18,306	28,615	--	(13,028)	--	(13,028)
Unallocated depreciation expense	35,414	--	--	--	(35,414)	--	(35,414)
Interest on debt	39,296	--	--	--	(39,296)	--	(39,296)
Total governmental activities	626,601	75,469	55,122	3,956	(492,054)	--	(492,054)
Business-type activities							
Electric	754,393	921,649	--	3,437	--	170,693	170,693
Water	130,119	130,424	--	18,214	--	18,519	18,519
Wastewater	115,284	111,941	--	17,471	--	14,128	14,128
Airport	79,558	71,693	--	7,524	--	(341)	(341)
Convention	40,621	15,040	--	--	--	(25,581)	(25,581)
Other	119,763	117,869	--	1,679	--	(215)	(215)
Total business-type activities	1,239,738	1,368,616	--	48,325	--	177,203	177,203
Total	$ 1,866,339	1,444,085	55,122	52,281	(492,054)	177,203	(314,851)

	Governmental Activities	Business-type Activities	2003 Total
General revenues:			
Property tax	233,130	--	233,130
Sales tax	110,454	--	110,454
Franchise fees and gross receipts tax	63,049	--	63,049
Grants and contributions not restricted to specific programs	94,210	--	94,210
Interest and other	24,975	30,430	55,405
Transfers	66,926	(66,926)	--
Total general revenues and transfers	592,744	(36,496)	556,248
Change in net assets	100,690	140,707	241,397
Beginning net assets	1,247,437	2,156,704	3,404,141
Ending net assets	$ 1,348,127	2,297,411	3,645,538

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

(In thousands)

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

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2003
(In thousands)

Total fund balances - Governmental funds	$ 345,455
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,829,118
Other long-term assets are not available as current-period resources and are not reported in the funds.	18,617
Long-term liabilities are not payable in the current period and are not reported in the funds.	(886,719)
Internal service funds are used by management to charge the costs of capital project management, employee benefits, fleet maintenance, information systems, liability reserve, support services, wireless communication, and workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	41,656
Total net assets - Governmental activities	$ 1,348,127

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

(In thousands)

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

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

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

Net change in fund balances - Governmental funds	$ (37,950)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	104,186
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.	71,835
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.	(14,957)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(20,983)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	(5,249)
The net revenue of certain activities of internal service funds is reported with governmental activities.	3,808
Change in net assets - Governmental activities	$ 100,690

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

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

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

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

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

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

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

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

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

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

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

Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the year ended September 30, 2003
(In thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Charter of the City of Austin requires an annual audit by an independent certified public accountant. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City has implemented GASB Statement No. 1 through Statement No. 39 and Statement No. 41. GASB Statement No. 39 entitled *"Determining if Certain Organizations are Component Units"* was implemented in the City's fiscal year 2003, as required by GASB. There were no additional component units identified in the City's reporting structure as a result. GASB Statement No. 41 entitled *"Budgetary Comparison Schedules – Perspective Differences – an amendment to GASB Statement No. 34"*, does not alter the City's financial reporting presentation from previous years. The more significant accounting and reporting policies and practices used by the City are described below.

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

a -- Reporting Entity

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

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

Related Organizations -- The following entities are related organizations to which the City Council appoints board members, but for which the City has no significant financial accountability. The City appoints certain members of the board of the Capital Metropolitan Transit Authority (Capital Metro), but the City's accountability for this organization does not extend beyond making the appointments. City Councilmembers appoint themselves as members of the board of the Austin-Bergstrom International Airport (ABIA) Development Corporation; their function on this board is ministerial rather than substantive. The City Council appoints the members of the board of Austin-Bergstrom Landhost Enterprises, Inc., and Austin Convention Enterprises, Inc.; the functions of these boards are ministerial rather than substantive. The Mayor, with consent of the City Council, appoints the Board of Commissioners for the Urban Renewal Agency, whose primary responsibility is to oversee the implementation and compliance of Urban Renewal Plans adopted by the City Council. The City's presiding officer of the municipality governing body appoints the persons to serve as commissioners of the Austin Housing Authority. All of these entities are separate from the operating activities of the City. Related organizations are not included in the City's reporting entity.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b -- Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The City reports the following major governmental fund:

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

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

The City reports the following major enterprise funds:

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

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

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

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

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

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

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

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

The City reports the following proprietary and fiduciary funds:

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

d -- Budget

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

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

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

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

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

e -- Financial Statement Elements

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

Investments -- Certain investments are required to be reported at fair value, based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments in U.S. government and agency debt securities and money market mutual funds at fair value as of September 30, 2003. Investments in local government investment pools are carried at amortized cost, which approximates fair value.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

(1) Includes internal service funds

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

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

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

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

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

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

The City purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bonds, and airport operations. In addition, the City purchases a broad range of insurance coverage for contractors working at selected capital improvement project sites. The City does not participate in a risk pool. The City complies with GASB Statement No. 10, *"Accounting and Reporting for Risk Financing and Related Insurance Issues"* (see Note 14).

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

f -- Comparative Data

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

g -- Use of Estimates

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

2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Total fund balances of the City's governmental funds, $345 million, differ from the net assets of governmental activities, $1,348 million, reported in the statement of net assets. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Total fund balances - Governmental funds		$ 345,455
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental capital assets	2,356,163	
Less: accumulated depreciation	(527,045)	
Total		1,829,118
Other-long term assets are not available as current-period resources and are not reported in the funds.		
Accounts and other taxes receivable	18,351	
Deferred revenue - Property taxes/interest	266	
Total		18,617
Long-term liabilities are not payable in the current period and are not reported in the funds.		
Bonds and other tax supported debt payable, net	(811,736)	
Capital lease obligations payable	(356)	
Compensated absences	(61,814)	
Interest payable	(3,843)	
Deferred credits and other liabilities	(8,970)	
Total		(886,719)
Internal service funds		41,656
Total net assets - Governmental activities		$ 1,348,127

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

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

The net change in fund balances of governmental funds, $38 million deficit, differs from the change in net assets for governmental activities, $100.7 million, reported in the statement of activities. The differences result from the long-term economic focus in the government-wide statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The differences are shown below (in thousands):

Net change in fund balances - Governmental funds		$ (37,950)
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets are depreciated over the estimated useful life of the asset.		
Capital outlay	160,821	
Depreciation expense	(56,033)	
Loss on disposal of capital assets	(602)	
Total		104,186
Revenues in the statement of activities that do not provide current available financial resources are not reported as revenues in the funds.		
Property taxes	32	
Franchise fees and gross receipts tax	(1)	
Charges for services	68	
Interest and other	(228)	
Capital assets contribution	71,964	
Total		71,835
Revenues in the governmental funds are recognized when measurable and available, but are deferred in the statement of activities until earned, regardless of when collected.		
Intergovernmental revenue	(14,957)	
Total		(14,957)
Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Issuance of long-term debt	(70,323)	
Principal repayment on long-term debt	49,340	
Total		(20,983)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(5,103)	
Interest and other	(146)	
Total		(5,249)
Internal services. The net revenue (expense) of the internal service funds is reported with the governmental activities.		3,808
Change in net assets - Governmental activities		$ 100,690

3 – DEFICITS IN FUND BALANCES AND NET ASSETS

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

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

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

4 – POOLED INVESTMENTS AND CASH

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

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

5 – INVESTMENTS AND DEPOSITS

a -- Investments

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

5 – INVESTMENTS AND DEPOSITS, continued

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

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

The City participates in two Texas local government investment pools: TexPool and TexasTERM/Daily. The State Comptroller of Public Accounts oversees TexPool, with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the Comptroller. An advisory board, consisting of participants or their designees, maintains oversight responsibility for TexasTERM/Daily. The fair value of the City's position in these pools is equivalent to the carrying value.

The City did not participate in any reverse repurchase agreements during fiscal year 2003.

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

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

	Category			Fair Value
	1	2	3	(in thousands)
Investments				
Obligations of the U.S. government and its agencies	$ 810,447	--	--	810,447
	810,447	--	--	810,447
Investments held by trustee				
Obligations of the U.S. government and its agencies	92,783	--	--	92,783
Investments not categorized				
TexPool, Texas Local Government Investment Pool				258,665
TexasTERM/Daily, Local Government Investment Pool				88,021
				346,686
Total investments				$ 1,249,916

5 – INVESTMENTS AND DEPOSITS, continued

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

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

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

b -- Deposits

The September 30, 2003, carrying amount of deposits is as follows (in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash				
Unrestricted	$ 112	51	--	163
Cash held by trustee				
Unrestricted	10,279	--	--	10,279
Restricted	--	10,009	--	10,009
Pooled cash	2,666	2,795	27	5,488
Total deposits	$ 13,057	12,855	27	25,939

All bank balances were either insured or collateralized with securities held by the City or by its agent in the City's name at September 30, 2003.

6 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 2002, upon which the 2003 levy was based, was $50,759,650,668.

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

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

6 – PROPERTY TAXES, continued

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

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

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

The tax rate to finance general governmental functions, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 2003, was $.2969 per $100 assessed valuation. The City has a tax margin for general governmental purposes of $.7031 per $100 assessed valuation, and could levy approximately $356,891,104 in additional taxes from the assessed valuation of $50,759,650,668 before the legislative limit is reached.

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE

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

The City is accelerating the depreciation of two generating stations that will be retired before the end of their estimated useful lives. The increase to the Electric Fund 2003 depreciation expense for this accelerated depreciation is $1,210,000.

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Components of capital assets (in thousands)

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Governmental Activities

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

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

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Electric Fund

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Water and Wastewater Fund

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

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

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

(2) Components of accumulated depreciation increases:

Current year depreciation	$ 47,980
Reclassification	348,259
	$ 396,239

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Airport Fund

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities: Nonmajor Enterprise Funds

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

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

7 – CAPITAL ASSETS AND INFRASTRUCTURE, continued

Business-type Activities

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

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

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

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

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

8 – RETIREMENT PLANS

a -- Description

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are City-wide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 2002. Membership in the plans at December 31, 2002 is as follows:

	City Employees	Police Officers	Fire Fighters	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,387	312	380	4,079
Current employees	7,647	1,364	938	9,949
Total	11,034	1,676	1,318	14,028

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

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

Plan	Address	Telephone
Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752	(512)458-2551
Police Officers' Retirement and Pension Fund	P.O. Box 41089 Austin, Texas 78704	(512)416-7138
Fire Fighters' Relief and Retirement Fund	3301 Northland Drive, Suite 215 Austin, Texas 78731	(512)454-9567

8 – RETIREMENT PLANS, continued

b -- Funding Policy

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

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary of each plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement. Contributions for fiscal year ended September 30, 2003, are as follows (in thousands):

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

c-- Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost of $49,327,000 for fiscal year ended September 30, 2003, was equal to the City’s required and actual contributions. Three-year trend information is as follows (in thousands):

		City Employees	Police Officers	Fire Fighters	Total
City's Annual Pension Cost (APC):					
2001	$	24,118	8,429	10,738	43,285
2002		25,986	12,160	9,089	47,235
2003		26,093	13,626	9,608	49,327
Percentage of APC contributed:					
2001		100%	100%	100%	N/A
2002		100%	100%	100%	N/A
2003		100%	100%	100%	N/A
Net Pension Obligation:					
2001	$	--	--	--	--
2002		--	--	--	--
2003		--	--	--	--

8 – RETIREMENT PLANS, continued

Actuarial valuations of the plans are performed every two years. Actuarial updates are done in each year following the full valuation. The latest actuarial valuations were completed as of December 31, 2002. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	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%
Projected Annual Salary Increases	4.5% to 14.5%	6.8% average	6.5%
Post retirement benefit increase	None	None	3.5% effective January 1, 2003 through January 1, 2004 and 1% annually thereafter
Assumed Rate of Return on Investments	8%	8%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	17 years	25.7 years	26.5 years

d -- Trend Information (Unaudited)

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

Valuation Date, December 31st(1)	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL(2)	Funded Ratio	Annual Covered Payroll	Percentage of UAAL to Covered Payroll
City Employees						
1995	$ 707,300	623,000	(84,300)	113.5%	221,000	(38.1%)
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
1999	1,105,100	1,044,500	(60,600)	105.8%	244,500	(24.8%)
2001	1,311,288	1,360,270	48,982	96.4%	316,793	15.5%
2002	1,250,851	1,440,199	189,348	86.9%	322,008	58.8%
Police Officers						
1995	$ 127,572	164,865	37,293	77.4%	36,211	103.0%
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
1999	226,913	257,850	30,937	88.0%	54,695	56.6%
2001	284,761	347,548	62,787	81.9%	69,707	90.1%
2002	298,782	384,992	86,210	77.6%	79,236	108.8%
Fire Fighters						
1995	$ 213,403	236,994	23,591	90.0%	32,496	72.6%
1997	268,241	279,472	11,231	96.0%	35,130	32.0%
1999	341,593	317,223	(24,370)	107.7%	38,690	(63.0%)
2001	395,371	406,266	10,895	97.3%	49,726	21.9%

(1) City Employees and Police Officers' actuarial valuation are prepared annually beginning in 2002; Fire Fighters' actuarial valuation is prepared bi-annually.
(2) UAAL – Unfunded Actuarial Accrued Liability (Excess)

9 – SELECTED REVENUES

a -- Governmental Funds - General Fund

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

The lease agreement specifies a minimum lease payment in addition to a supplemental rent payment based on approximately 46% of net disproportionate share revenue proceeds. In fiscal year 2003, General Fund revenues included minimum lease payments of $1.8 million and additional rent of $6.6 million.

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

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

b -- Major Enterprise Funds

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

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

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

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

9 – SELECTED REVENUES, continued

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

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

10 – DEBT AND NON-DEBT LIABILITIES

a -- Short-Term Debt

The following is a summary of changes in short-term debt. Short-term debt provides financing to governmental activities. This debt was issued for interim financing of General Fund operations. Balances at September 30, 2003 are (in thousands):

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

b -- Long-Term Liabilities

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

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

This schedule excludes short-term liabilities of $42,459 for governmental activities and $198,271 for business-type activities and long-term interest payable of $150,972 for business-type activities.

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

The following is a summary of changes in long-term obligations. Certain long-term obligations provide financing to both governmental and business-type activities. Balances at September 30, 2003 are (in thousands):

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

c -- Governmental Activities Long-Term Liabilities

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and assumed municipal utility district (MUD) bonds outstanding at September 30, 2003, including those reported in certain proprietary funds (in thousands):

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

In June 2003, the City issued Public Improvement Refunding Bonds, Series 2003, in the amount of $62,585,000. The net proceeds of $68,864,741 (after issue costs, discounts and premiums) from the refunding were used to refund $66,845,000 of Public Improvement Bonds, Series 1993, 1993A, 1994, 1996 and Certificates of Obligation, Series 1993. The refunding resulted in future interest requirements to service the debt of $14,458,500 with an average interest rate of 4.43%. An economic gain of $5,413,395 was recognized on this transaction. The change in net cash flows that resulted from the refunding was a decrease of $5,650,576. An accounting loss of $1,089,045, which will be deferred and amortized, was recognized on this refunding. The refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the long-term liabilities.

In September 2003, the City issued Public Improvement and Refunding Bonds, Series 2003, in the amount of $68,855,000. The proceeds from the issue will be used as follows: street improvements ($20,915,000); right of way acquisition and utility relocation ($15,000,000); park and recreation facilities ($14,473,000); emergency centers ($2,940,000); central sub-station and forensics center ($5,565,000); land acquisition ($3,400,000) and refunded a court settlement ($6,562,000). These bonds will be amortized serially on September 1 of each year from 2004 to 2023. Certain of these bonds are callable beginning September 1, 2021. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2004. Total interest requirements for these bonds, at rates ranging from 2% to 5%, are $40,630,445.

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

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

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

General obligation bonds authorized and unissued amount to $188,187,000 at September 30, 2003. Bond ratings at September 30, 2003, were Aa2 (Moody's Investor Services, Inc.), AA+ (Standard & Poor's) and AA+ (Fitch).

d -- Business-Type Activities Long-Term Liabilities

Utility Debt – The City has previously issued combined debt for the Electric and Water and Wastewater utilities. The City began issuing separate debt for electric and water and wastewater activities in 2000. The following paragraphs describe both combined and separate debt.

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

The total Combined Utility Systems revenue bond obligations at September 30, 2003, exclusive of discounts and premiums, consist of $1,272,069,611 prior lien bonds and $256,379,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are $1,075,087,026 at September 30, 2003. Revenue bonds authorized and unissued amount to $1,492,642,660 at that date. Bond ratings at September 30, 2003 for the prior lien and subordinate lien bonds were, respectively, A2 and A2 (Moody's Investor Services, Inc.), A and A- (Standard & Poor's), and A+ and A+ (Fitch).

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

Combined Utility Systems Debt -- Commercial Paper Notes - The City is authorized by ordinance to issue commercial paper notes in an aggregate principal amount not to exceed $350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2003 were P-1 (Moody's Investor Services, Inc.), A-1 (Standard & Poor's), and F1+(Fitch). The notes will be in denominations of $100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 2003, the Electric Fund had outstanding commercial paper notes of $54,672,000 and the Water and Wastewater Fund had $73,812,000, of commercial paper notes outstanding. Interest rates on the notes range from 0.85% to 1%, adjusted daily, and subsequent issues cannot exceed the maximum rate of 15%.

The City intends to refinance maturing commercial paper notes by issuing long-term debt. During the fiscal year, bonds were issued to refinance commercial paper notes of $187,325,000 and $124,200,000 for the Electric Fund and Water and Wastewater Fund respectively.

Combined Utility Systems Debt -- Taxable Commercial Paper Notes - The City is authorized by ordinance to issue taxable commercial paper notes, (the "taxable notes"), in an aggregate principal amount not to exceed $50,000,000 outstanding at any one time. Proceeds from the taxable notes are used to provide interim financing for capital project costs for additions, improvements, and extensions to the City's electric system and the City's water and wastewater system and to refinance, renew, or refund maturing notes and other obligations of the systems. Note ratings at September 30, 2003 were P-1 (Moody's Investor Services, Inc.), A-1+ (Standard & Poor's), and F1+(Fitch).

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

At September 30, 2003, the Electric Fund and the Water and Wastewater Fund had no taxable notes outstanding.

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

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

Water and Wastewater System Revenue Debt -- Revenue Bond Refunding Issues - In March 2003, the City issued Water and Wastewater System Revenue Refunding Bonds, Series 2003, in an aggregate principal amount of $121,500,000. Proceeds from the bond refunding were used to refund $124,200,000 of the City's outstanding Tax-Exempt Commercial Paper for the Water and Wastewater System. The debt service requirements on the refunding bonds are $222,991,142. No economic gain or loss was recognized on this transaction. No accounting gain or loss was recognized on this refunding.

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

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

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

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 2003
Maple Run MUD, 1992	May 1992	$ 17,955	$ 10,265
Tanglewood Forest MUD, 1993	December 1993	1,350	295
North Austin MUD #1, 1994	May 1994	16,570	1,170
2000 Refunding	June 2000	100,000	100,000
2001A Refunding	June 2001	152,180	152,180
2001B Refunding	June 2001	73,200	73,200
2001C Refunding	December 2001	95,380	87,380
2002A Refunding	August 2002	139,695	139,695
2003 Refunding	March 2003	121,500	121,500
North Austin MUD #1, 2003 RFD	August 2003	4,510	4,510
			$ 690,195

10 – DEBT AND NON-DEBT LIABILITIES, continued

Airport -- Revenue Bonds - The City's Airport Fund issues Airport System revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. The total Airport System obligation for prior lien bonds is $365,360,000, exclusive of discount and loss on refunding, at September 30, 2003. Aggregate interest requirements for all prior lien bonds are $314,225,386 at September 30, 2003. Revenue bonds authorized and unissued amount to $735,795,000 at that date.

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

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

Airport Debt -- Variable Rate Revenue Notes - The City is authorized to issue Airport System variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A adopted by the City Council on February 5, 1998. At September 30, 2003, the Airport System had outstanding variable rate revenue notes of $28,000,000. The debt service fund required by the bond ordinance held assets of $366,202, including accrued interest at September 30, 2003 and was restricted within the Airport System. During fiscal year 2003, interest rates on the notes ranged from 1% to 1.90%, adjusted weekly at market rates, and subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the Airport System.

Nonmajor fund:

Convention Center -- Prior and Subordinate Lien Revenue Bonds - The City's Convention Center Fund issues Convention Center revenue bonds and Hotel Occupancy Tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues and the special motor vehicle rental tax revenues. The total Convention Center obligation for prior and subordinate lien bonds is $241,595,000, exclusive of discounts, premiums and loss on refunding, at September 30, 2003. Aggregate interest requirements for all prior and subordinate lien bonds are $202,758,899 at September 30, 2003. Revenue bonds authorized and unissued amount to $760,000 at September 30, 2003.

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

e -- Debt Service Requirements (in thousands)

Governmental Activities

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

Electric Business-Type Activities

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

Water and Wastewater Business-Type Activities

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

Water and Wastewater Business-Type Activities

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

Airport Business-Type Activities

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

Nonmajor Business-Type Activities

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

Business-Type Activities

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

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

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

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

10 – DEBT AND NON-DEBT LIABILITIES, continued

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

Business-Type Activities

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

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

11 – CONDUIT DEBT

The City has issued several series of housing and industrial development revenue bonds to provide for low cost housing and for acquisition and construction of industrial and commercial facilities. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Prior to September 30, 1997 the City issued several series of bonds; the aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled $310.2 million. Since 1997, the City has issued various series of bonds, with the original issues totaling $84.4 million; and $84 million is outstanding at September 30, 2003.

The City has issued various facility revenue bonds to provide for facilities located at the airport and convention center. These bonds are special limited obligations, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The original issues totaled $367.4 million, with $362.5 million outstanding at September 30, 2003.

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

12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at September 30, 2003, are as follows (in thousands):

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

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

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

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

12 – INTERFUND BALANCES AND TRANSFERS, continued

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

13 – LITIGATION

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

14 – COMMITMENTS AND CONTINGENCIES

a -- Fayette Power Project

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

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

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

b -- South Texas Project

Austin Energy is one of four participants in the South Texas Project (STP), which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Reliant Energy, American Electric Power, formerly known as Central Power and Light Company, and City Public Service of San Antonio. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. Austin Energy's 16 percent ownership in the STP represents 400 megawatts of plant capacity. At September 30, 2003 Austin Energy's investment in the STP was approximately $620 million, net of accumulated depreciation.

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

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

14 – COMMITMENTS AND CONTINGENCIES, continued

c -- South Texas Project Decommissioning

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

	2003
Estimated cost to decommission STP	$233,140,066
Restricted decommissioning fund assets	90,687,258

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

d -- Energy Risk Management Program

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

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

Brokerage	Credit Rating
Citigroup Global Market Holding Inc.	AA-
Man Group	A3

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

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

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

14 – COMMITMENTS AND CONTINGENCIES, continued

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

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

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

e -- Certificates of Participation

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

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

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

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

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

The following table presents information regarding these certificates:

Description	**Electric Fund Office Project (1)**	**Water and Wastewater Fund Office Project (1)**
Date issued	February 1987	August 1987
Amount issued	$23,060,000	$14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and September 15	May 15 and November 15
Maturity dates	September 15 1988 - 2007	November 15 1989 - 2007
Present value of lease payments	$7,160,000	$5,700,000
Reserve Fund (2)	$ 2,000,000	$1,250,000

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

14 – COMMITMENTS AND CONTINGENCIES, continued

f -- Federal and State Financial Assistance Programs

The City participates in a number of federally assisted and State grant programs, financed primarily by the U.S. Housing and Urban Development (HUD) Department, U.S. Health and Human Services (HHS) Department, and U.S. Department of Transportation (DOT). The City's programs are subject to program compliance audits by the granting agencies. Management believes that no material liability will arise from any such audits.

g -- Arbitrage Rebate Payable

The City's financial advisor has determined that the City has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations. The City will be required to rebate funds to the federal government. The estimated amounts payable at September 30, 2003 are as follows (in thousands):

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

h -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* (Capital Budget) that is an anticipated spending plan for projects in the upcoming and future years. The City's 2004 Capital Budget includes new appropriations of $401.1 million for the City's enterprise funds and $72.2 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

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

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

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

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton"). Under the terms of the lease, Seton will operate City-owned Brackenridge Hospital and will provide all necessary medical services for residents of Austin regardless of their ability to pay. The City will reimburse Seton for services provided through three programs. Under the Charity Care Program, the City will reimburse Seton a maximum of $5.6 million annually for providing medical care to the medically indigent; provided however, that Seton must first provide charity care in the amount of 4% of net revenues as required by State law. Under the Medical Assistance Program (MAP), the City paid Seton approximately $9.8 million in fiscal year 2003 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately $5.6 million during fiscal year 2003 for providing physician services to patients in the first two programs.

14 – COMMITMENTS AND CONTINGENCIES, continued

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

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

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports in the Solid Waste Services Fund, a nonmajor enterprise fund, a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The $7.4 million reported as accrued landfill closure and postclosure costs at September 30, 2003, represents the cumulative amount reported to date based on the use of 81.2% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.7 million as the remaining estimated capacity is filled over the next nine years. The total estimated costs of $9.1 million include costs of closure in 2012 of $2.4 million and postclosure costs over the subsequent thirty years of $6.7 million. These amounts are based on what it would cost to perform all closure and postclosure care in 2003. Actual costs may be higher due to inflation, changes in technology or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

k -- Risk-Related Contingencies

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

Fund name	Description
Employee Benefits	City employees and retirees may choose between a self-insured PPO or an HMO. Approximately 23% of City employees and 57% of retirees use the HMO option; approximately 77% of City employees and 43% of retirees use the PPO, which is self-insured. Costs are charged to City funds through a charge per employee per pay period.
Liability Reserve	Self-insured. Includes losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	Self-insured. Premiums are charged to other City funds each year based on historical costs.

The City purchases stop loss insurance for the City's PPO. This stop loss insurance covers individual claims that exceed $500,000 per calendar year beginning in calendar year 2002 and $150,000 per calendar year prior to calendar year 2002, up to a maximum of $1 million. During fiscal year 2003, one claim exceeded the stop loss limit of $500,000; no claims exceeded the stop loss limit of $500,000 in fiscal year 2002; and two claims exceeded the stop loss limit of $150,000 in fiscal year 2001. City coverage is limited to $1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

14 – COMMITMENTS AND CONTINGENCIES, continued

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

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The City utilizes actuarial information and historical claim settlement trends to determine the claim liabilities for the Employee Benefits Fund and Worker's Compensation Fund; liabilities for the Liability Reserve Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 2003. The possible range of loss is $34.7 to $45.4 million. The City contributes amounts to an internal service fund based on an estimate of anticipated costs for claims each year.

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

	Employee Benefits		Liability Reserve		Workers' Compensation	
	2003	2002	2003	2002	2003	2002
Liability balances, beginning of year	$ 4,618	4,470	21,899	12,700	6,864	6,347
Claims and changes in estimates	5,328	3,569	9,586	11,065	6,587	4,663
Claim payments	(4,405)	(3,421)	(11,405)	(1,866)	(4,324)	(4,146)
Liability balances, end of year	$ 5,541	4,618	20,080	21,899	9,127	6,864

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

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

l -- Environmental Remediation Contingencies

The Electric Fund may incur costs for environmental remediation of certain sites including the Holly and Seaholm Power Plants. The financial statements include a liability of $7.2 million at September 30, 2003. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated remaining costs for the remediation of the contaminated sites. The Electric Fund anticipates payment of these costs in 2004 and future years.

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

The Airport Fund may also incur costs for the environmental remediation of certain sites and has recorded an estimated liability of $1.9 million in the financial statements.

m -- Other Commitments and Contingencies

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered operating leases for accounting purposes. Lease expense for the year ended September 30, 2003 was $19.8 million. The City expects these leases to be replaced with similar leases in the ordinary course of business. Future minimum lease payments for these leases will remain approximately the same.

14 – COMMITMENTS AND CONTINGENCIES, continued

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

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

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

15 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

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

15 – OTHER POST-EMPLOYMENT BENEFITS, continued

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

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

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

16 – SUBSEQUENT EVENTS

Airport System Revenue Bond Refunding Issue

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

General Fund **City of Austin, Texas**
Schedule of Revenues, Expenditures and Changes in **RSI-1**
Fund Balances--Budget and Actual-Budget Basis
For the year ended September 30, 2003
(In thousands)

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

(1) Includes adjustments to expenditures for current year encumbrances, payments against prior year encumbrances, accrued payroll, compensated absences, and amounts budgeted as operating transfers.
(2) Includes adjustments to revenues/transfers required for adjusted budget basis presentation.
(3) Variance is actual-budget basis to final budget.
(4) Actual expenditures include employee training costs and amounts budgeted as fund-level expenditures or operating transfers. Actual-budget basis expenditures include employee training costs, budgeted payroll accrual, and amounts budgeted as fund-level expenditures.

BUDGET BASIS REPORTING

a -- General

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

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

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

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

c -- Budget Amendments

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

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

APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

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ORDINANCE NO. 0006008-56A

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

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

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

(a) "Prior First Lien Obligations" more particularly identified as follows: (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986A", dated April 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986C", dated November 15, 1986, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (v) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993,(xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (xiv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xviii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, (xix)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997,

(b) "Prior Subordinate Lien Obligations" more particularly described as follows: (i) "City of Austin, Texas, Water, Sewer and Electric Refunding Revenue Bonds, Series1982", dated March 15, 1982, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (iii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iv) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998", dated August 1, 1998, (v)"City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (vi) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998, and

(c) "Commercial Paper Obligations" more particularly described as follows: (i) City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A", authorized for issuance pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A currently authorized up to an aggregate principal amount of $350,000,000 and (ii) "City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes", authorized for issuance pursuant to Ordinance No. 980513-B currently authorized up to an aggregate principal amount of $60,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No. 980513-B; and

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

WHEREAS, the City has determined future financing of capital improvements for the City's Water and Wastewater System and the City's Electric Light and Power System should be undertaken and accomplished through the issuance of "Separate Lien Obligations" which will enable the City to restructure provisions governing the issuance of such obligations and relating to the operations of such systems and provide financing flexibility to both systems, particularly the Electric Light and Power System in a more competitive market resulting from a change in laws affecting the regulation, generation, distribution and sale of electric energy, and

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

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

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

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

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

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

Section 4. RATE COVENANT. The City will fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water/Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient:

(i) to pay all current Operating Expenses,

(ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Water/Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations or (y) an amount, when added to Other Available Water/Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations, and

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

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

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

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

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

(c) **OPERATION AND MAINTENANCE**. The Water/Wastewater System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Water/Wastewater System shall be maintained, preserved and kept in good repair, working order and condition, and proper maintenance, repairs and replacements of such property, facilities and plants shall occur to preserve and keep the Water/Wastewater System operating in a business like manner.

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

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

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

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

(h) **SALE, LEASE OR DISPOSAL OF SYSTEM PROPERTY**. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the Water/Wastewater System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the Water/Wastewater System. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Water/Wastewater System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the Water/Wastewater System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Water/Wastewater System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations or for any other Water/Wastewater System purpose..

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

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

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

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

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

(m) **NO COMPETITION**. To the extent it legally possible, the City will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a material substitute for the Water/Wastewater System's facilities, and, to the extent that it legally may, the City will prohibit any such competing facilities.

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

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

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

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

Third. Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding and (iii) the special Funds and Accounts for the payment of the Parity Water/Wastewater Obligations.

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

Fifth. To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water/Wastewater System’s Surplus Revenue Account

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

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

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

Section 8. RESERVE FUND. (a) Establishment. There is hereby created and there shall be established and maintained on the books of the City a separate fund or account designated as the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). Except as provided in subsection (f) below, the Reserve Fund shall be maintained for the benefit of the owners of the Parity Water/Wastewater Obligations. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. The amounts deposited to the credit of the Reserve Fund shall be deposited in a special fund maintained at an official depository of City. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the Parity Water/Wastewater Obligations as they become due or paying principal of and interest on the Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund shall be an amount equal to the Required Reserve Amount. The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount.

(b) Credit Facility. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer.

(c) Priority of Draws. If the City is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the City shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency.

In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subject to the provisions of Section 8(d) below and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

(d) Reserve Amount Deficiency. In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of this Ordinance and any Supplement, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

(e) Excess Required Reserve. As Parity Water/Wastewater Obligation secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Ordinance or a Supplement, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

(f) Application to Commercial Paper/Credit Agreements For the purpose of this Section, the Reserve Fund shall not secure Parity Water/Wastewater Obligations issued in the form of commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplement.

Section 9. SYSTEM SURPLUS REVENUE ACCOUNT. At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water/Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water/Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water/Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water/Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water/Wastewater Funds". The amount so designated as "Other Available Water/Wastewater Fund" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

Section 10. ISSUANCE OF ADDITIONAL OBLIGATIONS. (a) Parity Water/Wastewater Obligations. The City reserves and shall have the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law pursuant to the provisions of this Ordinance and a Supplement hereafter adopted. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if:

> (i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in this Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of this Ordinance and any Supplement contain the amounts then required to be therein or the proceeds of sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and

(ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water/Wastewater System, after deducting amounts expended from the Water/Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water/Wastewater Revenues, are equal to 1.25 times the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations.

For purposes of paragraph (a) (ii), if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the certificate, report or opinion of the Accountant required above shall give effect to the issuance of the proposed refunding Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded following their cancellation or provision being made for their payment).

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

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

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

(e) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water/Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water/Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

Section 11. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS. (a) Any Parity Water/Wastewater Obligation shall be deemed to be paid, retired and cease to be Outstanding within the meaning of this Ordinance, and the Supplement pursuant to which it was issued, when payment of the principal amount of, redemption premium, if any, on such Parity Water/Wastewater Obligation, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either shall have been (i) made in accordance with the terms thereof or (ii) provided by irrevocably depositing with, or making available to, a Paying Agent (or escrow agent) therefor, in trust and set aside exclusively for such payment, in accordance with the terms and conditions of an agreement between the City and said Paying Agent (or escrow agent), (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such Paying Agent pertaining to the Parity Water/Wastewater Obligation with respect to which such deposit is made shall have been paid or the payment thereof duly provided (and irrevocable instructions shall have been given by the City to such Paying Agent to give notice of such redemption in the manner required by the Supplement authorizing the issuance of such Parity Water/Wastewater Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Water/Wastewater Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Water/Wastewater Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Water/Wastewater Obligation was issued. In addition, in connection with a defeasance, such Paying Agent shall give notice of redemption, if necessary, to the owners of any Parity Water/Wastewater Obligation in the manner provided in the Supplement for such Parity Water/Wastewater Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Water/Wastewater Obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or the Supplement pursuant to which it was issued or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

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

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

Section 12. AMENDMENT OF ORDINANCE. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Water/Wastewater Obligations so as to:

1. Make any change in the maturity of any of the Outstanding Parity Water/Wastewater Obligations;

2. Reduce the rate of interest borne by any of the Outstanding Parity Water/Wastewater Obligations;

3. Reduce the amount of the principal payable on the Outstanding Parity Water/Wastewater Obligations;

4. Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Parity Water/Wastewater Obligations or impose any conditions with respect to such payment;

5. Affect the rights of the owners of less than all of the Parity Water/Wastewater Obligations then Outstanding;

6. Amend this subsection (a) of this Section; or

7. Change the minimum percentage of the principal amount of Parity Water/Wastewater Obligations necessary for consent to any amendment;

unless such amendment or amendments be approved by the owners of all of the Parity Water/Wastewater Obligations affected by the change or amendment then Outstanding.

(b) Notice of Amendment Requiring Consent. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations for inspection by all Holders of Parity Water/Wastewater Obligations. Such publication is not required, however, if notice in writing is given by mail, first class postage prepaid, to each Holder of Parity Water/Wastewater Obligations.

(c) Time Period for Obtaining Consent If within one year from (i) the date of the first publication of said notice or (ii) the date of the mailing by the Paying Agent of written notice to the owners of the Parity Water/Wastewater Obligations, whichever date first occurs if both methods of giving notice are used, the City shall receive an instrument or instruments executed by the owners of at least a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations consenting to and approving such amendment in substantially the form of the copy thereof on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Revocation of Consent. Any consent given by the owner of a Parity Water/Wastewater Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, and shall be conclusive and binding upon all future owners of the same Parity Water/Wastewater Obligation during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, such consent may be revoked by the owner who gave such consent, or by a successor in title, by filing written notice thereof with the Paying Agent or Registrar, as the case may be, for such Parity Water/Wastewater Obligation and the City, but such revocation shall not be effective if the owners of at least a majority in Outstanding Principal Amount of the then Outstanding Parity Water/Wastewater Obligations as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(e) Implementation of Amendment. Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations of the City under this Ordinance and all the owners of then Outstanding Parity Water/Wastewater Obligations and all future Parity Water/Wastewater Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(f) Amendment without Consent. The foregoing provisions of this Section notwithstanding, the City by action of its governing body may amend this Ordinance for any one or more of the following purposes:

(1) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the owners of the Parity Water/Wastewater Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations then outstanding;

(3) To modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after all Parity Water/Wastewater Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(4) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(5) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Water/Wastewater Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to

the Parity Water/Wastewater Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Parity Water/Wastewater Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(7) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Water/Wastewater Obligations. Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Parity Water/Wastewater Obligations may be determined as provided in each Supplement and unless otherwise provided in a Supplement, the owners of the Parity Water/Wastewater Obligations insured as to the payment of principal of and interest thereon shall be deemed to be the insurance company providing the insurance coverage on such Parity Water/Wastewater Obligations; provided such amendment to this Ordinance is an amendment that can be made with the consent of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations and such insurance company is not in default with respect to its obligations under its insurance policy.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Parity Water/Wastewater Obligations then Outstanding under such Supplement a priority over the owners of any other Parity Water/Wastewater Obligations then Outstanding.

Section 13. DEFICIENCIES; EXCESS NET REVENUES. (a) Revenue Deficiency. If on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Funds and Accounts established in accordance with this Ordinance and any Supplement, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other source available for such purpose.

(b) Excess Revenue. Subject to making the required deposits to the credit of the Funds and Accounts established in accordance with this Ordinance and any Supplement, when and as required by this Ordinance and any Supplement, the excess Net Revenues may be used by the City for any lawful purpose.

Section 14. FUNDS SECURED. Moneys in all Funds and Accounts created in accordance with this Ordinance and any Supplement shall be secured in the manner prescribed by law for securing funds of the City.

Section 15. INVESTMENTS. Moneys in any Fund or Account established pursuant to this Ordinance and any Supplement may, at the option of the City, be placed or invested in Eligible Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually during the last month of each Fiscal Year. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Fund or Account from which moneys used to acquire such investment shall have come.

Section 16. BENEFITS OF ORDINANCE. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

Section 17. GOVERNING LAW. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 18. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 19. CONSTRUCTION OF TERMS. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

Section 20. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 21. PUBLIC MEETING. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

Section 22. EMERGENCY. The public importance of this measure and the fact that there is an urgent public need for the City to obtain the funds from the sale of the Bonds as soon as possible and without delay for the immediate preservation of the public peace, health and safety of the citizens of the City constitute and create an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

PASSED AND ADOPTED, this June 8, 2000.

CITY OF AUSTIN, TEXAS

ATTEST:

KIRK WATSON
Mayor

APPROVED:

SHIRLEY A. BROWN
City Clerk

ANDREW MARTIN
City Attorney

(City Seal)

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EXHIBIT “A”

DEFINITIONS

As used in the Ordinance, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

“**Account**” means any account created, established and maintained on the books and records of the City under the terms of any Supplement.

“**Accountant**” means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

“**Annual Debt Service Requirements**” means, for any Fiscal Year, the principal of and interest on all Parity Water/Wastewater Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

i. Committed Take Out. If the City has entered into a Credit Agreement with a Credit Provider to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City’s obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased by the Credit Provider shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

ii. Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable by reason of any required purchase of such Funded Debt by the City) in any Fiscal Year is either (a) equal to 25%, or more, of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or (b) exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as “Balloon Debt”), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

iii. Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer executes a certificate to the effect that such Balloon Debt (a) may be treated as being retired in installments (and the instrument creating such Balloon Debt expressly permits such Debt to be treated as being retired in installments), or (b) paid from the funding and accumulation of a sinking fund (and the instrument creating such Balloon Debt expressly permits the funding and accumulation of a sinking fund) according to a fixed schedule stated in such certificate, then the principal of (and, in the case of retirement, or to the extent provided for the funding and accumulation of a sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such fixed schedule, provided this clause (iii) shall apply only to Balloon Debt when installments due and payable prior to such certificate have been duly paid or all deposits to the sinking fund established for such Debt have been duly credited to the sinking fund on or before the times required by such schedule; and provided further this clause (iii) shall not apply when the City has elected to apply the rule set forth in clause (ii) above;

iv. Prepaid Debt. Principal of and interest on Parity Water/Wastewater Obligations, or portions thereof, payable from capitalized interest, accrued interest and amounts deposited or set aside in trust for the payment thereof with a financial institution shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year;

v. Variable Rate. As to any Parity Water/Wastewater Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the City, either (a) an interest rate equal to the average rate borne by such Parity Water/Wastewater Obligations (or by comparable debt in the event that such Parity Water/Wastewater Obligations has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be used for this purpose;

vi. Commercial Paper. Any Parity Water/Wastewater Obligations issued in the form of commercial paper shall use an interest rate for such Parity Water/Wastewater Obligations calculated in the manner provided in clause (v) of this definition and the maturity schedule shall be calculated in the manner provided in clause (ii) of this definition; and

vii. Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (i) through (vi) above and any payments otherwise included above under (i) through (vi) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"**Bond Counsel**" means Messrs. Fulbright & Jaworski L.L.P. or other firm engaged by the City with legal experience and expertise in the issuance and sale of obligations by municipalities in the State of Texas and with respect to the exclusion of interest on obligations from federal income taxation under Section 103(a) of the Code.

"**City**" and "**Issuer**" mean the City of Austin, Texas.

"**Code**" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

"**Commercial Paper Obligations"** means those obligations identified and described in the preamble of the Ordinance. .

"**Credit Agreement**" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Water/Wastewater Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City in connection with the authorization, issuance, security, or payment of Parity Water/Wastewater Obligations and on a parity therewith.

"**Credit Facility**" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Water/Wastewater Obligations would rate the Parity Water/Wastewater Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Water/Wastewater Obligations would assign a rating to the Parity Water/Wastewater Obligations of one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Water/Wastewater Obligations and the interest thereon.

"**Credit Provider**" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

"**Debt**" of the City payable from Net Revenues means all:

viii. indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Water/Wastewater System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

ix. all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Net Revenues of the Water/Wastewater System, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (A) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (B) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"**Debt Service Fund**" means the "Water/Wastewater System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"**Designated Financial Officer**" shall mean the Director of Finance, Treasurer or such other financial or accounting official of the City so designated by the governing body of the City.

"**Eligible Investments**" means those investments in which the City is now or hereafter authorized by law, including, but not limited to, the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), as amended, to purchase, sell and invest its funds and funds under its control.

"**Fiscal Year**" means the twelve month financial accounting period for the Water/Wastewater System which currently ends on September 30 of each calendar year.

"**Fund**" means any fund created, established and maintained under the terms of the Ordinance and any Supplement.

"**Funded Debt**" of the Water/Wastewater System means all Parity Water/Wastewater Obligations (and, for purposes of Section 10(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"**Government Obligations**" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent 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.

"**Gross Revenues**" means all revenues, income, and receipts derived or received by the City from the operation and ownership of the Water/Wastewater System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Water/Wastewater System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code, and Other Available Water/Wastewater System Revenues . The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts and grants in aid of construction or impact fees charged under authority of Chapter 395, Texas Local Government Code, which by law are restricted as to use.

"**Holder**" or "**Bondholder**" or "**owner**" means the registered owner appearing on the books and records of the Registrar of any Parity Water/Wastewater Obligation registered as to ownership and the holder of any Parity Water/Wastewater Obligation payable to bearer.

"**Maturity**" when used with respect to any Debt means the date the principal of such Debt or any installment thereof becomes due and payable, whether at its Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

"**Net Revenues**" and "**Net Revenues of the Water/Wastewater System**" with respect to any period of time means the Gross Revenues for such period less Operating Expenses incurred during such period.

"**Operating Expenses**" means the expenses of operation and maintenance of the Water/Wastewater System, including all salaries, labor, materials repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Water/Wastewater Obligations. Operating Expenses shall include the purchase of water, the treatment and disposal of wastewater, and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

"**Opinion of Counsel**" means a written opinion of counsel acceptable to the City.

"**Ordinance**" means this Ordinance No. 000608-56A pertaining to the issuance Parity Water/Wastewater Obligations, and any amendments thereto.

"**Other Available Water/Wastewater System Revenues"** means an amount of unencumbered funds accumulated in the Water/Wastewater System Surplus Revenue Account designated as Other Available Water/Wastewater Funds and deposited to the credit of the System Fund as provided in Section 9 hereof; provided, the maximum amount which may be so designated in any Fiscal Year for purposes of complying with the provisions of Sections 4 and 10 of this Ordinance cannot exceed twenty-five per cent (25%) of the Debt Service Requirements for the Parity Water/Wastewater Obligations for such Fiscal Year.

“**Outstanding**” when used with respect to Parity Water/Wastewater Obligations means, as of the date of determination, all Parity Water/Wastewater Obligations theretofore delivered under this Ordinance and any Supplement, except:

x. Parity Water/Wastewater Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;

xi. Parity Water/Wastewater Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;

xii. Parity Water/Wastewater Obligations upon transfer of or in exchange for and in lieu of which other Parity Water/Wastewater Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and

xiii. Parity Water/Wastewater Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless acquired for purposes of cancellation, Parity Water/Wastewater Obligations owned by the City shall be deemed to be Outstanding as though owned by any other owner.

“**Outstanding Principal Amount**” means, with respect to all Parity Water/Wastewater Obligations or to a series of Parity Water/Wastewater Obligations, the outstanding and unpaid principal amount of such Parity Water/Wastewater Obligations paying interest on a current basis and the accreted value as of each compounding date for Parity Water/Wastewater Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Water/Wastewater Obligations

“**Prior First Lien Obligations”** means those obligations identified and described in the preamble of the Ordinance.

“**Prior Subordinate Lien Obligations”** means to obligations identified and described in the preamble of the Ordinance.

“**Parity Water/Wastewater Obligations**” means all Debt of the City, except Previously Issued Separate Lien Obligations, issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

“**Paying Agent**” means bank, trust company or other entity selected by the City in a Supplement undertaking the duties and responsibilities for the payment to the Holders of the principal of and interest on the series or issue of Parity Water/Wastewater Obligations.

“**Previously Issued Separate Lien Obligations”** means those obligations payable, in whole or in part under a contract with the City, from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and more particularly described as follows: (i) Circle C MUD#4 City of Austin, Texas Contract Revenue Bonds, Series 1990,dated date February 1, 1990 and currently outstanding in the principal amount of $2,745,000, (ii) Circle C MUD #3 City of Austin, Texas Contract Revenue Bonds, Series 1991,dated date June 15, 1991, and currently outstanding in the principal amount of $26,835,000, (iii) Village at Western Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $17,570,000, (iv) Southland Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of $20,525,000, (v) Maple Run at Austin MUD City of Austin, Texas Contract Revenue Bonds, Series 1992, dated February 1, 1992, and currently outstanding in the principal amount of $13,255,000, and (vi) North Austin MUD#1 City of Austin, Texas Refunding Contract Revenue Bonds, Series 1994, dated February 1, 1994, and currently outstanding in the principal amount of $13,035,000.

"**Prudent Utility Practice**" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act at the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the Water/Wastewater System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"**Rating Agency**" means a nationally recognized securities rating agency which has assigned a rating to the Parity Water/Wastewater Obligations.

"**Required Reserve Amount**" means an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations then Outstanding, to the extent such Parity Water/Wastewater Obligations are to be secured by the Reserve Fund in accordance with the terms and provisions of Section 8 of the Ordinance and the provisions of any Supplement.

"**Reserve Fund**" means the "Water/Wastewater System Revenue Obligation Reserve Fund" established pursuant to Section 8 of the Ordinance.

"**Reserve Fund Obligations**" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

"**Registrar**" means bank, trust company or other entity selected by the City in a Supplement to serve as the registrar for the registration and transfer of a series or issue of Parity Water/Wastewater Obligations issued in fully registered form as to the payment of principal of and interest thereon.

"**Stated Maturity**" when used with respect to Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"**Subordinated Debt**" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Water/Wastewater Obligations then Outstanding or subsequently issued.

"**Supplement**" or "**Supplemental Ordinance**" means an ordinance supplemental to, and authorized and adopted by the governing body of the City pursuant to the terms of, the Ordinance.

"**System Fund**" means the "**Water and Sewer System Fund**" affirmed in Section 6 of the Ordinance.

"**Term of Issue**" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term in any Supplement authorizing the issuance of commercial paper) or (ii) twenty-five years.

"**Utility System Consultant"** means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal water and wastewater facilities and systems similar in size to the Water/Wastewater System.

"**Value of Investment Securities**" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

"**Water/Wastewater System**" means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of water and the collection, treatment and disposal or reuse/reclaim of wastewater, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Water/Wastewater System shall not include facilities of any kind which are declared not to be a part of the Water/Wastewater System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities.

APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

SECTION : Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues." Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B," dated February 1, 1990, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992," dated March 1, 1992, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A," dated May 15, 1992, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993," dated January 15, 1993,(v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A," dated June 1, 1993, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994," dated September 1, 1994, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995," dated June 1, 1995, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A," dated August 1, 1996, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B," dated August 1, 1996, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997," dated August 1, 1997, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998," dated July 1, 1996, and (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A," dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994," dated March 1, 1994, (ii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998," dated August 1, 1998, (iii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (iv) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A," dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION Pledge. (a) Electric Light and Power System. Subject only to the prior lien on and pledge of the Net Revenues of the Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

SECTION : Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

(1) To pay the respective Maintenance and Operating Expenses thereof,

(2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,

(3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and

(4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

SECTION : Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

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

SECTION : Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Waterworks and Sewer System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

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

SECTION : Reserve Fund. (a) In connection with the issuance of the Prior Lien Bonds and Subordinate Lien Bonds, the City agrees and covenants to keep and maintain with its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on (i) the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement noted below, whichever date is the last to occur. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which, subject to the limitations hereinafter specified, may be withdrawn and transferred from the Reserve Fund) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is $106,790,235.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund.

When and so long as the money and investments, or Financial Commitments (hereinafter defined), are on deposit to the credit of the Reserve Fund in an amount equal to or exceeding the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the Required Reserve deficiency occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve. During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the "Interest and Redemption Fund" created and established for the payment and redemption of the Subordinate Lien Bonds while the same remain outstanding and, at such time as the Subordinate Lien Bonds are no longer outstanding, such surplus may be deposited in the Bond Fund.

Notwithstanding any provision contained herein to the contrary, the Required Reserve may be funded, in whole or in part, by depositing to the credit of the Reserve Fund (i) cash, (ii) investments, and (iii) one or more Financial Commitments. The term Financial Commitments means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength meeting the requirements below. Such insurance policy or surety bond shall provide for payment thereunder of moneys when other funds available to the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, in the interest and sinking fund maintained for the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, is insufficient on a payment date when interest or principal, or both, is due and payable for such obligations.

The financial strength of the insurance company or association providing the Financial Commitment must be rated on the date of the deposit of the Financial Commitment to be credit of the Reserve Fund in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by A.M. Best . In the event the rating of the financial strength of a provider of a Financial Commitment falls below (i) "Aa2" by Moody's Investors Service, Inc., (ii) "AA" by Standard & Poor's Ratings Services, (iii) "AA" by Fitch Ratings or (iv) if applicable, "A+" by A.M. Best, the City will be required to replace the Financial Commitment with (a) cash and Authorized Securities or (b) a substitute Financial Commitment issued by an insurance company or association that satisfies the ratings requirements summarized above in this paragraph (but in no event less than the ratings described in clauses (i), (ii), (iii) and (iv) of this sentence.).

Notwithstanding any provision herein to the contrary, the City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following the substitution of one or more Financial Commitments for cash and securities held in the Reserve Fund, the cash and securities released from the Reserve Fund**,** net of costs incurred with respect to the initial substitution of the Financial Commitment, shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Lien Bonds and Subordinate Lien Bonds in a manner that reduces the principal amount and Maturity Amount of outstanding Prior Lien Bonds and Subordinate Lien Bonds.

(b) Initial Financial Commitment. As permitted in paragraph (a) above, the City has determined to acquire initially a Financial Commitment for the Reserve Fund with coverage in the maximum amount of $30,000,000 to fund in part the Required Reserve from Financial Security Assurance Inc., a New York domiciled insurance company (hereinafter referred to as "FSA"). In accordance with FSA's terms for the issuance of a "Municipal Bond Debt Service Reserve Insurance Policy" (the "Reserve Policy"), an Insurance Agreement by and between the City and FSA has been submitted to the City for approval and execution, and such Insurance Agreement, substantially in the form and content of Exhibit A attached hereto, is hereby approved and authorized to be executed by the City Manager and such Insurance Agreement, as executed and delivered by the City Manager, shall be deemed the Insurance Agreement herein approved by the City Council and authorized for execution.

To the extent the City should make a draw under the Reserve Policy, the City acknowledges and agrees the repayment of "Policy Costs," as defined in the Insurance Agreement, shall constitute a payment of an amount required to be deposited in the Reserve Fund to establish and maintained the Required Reserve, and insofar as the priority of uses of the revenues of (i) Electric Light and Power System and (ii) the Waterworks and Sewer System, such Policy Costs shall be entitled to the same priority of payment identified in the Prior Lien Bond Ordinances for payments required to be deposited in the Reserve Fund to establish and maintain the Required Reserve.

SECTION : Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchasers of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

SECTION : Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

SECTION : Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

SECTION : Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Bonds are Outstanding, the City agrees to maintain insurance, for the benefit of the Holders of the Bonds, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

SECTION : Sale, Lease or Disposal of System Property. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the System. In the event the property, facilities or assets of the System sold or exchanged represents more than 5% of the total assets of the System, the City agrees to notify the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations and bond insurance companies insuring the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations of such sale, exchange or disposal of property and facilities. Prior to the sale or exchange of any assets or properties representing more than 5% of the total assets of the System being completed, a written response shall be obtained from the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations to the effect that such sale or exchange of such assets or properties in and of itself will not result in a rating category change of the ratings then assigned on such obligations. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used either (i) to acquire other property necessary or desirable for the safe or efficient operation of the System, or (ii) to redeem, defease or retire Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations.

SECTION : Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

SECTION : Deficiencies; Excess Net Revenues. (a) If on any occasion there shall not be sufficient Net Revenues of the Systems to make the required deposits into the Interest and Redemption Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the Systems, or from any other sources available for such purpose.

(b) Subject to making the required deposits to (i) all special funds created for the payment and security of the Prior Lien Bonds (including the Reserve Fund) (ii) all special funds created for the payment and security of the Subordinate Lien Bonds (including the Interest and Redemption Fund) and (iii) all funds or accounts created for the benefit of Separate Lien Obligations, the excess Net Revenues of the Systems, either or both, may be used by the City for any lawful purpose.

SECTION : Final Deposits; Governmental Obligations. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

SECTION : Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION : Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

APPENDIX E

FORM OF BOND COUNSEL'S OPINION

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August ___, 2004

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2004" (the "Bonds"), dated August 12, 2004, in the principal amount of $132,475,000, we have examined the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form and mature on May 15, 2024, unless redeemed prior to maturity in accordance with the applicable optional or mandatory redemption provisions. The Bonds bear interest on the unpaid principal amount from the date of issuance at the rates per annum specified in the ordinance (the "Ordinance") authorizing the issuance of the Bonds, and such interest is payable on the dates specified in the Ordinance to the registered owners shown on the registration books of the Paying Agent/Registrar on the Regular Record Date.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes, and none other. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City or the City's Water/Wastewater System (the "System") and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

Our examination into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including a Master Ordinance and the Ordinance (collectively, the "Ordinances"); certificates and opinions of officials of the City; other pertinent instruments authorizing and relating to the issuance of the Bonds; and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

BASED ON OUR EXAMINATION, 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 authorized, issued and delivered in accordance with law; that the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Previously Issued Parity Water/Wastewater Obligations, other Seventh Supplement Secured Obligations, Prior Subordinate Lien Obligations and Previously Issued Separate Lien Obligations (all as identified and defined in the Ordinances), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally. Subject to the restrictions stated in the Ordinances, the City has reserved the right, to issue and incur additional revenue obligations payable from and equally and ratably

secured by a parity lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

2. Assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the Bonds for federal income tax purposes (i) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof, of the owners thereof pursuant to section 103 of such Code, existing regulations, published rulings, and court decisions thereunder, and (ii) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on all tax-exempt obligations, such as 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 corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, 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 of the Code will be computed.

We express no opinion as to the affect on the excludability from gross income for federal income tax purposes of any action taken under the Ordinance which requires that the City shall have received an opinion of counsel to the effect that such action will not adversely affect the excludability of interest on the Bonds from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes. The Ordinance provides that prior to taking certain actions, including converting the interest rate on the Bonds, the City must have received such an opinion, which is dependent on the occurrence of certain events in the future.

We express no 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, property and casualty insurance companies, life 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 tax credit, owners of 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.

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.

APPENDIX F

SPECIMEN BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium: $

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

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

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

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

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

[Countersignature]	FINANCIAL SECURITY ASSURANCE INC.
By ______________________________	By ____________________________________
	Authorized Officer

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

APPENDIX G

SCHEDULE OF REFUNDED BONDS

	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Combined Utility System Revenue	11/15/2004	5.600%	$ 4,710,000		
Refunding Bonds, Series 1993	5/15/2018*	5.250%	20,925,000	9/27/2004	100
Combined Utility System Revenue	11/15/2004	5.300%	$ 575,000	9/27/2004	101
Revenue Refunding Bonds, Series 1993A	11/15/2005	5.375%	10,000	9/27/2004	101
	5/15/2006	5.500%	755,000	9/27/2004	101
	11/15/2006	5.500%	2,325,000	9/27/2004	101
	5/15/2007	5.600%	2,390,000	9/27/2004	101
	11/15/2007	5.600%	2,050,000	9/27/2004	101
	11/15/2013*	5.750%	5,535,000	9/27/2004	101
	5/15/2016*	5.625%	4,720,000	9/27/2004	101
Combined Utility Systems Revenue	5/15/2009	6.000%	$ 2,625,000	11/15/2004	102
Refunding Bonds, Series 1994	5/15/2010	6.000%	2,080,000	11/15/2004	102
	5/15/2011	6.100%	2,010,000	11/15/2004	102
	5/15/2012	6.100%	2,575,000	11/15/2004	102
	5/15/2013	6.200%	2,900,000	11/15/2004	102
	5/15/2014	6.200%	5,945,000	11/15/2004	102
	5/15/2016*	6.250%	28,315,000	11/15/2004	102
	5/15/2024*	5.750%	33,815,000	11/15/2004	100
Combined Utility System Revenue	11/15/2004	4.300%	$ 165,000	9/27/2004	100
Subordinate Lien Revenue Bonds, Series 1994	11/15/2005	4.400%	170,000	9/27/2004	100
	11/15/2006	4.500%	180,000	9/27/2004	100
	11/15/2007	4.600%	190,000	9/27/2004	100
	11/15/2008	4.700%	200,000	9/27/2004	100
	11/15/2009	4.800%	210,000	9/27/2004	100
	11/15/2010	4.850%	220,000	9/27/2004	100
	11/15/2011	4.900%	235,000	9/27/2004	100
	11/15/2012	4.950%	245,000	9/27/2004	100
	11/15/2013	5.000%	260,000	9/27/2004	100
	11/15/2014	5.000%	270,000	9/27/2004	100
Total Par Amount Refunded			$ 126,605,000		

*Term Bonds.

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APPENDIX H

THE STANDBY PURCHASER

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THE STANDBY PURCHASER

Landesbank Baden-Württemberg ("LBBW") is a public law institution (*rechtsfähige Anstalt des öffentlichen Rechts*) owned and controlled jointly by the State of Baden-Württemberg ("Baden-Württemberg"), the Savings Banks Association of Baden-Württemberg (*Sparkassenverband Baden-Württemberg*, the "Association") and the City of Stuttgart ("Stuttgart"; collectively with Baden-Württemberg and Association the "Guarantors"). LBBW carries on the functions of its three legal predecessors, Südwestdeutsche Landesbank Girozentrale, Landesgirokasse öffentliche Bank und Landessparkasse and Landeskreditbank Baden-Württemberg Marktteil, which merged to form LBBW by virtue of the Landesbank Baden-Württemberg Act *(Gesetz über die Landesbank Baden-Württemberg)* ("LBBW Act"), effective 1 January 1999; pursuant to the Landeskreditbank Baden-Württemberg - Förderbank Act (*Gesetz über die Landeskreditbank Baden-Württemberg-Förderbank*), the state development business (Förderteil) of Landeskreditbank Baden-Württemberg was separated from the commercial banking business (Marktteil) of Landeskreditbank Baden-Württemberg with effect from 1 December 1998 and transferred as of that date to the newly created Landeskreditbank Baden-Württemberg Förderbank.

Among the establishing public entities and institutions, Baden-Württemberg and the predecessors of the Association have both contributed 39.5% of LBBW 's endowment capital and Stuttgart has contributed 21% of LBBW's endowment capital. The LBBW-Act authorizes LBBW to engage in all types of banking and financial service activities as well as in all other activities that are useful to LBBW. LBBW is authorized to issue mortgage-backed bonds (*Pfandbriefe*), public debt backed bonds (*Kommunalobligationen*) and other debt obligations. LBBW is a universal bank and an international commercial bank. It is both a retail and a wholesale bank and the central banking institution of the savings banks in Baden-Württemberg. In this regard, it conducts its activities with due consideration of the interests of the Savings Banks. LBBW furthermore performs the duties of a savings bank in the territory of Stuttgart.

As a German "universal bank" LBBW provides a comprehensive range of commercial banking and investment banking services to businesses, other banking institutions, governmental entities, counties, municipalities, other organizations and individuals. LBBW makes loans, extends guaranties, underwrites, deals and trades in debt and equity securities, and makes equity investments. LBBW underwrites and trades in, and acts as paying agent and fiscal agent with respect to, Baden-Württemberg government debt securities.

LBBW is the principal banker of Baden-Württemberg and Stuttgart. The combination of these manifold functions makes LBBW a special credit institution in Germany's banking community.

With a balance sheet total of EUR 322 billion at Group level (as of December 31, 2003), LBBW numbers among the ten largest German banks and among the 50 largest credit institutions worldwide .

Liability for the Obligations of Landesbank Baden-Württemberg

General

The solvency and the obligations of LBBW are currently, by virtue of the maintenance obligation (*Anstaltslast*) (the "Maintenance Obligation") and the guarantee obligation (*Gewährträgerhaftung*) (the "Guarantee Obligation"), jointly and severally backed by the State of Baden-Württemberg, the Savings Banks Association of Baden-Württemberg and the City of Stuttgart (together, the "Guarantors"). Under the Maintenance Obligation, the Guarantors are jointly and severally responsible to maintain LBBW's economic viability and to keep it in a position to perform its functions at any time and to enable it to fulfill its obligations when due. In addition, under the Guarantee Obligation, the Guarantors are jointly and severally directly liable to all creditors of LBBW for all obligations of LBBW if and to the extent creditors have not been satisfied out of the assets of LBBW.

Result of Settlement Discussions with the European Commission

On 8 May 2001 the Commission of the European Communities (the "Commission") took a decision proposing to the Federal Republic of Germany (the "Federal Republic") the appropriate measures it should take in order to make the guarantee system of Maintenance Obligation and Guarantee Obligation compatible with the state aid rules of the Treaty Establishing the European Community (the "EC Treaty"). On 17 July 2001 the Commission reached an understanding with the Federal Republic on the future application of Maintenance Obligation and Guarantee Obligation in conformity with the decision of 8 May 2001 (the "Understanding"). Following further discussions between the Federal Republic and the Commission, on 28 February 2002 the Commission and the Federal Republic reached conclusions which spelt out the key measures for implementing the Understanding (the "Conclusions").

The Understanding and the Conclusions were transformed by the Commission into a new proposal of appropriate measures (the "Proposed Appropriate Measures") which was submitted to the Federal Republic on 27 March 2002. The Federal Republic accepted the proposal on 11 April 2002. The accepted proposal provides, inter alia, for the following:

- The Guarantee Obligation will be abolished.

- The Maintenance Obligation will be replaced in accordance with the principles set forth in the Proposed Appropriate Measures which means, in particular, that (i) the financial relationship between the Landesbanks and their respective public owners shall be no different from a normal commercial relationship governed by market economy principles and (ii) the Landesbanks shall be subject to the same insolvency rules as private credit institutions.

- The German authorities have undertaken to assure that all proposals for the legal measures necessary for the implementation of the Proposed Appropriate Measures on federal and state level will be submitted to the respective legislative bodies by 31 March 2002 at the latest (in special cases by 31 May 2002 at the latest) and will be adopted by 31 December 2002 at the latest.

- Liabilities existing at 18 July 2001 will continue to be covered by Guarantee Obligation until their maturity runs out. There will be a transitional period from 19 July 2001 until 18 July 2005 (the "Transitional Period") during which Maintenance Obligation and Guarantee Obligation can be maintained in their present form. Any liability created within the Transitional Period will continue to be covered by Guarantee Obligation under the condition that its maturity does not go beyond 31 December 2015.

- The owners will immediately honor their obligations from Guarantee Obligation vis-à-vis the creditors of liabilities agreed until 18 July 2005 (and maturing, in the case of liabilities agreed within the Transitional Period, no later than 31 December 2015) as soon as they have stated, when these liabilities come due, in due manner and in writing that the creditors of these liabilities cannot be satisfied out of the assets of the institution.

The procedure described in the last paragraph above does not require a notification in accordance with state aid rules of the EC Treaty. It provides the opportunity for the owners to honor liabilities immediately upon their maturity once the owners have completed the procedure described above.

<u>Implementing legislation of the State of Baden-Württemberg</u>

On 16 October 2002 the parliament of the State of Baden-Württemberg passed an act amending the Landesbank Baden-Württemberg Act (*Gesetz über die Landesbank Baden-Württemberg)* (the "LBBW Amendment Act") which was published in the Official Gazette of Baden-Württemberg (*Gesetzblatt für Baden-Württemberg*) on 11 November 2002. The main objective of the LBBW Amendment Act, which will become effective on 19 July 2005, is to implement the Proposed Appropriate Measures. Furthermore, the LBBW Amendment Act provides that LBBW may agree with one or more of the Guarantors that such Guarantors jointly or severally or together with third parties guarantee for obligations of LBBW incurred after 18 July 2005 that are no longer covered by Guarantee Obligation and Maintenance Obligation (as described above). Such Guarantees must cover a fixed amount and be limited in time and must be paid for by LBBW in accordance with market practice.

Institution of Insolvency Proceedings

Pursuant to Section 45 of the Baden-Württemberg Law Implementing the Judiciary Law (*Gesetz zur Ausführung des Gerichtsverfassungsgesetzes),* adopted in accordance with German federal law, public law institutions (*Anstalten des öffentlichen Rechts*) are not subject to insolvency proceedings. Therefore, insolvency proceedings for liquidation or reorganization can currently not be instituted by or against LBBW; LBBW can only be dissolved in accordance with its ordinance and with the Landesbank Baden-Württemberg Act after fulfillment of all its debts and liabilities to third parties. However, according to the LBBW Amendment Act, the State of Baden-Württemberg will also amend the Law Implementing the Judicial Law. As a result of such amendment, LBBW will become capable of being subject to insolvency proceedings after 18 July 2005.