STATEMENT DATED JANUARY 27, 2005

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

NEW ISSUE – Book-Entry-Only

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

$145,345,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Public Improvement Refunding Bonds, Series 2005

Dated: February 1, 2005 Due: September 1, as shown below

Interest on the $145,345,000 City of Austin, Texas (the "City") Public Improvement Refunding Bonds, Series 2005 (the "Bonds"), will accrue from the date of initial delivery of the Bonds to the initial purchasers (the "Underwriters") as shown below and will be payable September 1 and March 1 of each year, commencing September 1, 2005, and will be calculated on the basis of a 360–day year of twelve 30–day months. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOND INFORMATION – Book-Entry-Only System").

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

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

MBIA

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

MATURITY SCHEDULE

CUSIP Prefix: 052396

Maturity (September 1)	Amount	Interest Rate	Price or Yield	Maturity (September 1)	Amount	Interest Rate	Price or Yield
2010	$ 7,560,000	5.000%	3.050%	2016	$14,695,000	5.000%	3.780%*
2011	8,985,000	5.000%	3.220%	2017	15,490,000	5.000%	3.850%*
2012	9,785,000	5.000%	3.390%	2018	14,345,000	5.000%	3.900%*
2013	16,510,000	5.000%	3.530%	2019	15,125,000	5.000%	3.950%*
2014	17,375,000	5.000%	3.640%	2020	6,820,000	5.000%	3.990%*
2015	18,655,000	5.000%	3.720%*				

* Priced to call date.

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2015, in whole or in part in the principal amounts of $5,000 or any integral multiple thereof, on March 1, 2015, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. See "BOND INFORMATION – Redemption".

The Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Bonds (see APPENDIX C – "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., San Antonio, Texas.

It is expected that the Bonds will be delivered through the facilities of DTC on or about March 8, 2005.

Lehman Brothers

Apex Pryor Securities | **First Southwest Company** | **JPMorgan**
Morgan Keegan & Company Inc. | **Morgan Stanley** | **Ramirez & Co. Inc.**
Siebert Brandford Shank & Co., LLC | **UBS Financial Services Inc.**

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

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

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

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

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

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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CITY OF AUSTIN

Elected Officials

Name	Office	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
John Stephens, CPA	Chief Financial Officer
Laura Huffman	Assistant City Manager
Vickie Schubert, CPA	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Brown	City Clerk

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

FINANCIAL ADVISOR
Public Financial Management
Austin, Texas

AUDITORS
KPMG LLP and Richard Mendoza, CPA
Austin, Texas

For additional information regarding the City, please contact:

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Treasurer
City of Austin
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Austin, Texas 78701
(512) 974–7883
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Public Financial Management
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Austin, Texas 78701
(512) 472–7194
newmanb@pfm.com

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this data page from this Official Statement or to otherwise use it without the entire Official Statement.

This data page was prepared to present the Underwriters of the Bonds information concerning the Bonds, the description of the tax base and other pertinent data, all as more fully described herein.

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

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

The Bonds............................. The Bonds are being issued in the principal amount of $145,345,000 pursuant to the general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, and an Ordinance passed by the City Council of the City (see "BOND INFORMATION – Authority for Issuance").

Security.................................... The Bonds constitute a direct obligation of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt.

Optional Redemption......... The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2015, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2015, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "BOND INFORMATION – Redemption").

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

Payment Record.................. The City has not defaulted since 1900 when all bonds were refunded at par with a voluntary reduction in interest rates.

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Selected Issuer Indices

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
1994	507,468	$18,237,532,094	$35,938.29	$422,738	$ 833.03	2.32%	100.07%
1995	523,352	20,958,589,300	40,046.83	436,868	834.75	2.08%	100.10%
1996	541,889	23,303,015,047	43,003.30	443,247	817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.47	1.50%	99.23%
2003	674,719	50,759,650,668	75,230.80	788,366	1,168.44	1.55%	99.60%
2004	678,769	49,199,408,526	72,483.29	732,407	1,079.02	1.49%	99.21% (3)
2005	683,946	49,996,299,663(4)	73,099.78	705,253(5)	1,031.15(5)	1.41%(5)	N/A

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

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OFFICIAL STATEMENT

Relating to

$145,345,000
CITY OF AUSTIN, TEXAS
Public Improvement Refunding Bonds, Series 2005

INTRODUCTION

This Official Statement, which includes the cover page, the summary statement and the appendices hereto, provides certain information regarding the issuance by the City of Austin, Texas (the "City"), of $145,345,000 City of Austin, Texas Public Improvement Refunding Bonds, Series 2005 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Bonds (the "Bond Ordinance" or the "Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement a description of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement and the Escrow Agreement (hereinafter defined) pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

PLAN OF FINANCING

Purpose of Refunding Bonds

The Bonds are being issued to refund $147,970,000 of the City's currently outstanding general obligation indebtedness (the "Refunded Obligations") and to pay costs of issuance. The purpose of the transaction is to effect debt service savings. See APPENDIX D for a listing of the Refunded Obligations.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Refunded Obligations from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and JPMorgan Chase Bank, N.A., Dallas, Texas (the "Escrow Agent"). The Ordinance provides that the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America and obligations of agencies of the United States, including obligations that are unconditionally guaranteed by the agency, that are non-callable and that were, on the date the Bond Ordinance was adopted, rated as to investment quality by a nationally recognized rating firm not less than AAA (the "Escrowed 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 Obligations. Under the laws of the State of Texas (the "State"), particularly V.T.C.A. Government code, Chapter 1207, AAA-rated obligations of agencies of the United States may be deposited with the Escrow Agent under the terms of the Escrow Agreement for the payment of the Refunded Obligations issued after September 1, 1999.

The Arbitrage Group, Inc. a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate that the Escrowed 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 Obligations. Such maturing principal of and interest on the Escrowed Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the debt service on the Bonds.

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

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

Sources and Uses of Funds

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

Sources of Funds:	
Principal Amount of the Bonds	$145,345,000.00
Original Issue Premium	14,420,148.80
Total Available Funds	$159,765,148.80
Uses of Funds:	
Deposit to Escrow Fund (including Float Contract adjustment)	$158,376,868.05
Costs of Issuance (including Insurance Premium)	665,427.68
Underwriter's Discount	722,853.07
Total Available Funds	$159,765,148.80

BOND INFORMATION

Authority for Issuance

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

General

The Bonds are dated February 1, 2005 and shall bear interest on the unpaid principal amounts from the date of initial delivery to the Underwriters, at the rate of 5.00% per annum. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the bondholder. The Bonds are issued only as fully registered obligations in denominations of $5,000 or any integral multiple thereof within a maturity.

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

Security

The Bonds constitute direct obligations of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property located within the City in an amount sufficient to pay the principal of and interest on all ad valorem tax debt.

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

Bondholder Remedies

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

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

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

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

Redemption

Optional Redemption. The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2015, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2015, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

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

Defeasance of Bonds

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

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

Book-Entry-Only System

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

The City cannot and does not give any assurance the (1) DTC will distribute payments of debt service on the Securities, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Securities), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 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, Fixed Income 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

Redemption proceeds, 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 City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Paying Agent/Registrar

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

Transfer, Exchange and Registration

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

Limitation on Transfer of Bonds Called for Redemption

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

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

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

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

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

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

MBIA

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

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

MBIA Information

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

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

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of the Company's most recent Quarterly Report on form 10-Q, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this [Prospectus/Private Placement Memorandum/Official Statement] and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of $9.9 billion (audited), total liabilities of $6.2 billion (audited), and total capital and surplus of $3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2004 MBIA had admitted assets of $10.4 billion (unaudited), total liabilities of $6.7 billion (unaudited), and total capital and surplus of $3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

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

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

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

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

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

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

TAX INFORMATION

Ad Valorem Tax Law

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

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

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

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

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

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

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

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

The City Council has not determined at this time what action, if any, it will take regarding this constitutional amendment. The City can make no representations or predictions concerning the impact such a tax limitation would have on the taxing rates of the City or its ability to make debt service payments. To date, no valid petition has been presented to the City Council requesting that an election be conducted.

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

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

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

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

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

In December 2004, the City approved the creation of a tax increment reinvestment zone encompassing property consisting of the old Robert Mueller Municipal Airport. A multi-use development of the property within the boundaries of the zone is envisioned, and on December 16, 2004 the City entered into an agreement with Catellus Austin LLC to oversee the redevelopment of this property. Currently, all of the property within the zone is owned by the City; however, as development occurs property will from time to time be sold to private individuals and entities.

Tax Valuation

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

(1) 2004 Certified Appraised Value includes $3,059,367,835 in property in the appeals process.

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

Statement of Debt (As of December 31, 2004)

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

Public Improvement Bonds (1)	$617,785,000	
Certificates of Obligation (1)	133,695,000	
Contractual Obligations	43,935,000	
Assumed Bonds (2)	11,302,467	
The Bonds	145,345,000	
Total		$952,062,467
Less Self-Supporting Debt:		
Assumed Bonds (2)	$ 9,962,179	
Airport (3)	508,334	
Austin Energy (3)	2,361,990	
City Hall	34,278,546	
CMTA Mobility (4)	24,195,000	
Communication & Technology Management (3)	17,995,510	
Convention Center (3)	25,746,889	
Fleet Management (3)	5,299,331	
Golf (3)	7,825,861	
One Texas Center (3)	13,695,000	
Solid Waste (3)	27,698,105	
Transportation (3)	2,100,000	
UCSO (3)	154,556	
Water and Wastewater (3)	14,865,837	
Watershed Protection (3)	13,739,208	$200,426,346
Interest and Sinking Fund, All Public Improvement Bonds (5)		39,363,138
Net Debt (6)		$712,272,983
Ratio Total Debt to 2005 Net Taxable Assessed Valuation		1.90%
Ratio Net Debt to 2005 Net Taxable Assessed Valuation		1.42%

2005 Population (Estimate) – 683,946 (7)
Per Capita Net Taxable Assessed Valuation – $73,099.78
Per Capita Net Debt Outstanding – $1,041.42

(1) Excludes the Refunded Obligations.
(2) Represents bonds of utility districts annexed by the City.
(3) Airport, Austin Energy, Communications and Technology Management, Convention Center, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection represent a portion of the City's Outstanding Public Improvement Bonds, Certificates of Obligation and/or Contractual Obligations. Debt service for Airport, Austin Energy, Communications and Technology Management, Convention Center, Fleet Management, Golf, One Texas Center, Solid Waste, Transportation, Water, Wastewater and Watershed Protection is paid from revenue of the respective enterprises. The City plans to continue to pay these obligations from each respective enterprise. Communications and Technology Management, Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.

(4) The City entered into an interlocal agreement with Capital Metro Transit Authority (CMTA), whereby CMTA will pay the required debt service to the City through a transfer of funds 30 days prior to each debt service payment date.
(5) Represents estimate of cash plus investments at cost on December 31, 2004.
(6) Various general fund departments have issued debt which is supported by a transfer into the debt service fund from the issuing department. These departments budget the required debt service which reduces the debt service tax requirement. If excluded, these obligations would lower net debt by $11,304,226.
(7) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

Revenue Debt

In addition to the above, on a pro forma basis, the City had outstanding (as of December 31, 2004) $1,118,638,647 Combined Utility Systems Revenue Bonds payable from a prior lien on the combined net revenue of the Electric System and the Water and Wastewater System; $523,560,000 Electric Utility Obligations payable from a subordinate lien on the net revenues of the Electric Utility System; $923,670,000 Water and Wastewater Obligations payable from a subordinate lien on the net revenue of the Water and Wastewater System, and $163,426,000 Combined Utility Systems Commercial Paper payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System.

The City also has outstanding (as of December 31, 2004) $380,475,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding (as of December 31, 2004) $224,620,000 in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

Bonds Subject to Annual Appropriation

The City has entered into two subleases (the "Subleases") with respect to space to house the Electric Utility and the Water and Wastewater Utility, and $5,545,000 and $3,675,000, respectively, of Certificates of Participation are outstanding (as of December 31, 2004) and payable from payments made under such Subleases. The City anticipates funding the required lease payments from the revenue of the respective utility system, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenue of the Electric System and the Water and Wastewater System are not specifically pledged in such Subleases.

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Valuation and Funded Debt History

Fiscal Year Ended 9-30	Estimated City Population (1)	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	(000's) Net Funded Tax Debt (2)	Per Capita Net Funded Tax Debt	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Tax Collections
1994	507,468	$18,237,532,094	$35,938.29	$422,738	$ 833.03	2.32%	100.07%
1995	523,352	20,958,589,300	40,046.83	436,868	834.75	2.08%	100.10%
1996	541,889	23,303,015,047	43,003.30	443,247	817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,148	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027	822.12	1.82%	99.37%
1999	619,038	32,458,349,755	52,433.53	509,759	823.47	1.57%	99.57%
2000	628,667	35,602,840,326	56,632.27	540,283	859.41	1.52%	99.85%
2001	661,639	41,419,314,286	62,601.08	546,211	825.54	1.32%	99.60%
2002	671,044	47,782,873,096	71,206.77	762,624	1,136.47	1.50%	99.23%
2003	674,719	50,759,650,668	75,230.80	788,366	1,168.44	1.55%	99.60%
2004	678,769	49,199,408,526	72,483.29	732,407	1,079.02	1.49%	99.21% (3)
2005	683,946	49,996,299,663(4)	73,099.78	705,253(5)	1,031.15(5)	1.41%(5)	N/A

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

Tax Rate, Levy and Collection History

Fiscal Year Ended 9-30	Total Tax Rate	Distribution: General Fund	Distribution: Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
1993	$0.6410	$0.3460	$0.2950	$108,824,534	98.03%	99.49%
1994	0.6225	0.3462	0.2763	113,528,637	98.76%	100.07%
1995	0.5625	0.3132	0.2493	117,892,065	99.00%	100.10%
1996	0.5446	0.3177	0.2269	126,908,220	99.03%	99.91%
1997	0.5251	0.3117	0.2134	135,598,596	98.96%	99.47%
1998	0.5401	0.3304	0.2097	148,490,010	98.80%	99.37%
1999	0.5142	0.3265	0.1877	166,900,834	98.89%	99.57%
2000	0.5034	0.3222	0.1812	179,224,698	99.08%	99.85%
2001	0.4663	0.3011	0.1652	193,138,262	98.98%	99.60%
2002	0.4597	0.3041	0.1556	219,657,867	98.81%	99.23%
2003	0.4597	0.2969	0.1628	233,342,114	98.84%	99.60%
2004	0.4928	0.3236	0.1692	242,454,685	97.87%(1)	99.21%(1)
2005 (2)	0.4430	0.2747	0.1683	221,483,608	(In process of collection)	

(1) Year-end actual collections as of September 30, 2004.
(2) The total tax rate is anticipated to be reduced to the level shown as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new countywide hospital district, which will result in certain health services currently being provided by the City to be provided by the hospital district. The hospital district will have taxing powers, and approved the levy for its 2004-2005 fiscal year of an ad valorem tax rate of $0.0779. As a result, the combined tax rates of the City and the hospital district will result in an effective tax rate to citizens of the City of approximately 52 cents (see "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes").

Ten Largest Taxpayers (1)

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

(1) Taxable property valuations for the ten largest taxpayers from the July 2004 certified tax roll are lower than last year as a result of the slowdown in the local economy. Five of the companies represent computer technology manufacturers. The decline in the computer technology sector of the economy has resulted in substantial reductions in personal property inventory. The City does not anticipate an increase in taxable assessed valuation in the fiscal years 2005-2006, and taxable property valuations may be lower than the July 2004 certified tax roll.
(2) The Motorola Corporation is now Freescale Semiconductor Inc.
(3) The Samsung Corporation received an abatement for $90,428,640 in real and personal property value.
Source: Travis Central Appraisal District.

Property Tax Rate Distribution

	Fiscal Year Ended September 30				
	2001	2002	2003	2004	2005 (1)
General Fund	$.3011	$.3041	$.2969	$.3236	$.2747
Interest and Sinking Fund	.1652	.1556	.1628	.1692	.1683
Total Tax Rate	$.4663	$.4597	$.4597	$.4928	$.4430

(1) July 24, 2004 Certified Tax Roll set at a rate of $0.5065 which is the effective tax rate. The total 2005 tax rate was reduced to the level shown as a result of the voters of Travis County (which includes the City) approving in May 2004 the creation of a new countywide hospital district, which will result in certain health services currently being provided by the City to be provided by the hospital district. The combined tax rates of the City and the hospital district resulted in an effective tax rate to citizens of the City of approximately 52 cents (see "DEBT INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes").

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Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended	Valuation	Real Property		Personal Property		Net Taxable	Total	% Current	% Total
9-30	Date	Amount	% of Total	Amount	% of Total	Assessed Valuation	Tax Levy	Collections	Collections
1994	1-1-93	$14,828,873,350	81.30%	$3,408,658,744	18.70%	$18,237,532,094	$113,528,637	98.76%	100.07%
1995	1-1-94	17,350,805,301	82.79%	3,607,783,999	17.21%	20,958,589,300	117,892,065	99.00%	100.10%
1996	1-1-95	19,478,990,278	83.59%	3,824,024,769	16.41%	23,303,015,047	126,908,220	99.03%	99.91%
1997	1-1-96	21,488,717,069	83.21%	4,334,668,188	16.79%	25,823,385,257	135,598,596	98.96%	99.47%
1998	1-1-97	22,693,966,978	82.54%	4,799,091,757	17.46%	27,493,058,735	148,490,010	98.80%	99.37%
1999	1-1-98	27,225,077,724	83.88%	5,233,272,031	16.12%	32,458,349,755	166,900,834	98.89%	99.57%
2000	1-1-99	30,114,175,223	84.58%	5,488,665,103	15.42%	35,602,840,326	179,224,698	99.08%	99.85%
2001	1-1-00	35,257,000,679	85.23%	6,110,383,576	14.77%	41,419,314,286	193,138,262	98.98%	99.60%
2002	1-1-01	40,775,710,666	85.34%	7,007,162,430	14.66%	47,782,873,096	219,657,867	98.81%	99.23%
2003	1-1-02	44,261,013,540	87.20%	6,498,637,128	12.80%	50,759,650,668	233,342,114	98.84%	99.60%
2004	1-1-03	43,038,451,926	87.48%	6,160,956,600	12.52%	49,199,408,526	242,454,685	97.87% (1)	99.21% (1)
2005	1-1-04	43,920,059,913	87.85%	6,076,239,750	12.15%	49,996,299,663	221,483,608 (2)	(In process of collection)	

(1) Actual collections through September 30, 2004.
(2) July 24, 2004 Certified Tax Roll set at a rate of $0.5065 which is the effective tax rate. However, as a result of the voter approved new Hospital District the City's tax rate was reduced by $0.0635 to $0.4430. (See 'TAX INFORMATION – Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes"). The Hospital District approved the levy for its 2004-2005 fiscal year of an ad valorem tax rate of $0.0779.

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Tax Rate Limitation

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

By the later of September 30 or 60 days after the certified appraisal roll is delivered to the City, the City Council adopts a tax rate per \$100 taxable value for the upcoming fiscal year beginning October 1. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

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

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

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

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DEBT INFORMATION (1)

Debt Service Requirements

Fiscal Year Ending 09/30	Public Improvement Bonds (2)	Certificates of Obligation (2)	Contractual Obligations	Assumed MUD Bonds	The Bonds (3)	Total Combined Debt Requirements	Less: Self-Supporting Requirements(4)	Total Net Debt Requirements	Percent Principal Payout
2005	$ 58,244,309	$ 10,503,223	$ 5,349,827	$ 1,761,301	$ 3,492,317	$ 79,350,978	$ 18,999,581	$ 60,351,397	
2006	78,023,814	13,210,989	9,833,584	2,353,724	7,267,250	110,689,360	26,429,090	84,260,270	
2007	75,286,655	13,295,039	7,520,178	1,261,653	7,267,250	104,630,774	24,120,014	80,510,760	
2008	67,922,380	13,322,376	6,765,104	1,111,385	7,267,250	96,388,496	23,448,427	72,940,068	
2009	63,099,468	13,403,496	6,647,793	991,463	7,267,250	91,409,469	22,766,871	68,642,598	32.50%
2010	59,799,106	12,180,706	5,776,381	997,573	14,827,250	93,581,016	22,670,447	70,910,570	
2011	57,031,388	12,232,971	4,389,994	1,001,480	15,874,250	90,530,083	21,062,608	69,467,475	
2012	53,138,781	11,969,723	2,018,249	1,003,240	16,225,000	84,354,992	18,397,250	65,957,742	
2013	41,413,045	12,600,023		1,017,960	22,460,750	77,491,778	16,495,658	60,996,119	
2014	38,378,101	9,939,663		1,214,635	22,500,250	72,032,649	13,524,281	58,508,367	63.47%
2015	34,018,226	9,599,013		1,213,546	22,911,500	67,742,285	13,351,308	54,390,977	
2016	34,585,174	9,661,533		1,229,024	18,018,750	63,494,480	12,777,753	50,716,727	
2017	30,849,721	9,710,396		1,011,643	18,079,000	59,650,760	12,413,041	47,237,719	
2018	29,469,190	7,600,144		716,688	16,159,500	53,945,521	8,210,151	45,735,370	
2019	27,880,274	5,629,671			16,222,250	49,732,195	6,670,088	43,062,107	88.12%
2020	27,992,411	7,989,546			7,161,000	43,142,958	8,391,252	34,751,705	
2021	27,987,453	6,852,231				34,839,684	6,759,408	28,080,276	
2022	19,933,544	5,046,659				24,980,203	5,012,806	19,967,397	
2023	12,723,100	2,317,299				15,040,399	2,266,017	12,774,381	
2024	5,784,075	1,961,719				7,745,794	1,961,719	5,784,075	100.00%

(1) As of March 8, 2005.
(2) Excludes the Refunded Obligations.
(3) Includes principal and interest on the Bonds.
(4) Includes principal and interest on all self-supporting debt (see "Statement of Debt", page 11).

Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-03) (in 000's)

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

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

(1) Excludes general obligation debt reported in proprietary funds.
(2) Source: Taxing jurisdiction.
(3) Based on assessed valuation of $51,174,017,303.
(4) Based on 2003 estimated population of 674,719.

On May 15, 2004, voters of Travis County (in which the City is located) approved the creation of a countywide hospital district, and authorized the hospital district to levy an ad valorem tax at a rate not to exceed 25 cents per $100 assessed valuation. It is anticipated that the hospital district will assume and fund health care facilities and services currently provided by the City, and funded from ad valorem taxes assessed to residents of the City and Travis County. The City reduced the ad valorem tax rate levied and assessed against property owners of the City as a result of the creation of the countywide hospital district. See "TAX INFORMATION – Tax Rate, Levy and Collection History". The hospital district approved the levy for its 2004-2005 fiscal year of an ad valorem tax rate of $0.0779.

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Authorized General Obligation Bonds

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Unissued Balance
Brackenridge 2000	10-22-83	$ 50,000,000	$ 40,785,000	$ 9,215,000
Parks Improvements	09-08-84	9,975,000	9,648,000	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	5,395,000
Park and Recreation Facilities	11-03-98	75,925,000	66,255,000	9,670,000
Library, Cultural Arts and Museum	11-03-98	46,390,000	37,720,000	8,670,000
Street Improvements	11-07-00	150,000,000	60,000,000	90,000,000
TOTAL				$123,277,000

Anticipated Issuance of General Obligation Bonds

The City does not anticipate the issuance of additional general obligation bonds before the fall of 2005. The City will continue to review opportunities for refunding certain previously issued general obligation bonds and assumed debt.

Funded Debt Limitation

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

FISCAL MANAGEMENT

The Capital Improvements Program Plan and Capital Budget

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

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

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

2004-2005 Capital Budget

The 2004-2005 five-year Capital Improvement Program (CIP) plan was reviewed by the Planning Commission, the Bond Oversight Committee and other boards and commissions. Public input was received at a public hearing held by the Planning Commission and the Bond Oversight Committee. The plan estimates citywide capital spending in 2004-2005 of $409.6 million in enterprise funds and $134.7 million in general government funds.

The first year of the five-year plan was used to determine the new appropriations required for inclusion in the 2004-05 Capital Budget. Total new approved appropriation for General Government CIP Funds is $56.8 million and total new approved appropriation for Enterprise CIP Funds is $231.9 million. Appropriation by department is listed below.

Summary of 2004-2005 Approved Capital Budget (millions):	
Austin Energy	$ 39.1
Aviation	16.2
Austin Water Utility	153.7
Golf	1.1
Solid Waste Services	10.2
Watershed Protection	11.6
Enterprise Appropriations	$231.9
Communications & Technology Management	$ 5.1
Financial & Administrative Services	7.4
Fleet	0.5
Fire	2.2
Library	0.8
Neighborhood Housing & Community Development	1.6
Neighborhood Planning & Zoning	0.5
Parks and Recreation	8.4
Police	0.2
Public Works	30.3
General Government Appropriations	$ 57.0
TOTAL APPROVED NEW APPROPRIATIONS	$288.9

Operating Budget

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

In June 1989, the City Council approved Financial Management Policies, which were last amended in September 2002. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least $15,000,000 shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than $2,000,000, shall be budgeted annually. The 2004-2005 approved budget complied with these requirements.

2004–2005 Budget (Amounts are in thousands)

The City Council adopted the operating budget on September 13, 2004, and was prepared in accordance with guidelines provided by the City Council. The adopted budget includes a tax rate of $0.4430 per $100 assessed valuation, which is the effective tax rate. The following is a summary of the adopted 2004-2005 General Fund Budget.

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

Beginning Balance, October 1, 2004 (Budget Basis) (000's omitted)		$ 43,399
Summary of Budgeted General Fund Resources		
Revenue:		
General Property Taxes	$ 135,893	
City Sales Tax	123,753	
Other Taxes	3,888	
Gross Receipts/Franchise Fees	28,564	
Miscellaneous	62,440	
Total Revenue		$354,538
Transfers In:		
Electric Light and Power System	$ 74,520	
Water and Wastewater System	19,596	
Other Transfers	850	
Total Transfers In		$ 94,966
Total General Fund Resources		$449,504
Summary of Budgeted General Fund Requirements		
Departmental Appropriations:		
Administrative Services	$ 8,936	
Urban Growth Management	15,790	
Public Safety	291,070	
Public Works	160	
Public Health and Human Services	26,846	
Public Recreation and Culture	45,383	
Total Departmental Appropriations		$388,185
Transfers Out:		
Support Services Fund	$ 16,057	
Other Funds	31,392	
Total Transfers Out		$ 47,449
Other Requirements		$ 13,866
Total General Fund Requirements		$449,500
Use of Beginning Balance		0
Ending Balance		$ 43,403
One-Time Critical Equipment		$ 7,872
One-Time Travis County Hospital District		$ 7,700
Adjusted Ending Balance		$ 27,831
Budgeted Reserve Requirements		
Emergency Reserve	$ 15,000	
Contingency Reserve	4,358	
Budget Stabilization Reserve Fund	33,000	
Total Budgeted Reserve Requirements		$ 52,358

Deficit Budgeting

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

Accounting System

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

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

Short–Term Borrowing

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

GASB Statement No. 34

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

INVESTMENTS

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

Legal Investments

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

Additional Provisions

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

Current Investments

As of December 31, 2004, the City's investable funds were invested in the following categories.

Type of Investment	Percentage
U. S. Treasuries	10.7%
U. S. Agencies	65.5%
Money Market Funds	1.1%
Local Government Investment Pools	22.7%

The dollar weighted average maturity for the combined City investment portfolios is 1.14 years. The City prices the portfolios weekly utilizing a market pricing service. No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index or commodity.

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

	Fiscal Year Ended September 30				
	2000	2001	2002	2003	Unaudited 2004 (3)
Revenues:					
Taxes (1)	$240,664	$251,750	$262,190	$264,511	$279,355
Franchise Fees	23,699	31,453	29,589	28,962	29,018
Fines, Forfeitures and Penalties	16,040	17,000	17,704	16,966	17,072
Licenses, Permits and Inspections	18,174	17,631	14,670	14,737	15,317
Charges for Services	11,758	14,984	15,579	15,403	15,565
Interest and Other	9,410	10,584	6,028	19,815	19,284
Total Revenues	$319,745	$343,402	$345,760	$360,394	$375,611
Expenditures:					
Administration	$ 8,976	$ 9,426	$ 9,282	$ 8,909	$ 8,199
Urban Growth Management	10,189	11,569	10,882	11,638	10,201
Public Safety	191,592	210,281	237,590	254,684	261,789
Public Services and Utilities	6,098	9,520	9,191	9,380	8,605
Public Health	41,032	41,437	43,655	46,061	15,549
Public Recreation and Culture	44,205	47,460	46,696	45,193	43,195
Social Services Management	9,387	8,071	10,448	9,985	9,579
Nondepartmental Expenditures	53,459	57,857	62,493	47,029	46,983
Total expenditures	$364,938	$395,621	$430,237	$432,879	$404,100
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	$ (45,193)	$ (52,219)	$ (84,477)	$ (72,485)	$ (28,489)
Other Financing Sources (Uses):					
Capital Leases	$ 0	$ 0	$ 0	$ 785	$ 0
Transfers from Other Funds	78,352	86,283	137,084	92,417	95,894
Transfers to Other Funds	(31,294)	(29,992)	(9,424)	(21,129)	(48,766)
Net Other Financing Sources	$ 47,058	$ 56,291	$127,660	$ 72,073	$ 47,128
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	$ 1,865	$ 4,072	$ 43,183	$ (412)	$ 18,639
Residual Equity Transfer In (Out)	251	(500)	0	0	(7,700)
Fund Balances at Beginning of Year	42,394	44,510	50,435 (2)	93,618	93,206
Fund Balances at End of Year	$ 44,510	$ 48,082	$ 93,618	$ 93,206	$104,145

(1) Consists of property, sales and mixed drinks tax.
(2) Beginning fund balance adjusted for implementation of new accounting principle.
(3) The audited financial statement is anticipated to be complete before March 31, 2005.

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CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

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

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

(1) Estimate used in approved budget.

Transfers From Utility Funds

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

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

(1) Estimate used in approved budget.

ENTERPRISE FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Assets

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

THE ELECTRIC UTILITY SYSTEM

The City owns and operates an Electric Utility System (also referred to herein as "Austin Energy") which provides the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric services. Austin Energy jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, Austin Energy individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. Austin Energy recently constructed a new 300 MW combined cycle plant at Sand Hill Energy Center that was declared operational on September 2004. Austin Energy had 1,471 full-time regular employees as of September 30, 2004.

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 is expected that this approach will prepare Austin Energy for future options without prematurely investing and will allow 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 strategic plan including:

- Customer Satisfaction - Austin Energy will be proactive in developing an understanding of its customers by monitoring indicators and conducting customer surveys. The 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. Austin Energy will 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 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. The separate lien revenue bonds are currently rated "A" by Standard and Poor's. 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.

Conventional System Improvements

In September 2004, the 2005-2009 Capital Improvements Spending Plan was approved by the City Council in the amount of $534,483,000. Austin Energy's five year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is provided from current revenues and commercial paper.

Rate Regulation

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

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

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

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

The City's current transmission rates have been in effect since December 20, 2004. The City filed an application to change rates for wholesale transmission service on May 21, 2004. A settlement was entered into between the Public

Utility Commission of Texas (PUCT) staff and the City. The settlement resulted in an annual revenue requirement increase of $4.1 million or an 11% increase in wholesale transmission service rates. A final order accepting the settlement was signed by the Commissioners of the PUCT on December 20, 2004. The settlement allowed the City to implement the increase in transmission service rates earlier than participating in a complete administrative rate proceeding. The City will continue to monitor its cost and investment in transmission facilities to ensure that transmission service revenues are sufficient and reasonable.

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

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

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

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

MOUs Which Do Not Choose Retail Competition

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

MOUs Choosing Retail Competition On or After January 1, 2002

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

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

MOU Local Control Preserved

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

Participation By MOU In Markets Outside Its Area

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

Metering And Billing

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

Other Key MOU Provisions

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

Real Estate Taxes

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

Service Area

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

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

Federal Regulation

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

Although municipally-owned utilities, including Austin Energy, are not subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act, the proposals in the Rule could have a significant effect on those utilities. The FERC stated that its overall objective was to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. The

FERC also indicated that it intends to apply the principles set forth in the Rule to the maximum extent to municipal and other non-jurisdictional utilities, both in deciding cases brought under sections 211 and 212 of the Federal Power Act and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

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

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

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

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

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

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

Environmental

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

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

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

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

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

Water

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

Other

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

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

Nuclear

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

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

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

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed rector 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 per unit

(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 (now JPMorgan Chase Bank, National Association). The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at September 30, 2004 was $100,018,528(unaudited). For Fiscal Year 2005, Austin Energy estimates that it will continue to collect approximately $5 million for decommissioning expense.

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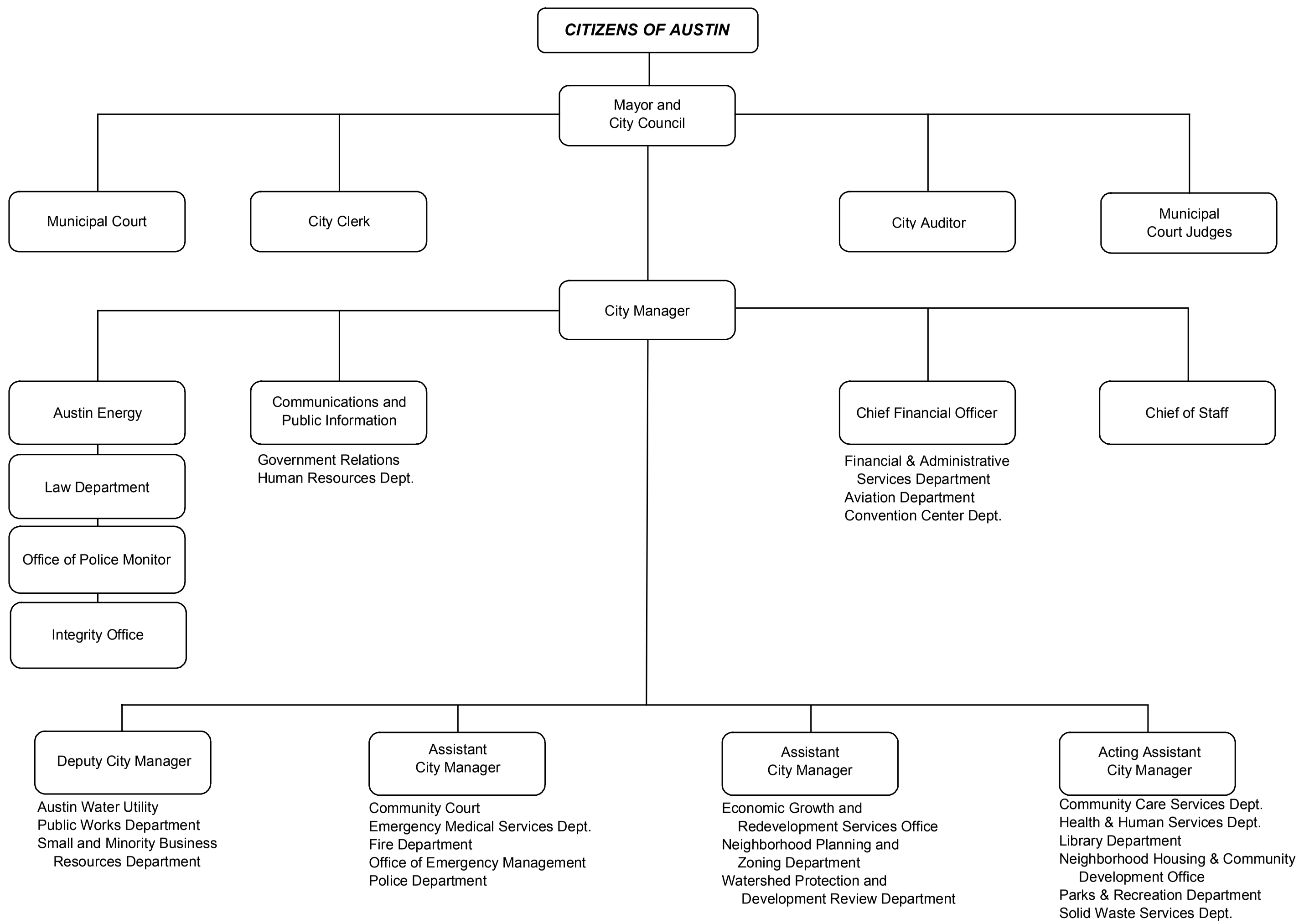
CITY OF AUSTIN, TEXAS

Organization Chart



THE CITY

Administration

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

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

City Manager – Toby Hammett Futrell

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

Chief Financial Officer – John Stephens, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

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

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

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

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

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

The following table sets forth (in acres) the annual results of the City's annexations since 1995. Negative numbers reflect disannexations in excess of acreage annexed.

Calendar Year	Full Purpose Acres (1)	Limited Purpose Acres
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
2004	1,114	7,030

(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 the Robinson Ranch area, and the 748 acre Ribelia Ranch area, were annexed for limited purposes in June 2004. The Onion Creek area, annexed for full purposes in 2003, added over 1,200 acres, 3,000 residents and $190 million in taxable assessed value ("TAV") to the City of Austin. Total estimated TAV in 2003 equaled over $375 million.

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

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

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

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

Future Annexation

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

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

Pension Plans

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

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

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund over 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, 2003, was $413,965,000. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 2003, was $452,668,849. The Municipal

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

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

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

Insurance

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports – The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all the quantitative financial information and operating data with respect to the City of the general type included (i) in the portions of the financial statements of the City appended to the Official Statement as APPENDIX B, but for the most recently concluded fiscal year end and (ii) in the main text of the Official Statement under the subcaptions: "Tax Valuation" with respect to the appraised value as of January 1 during the fiscal year as to which such annual report relates, "Valuation and Funded Debt History," "Tax Rates, Levy and Collection History," "Ten Largest Taxpayers," "Property Tax Rate Distribution," "Current Investments," "General Fund Revenues and Expenditures and Changes in Fund Balance," "Municipal Sales Tax," and "Transfers From Utility Funds". The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year ending in or after 2004 unless otherwise noted above. The City will provide the update information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC"). The Municipal Advisory Council of Texas (the "MAC") has been designated as the SID for the State of Texas

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 unaudited financial statements by that time and will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

Material Event Notice – The City will also provide timely notices of certain events relating to the Bonds to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws; (1) principal and interest payment delinquencies; (2) non–payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax–exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasance; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes with respect to the Bonds. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB"). The foregoing notwithstanding, notices may be made solely by transmitting such filing to the MAC as provided at http://www.disclosureusa.org, unless the SEC has withdrawn the interpretative advice stated in its letter to the MAC dated September 7, 2004.

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

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

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

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

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, (b) the report issued by The Arbitrage Group, Inc. (see "OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculations"), and (c) covenants of the City contained in the documents authorizing the Bonds relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of any series of the Bonds could be affected by future events. However, future events beyond the control of the City, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on any series of the Bonds to become taxable retroactively to the date of issuance.

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF BONDS BEFORE DETERMINING WHETHER TO PURCHASE ANY OF THE BONDS.

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

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

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

State, Local and Foreign Taxes

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

OTHER RELEVANT INFORMATION

Ratings

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

Litigation

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

Registration and Qualification

The sale of the 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

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

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

Legal Opinions and No–Litigation Certificate

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinion of Bond Counsel to the effect that the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding obligations of the City and the interest on such Bonds is exempt from federal income taxation under Existing Law. (See "TAX MATTERS"). 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 its capacity as Bond Counsel, such firm has reviewed the statements and information in the Official Statement under the captions "PLAN OF FINANCING – Refunded Obligations," "BOND INFORMATION" (except for the subcaption "Book-Entry-Only System"), "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings") "TAX MATTERS," "OTHER RELEVANT INFORMATION - Registration and Qualification of Bonds," "OTHER RELEVANT INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER RELEVANT INFORMATION – Legal Opinions and No-Litigation Certificate" and is of the opinion that the statements and information relating to the Bonds and the Ordinance contained therein fairly and accurately describe the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will be printed on or attached to the definitive Bonds. Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P. In connection with the transactions described in this Official Statement, Bond Counsel represents only the City.

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

Financial Advisor

Public Financial Management ("PFM"), Austin, Texas is employed as Financial Advisor to the City in connection with the issuance, sale and delivery of the Bonds. The payment of the fee for services rendered by PFM 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

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a purchase price, exclusive of accrued interest, of $159,765,148.80 (which includes an underwriting discount of $722,853.07). The Underwriters 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 Underwriters. The representative of the Underwriters is Lehman Brothers.

Verification of Arithmetical and 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 PFM relating to (a) the sufficiency of the anticipated receipts from the Federal Securities and on the Bonds and (b) language regarding yields.

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

Authenticity of Financial Data and Other Information

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

This Official Statement, and the execution and delivery of this Official Statement was authorized by the Ordinance adopted by the City Council on January 27, 2005.

/s/Will Wynn
Mayor
City of Austin, Texas

ATTEST:

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

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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

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

The City, Travis County and local leaders are developing a plan for a health care district for Austin/Travis County. Such a district would allow for the creation of a dedicated funding source for the provision of indigent health care costs to all residents in Austin and Travis County. In order for the health care district to be created, an election within Travis County is required. It is anticipated that the election will occur in May 2004.

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's new City Hall which overlooks lovely Town Lake is Austin's newest landmark and held its grand opening in December 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 on December 16, 2004, the City entered into a development agreement for the property with Catellus Austin LLC to oversee the redevelopment of the site.

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

Utility Projects
Austin Energy, the City's electric utility, continues its efforts to remain competitive in the new deregulated environment. Deregulation allows Texas residents and businesses served by utilities participating in deregulation to choose the supplier from which they purchase their electricity. The local electric utility continues to deliver the electricity. Deregulation began in Texas on January 1, 2002 for all private electric utilities. These utilities, owned by stockholders, are called investor-owned utilities (IOUs). Electric cooperatives (Co-ops) and city-owned electric utilities (called municipally owned utilities or MOUs) such as Austin Energy can participate, or "opt-in," by a vote of their board or City Council. Once the City Council votes to participate in deregulation, it cannot later withdraw. The City has not "opted-in", but does continue to prepare for that possibility. A key step in remaining competitive was to begin moving from issuing combined utility debt (combined electric and water and wastewater) to issuing debt specific to the electric utility. To proceed towards that goal, Austin Energy issued $182.1 million in Electric Utility revenue refunding bonds and refunded $100.3 million of the Combined Utility System tax exempt commercial paper and $87 million of the outstanding Combined Utility System taxable commercial paper during 2003. Austin Energy continues to increase participation in the GreenChoice Program, including participation from Concordia University, which is the first college in the nation to subscribe to 100 percent green power. Austin Energy's GreenChoice Program ranks number one in the nation in green power sales according to the Department of Energy.

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

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

Police, EMS, and Fire are the three highest rated services in the survey. The top issues of importance to Austin residents are:
- Downtown issues (parking, traffic, construction)
- Tax related issues (including utility rates, fees and charges)
- Road conditions/new roads
- Growth management
- Jobs

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

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

Industrial Classification	1980	% of Total	1990	% of Total	2002	% of Total	2003	% of Total	October 31, 2004	% of Total
Manufacturing	31,014	12.8%	49,300	12.9%	71,200	10.6%	60,483	9.1%	57,100	8.6%
Government	78,263	32.3%	110,400	28.8%	147,900	22.1%	148,433	22.4%	149,500	22.5%
Trade, transportation & utilities (b)	59,121	24.4%	90,500	23.6%	173,800	25.9%	113,183	17.0%	136,200	20.5%
Services and miscellaneous	44,826	18.5%	97,200	25.3%	201,800	30.1%	265,342	40.0%	242,900	36.5%
Finance, insurance and real estate	14,296	5.9%	23,400	6.1%	34,100	5.1%	37,850	5.7%	41,000	6.2%
Contract Construction	14,053	5.8%	12,000	3.1%	39,800	5.9%	37,008	5.6%	36,900	5.5%
Natural resources and mining	727	0.3%	700	0.2%	1,700	0.3%	1,776	0.3%	1,600	0.2%
Total	242,300	100.0%	383,500	100.0%	670,300	100.0%	664,075	100.0%	665,200	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 October 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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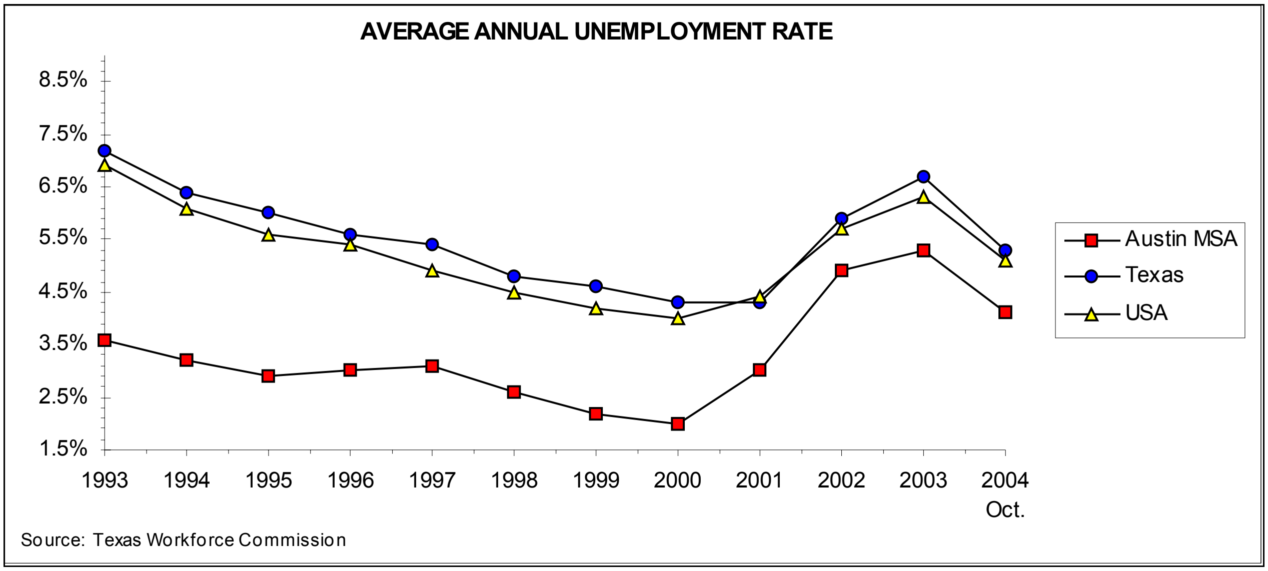
Average Annual Unemployment Rate



	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 October	4.1%	5.3%	5.1%

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
1-1-01	$ 9.298	1-1-02	$ 8.723	1-1-03	$ 8.249	1-1-04	$ 8.883	1-1-05	$ 9.076
2-1-01	13.733	2-1-02	13.405	2-1-03	11.463	2-1-04	12.382		
3-1-01	9.169	3-1-02	8.345	3-1-03	8.218	3-1-04	8.693		
4-1-01	9.243	4-1-02	8.322	4-1-03	7.981	4-1-04	8.534		
5-1-01	12.091	5-1-02	10.746	5-1-03	10.644	5-1-04	10.867		
6-1-01	9.199	6-1-02	9.253	6-1-03	8.519	6-1-04	9.384		
7-1-01	9.605	7-1-02	9.287	7-1-03	7.908	7-1-04	8.980		
8-1-01	11.456	8-1-02	10.289	8-1-03	10.414	8-1-04	11.474		
9-1-01	9.279	9-1-02	8.695	9-1-03	8.510	9-1-04	9.157		
10-1-01	8.974	10-1-02	8.884	10-1-03	8.832	10-1-04	9.214		
11-1-01	10.260	11-1-02	10.157	11-1-03	10.686	11-1-04	11.340		
12-1-01	9.142	12-1-02	8.859	12-1-03	8.817	12-1-04	9.354		

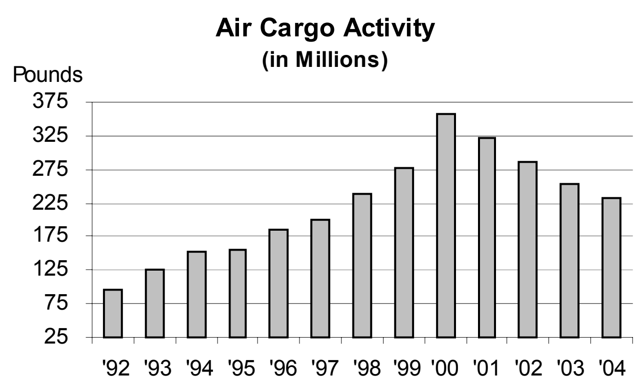
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2003)

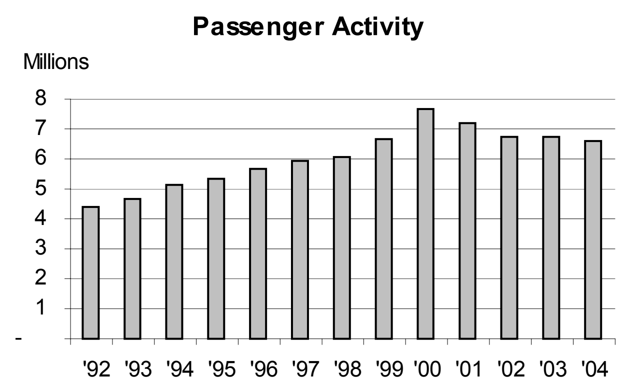
Employer	Product or Service	Employees
The University of Texas at Austin	Education and Research	20,249
Dell Computer Corporation	Computers	16,000
City of Austin	City Government	10,463
Austin Independent School District	Education	10,408
Motorola, Inc.	Electronic Components	8,500
IBM Corporation	Office 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: COA Aviation Department. 2004 through November.



Source: COA Aviation Department. 2004 through November.

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-Round Rock 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	$39,227	$21,487	21.2%	23.1%	18.7%	37.0%	$34,778
Austin-Round Rock MSA	45,171	21,873	17.2%	20.1%	18.7%	44.0%	24,864
Texas	37,554	17,796	23.4%	23.2%	18.3%	35.1%	14,246
USA	38,201	18,662	22.4%	23.3%	19.0%	35.4%	13,336

*Group A, $0 - $19,999 Group B, $20,000 - 34,999 Group C, $35,000 - 49,999 Group D, $50,000 and over
Source: 2004 Survey of Buying Power, Sales and Marketing Management.

Housing Units

The average two-bedroom apartment in the Austin MSA was $760 per month, with an occupancy rate of 90.89% for the third quarter 2004.

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	19,793	3,899,018,519	196,990
2004 November	20,656	4,111,705,109	199,056

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 (4th Quarter)	80.8%

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

Education

The Austin Independent School District had an enrollment of 79,896 for the first six-weeks of the 2005 school year. This reflects an increase of 3.3% in enrollment from the end of the 2004 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	77,313	73,085
2004/05 (1)	79,657	75,760

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

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

The University of Texas at Austin had an enrollment of 50,377 for the fall semester of 2004 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-Round Rock MSA were $2.750 billion in 2003. 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.

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.

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

<u>FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued</u>

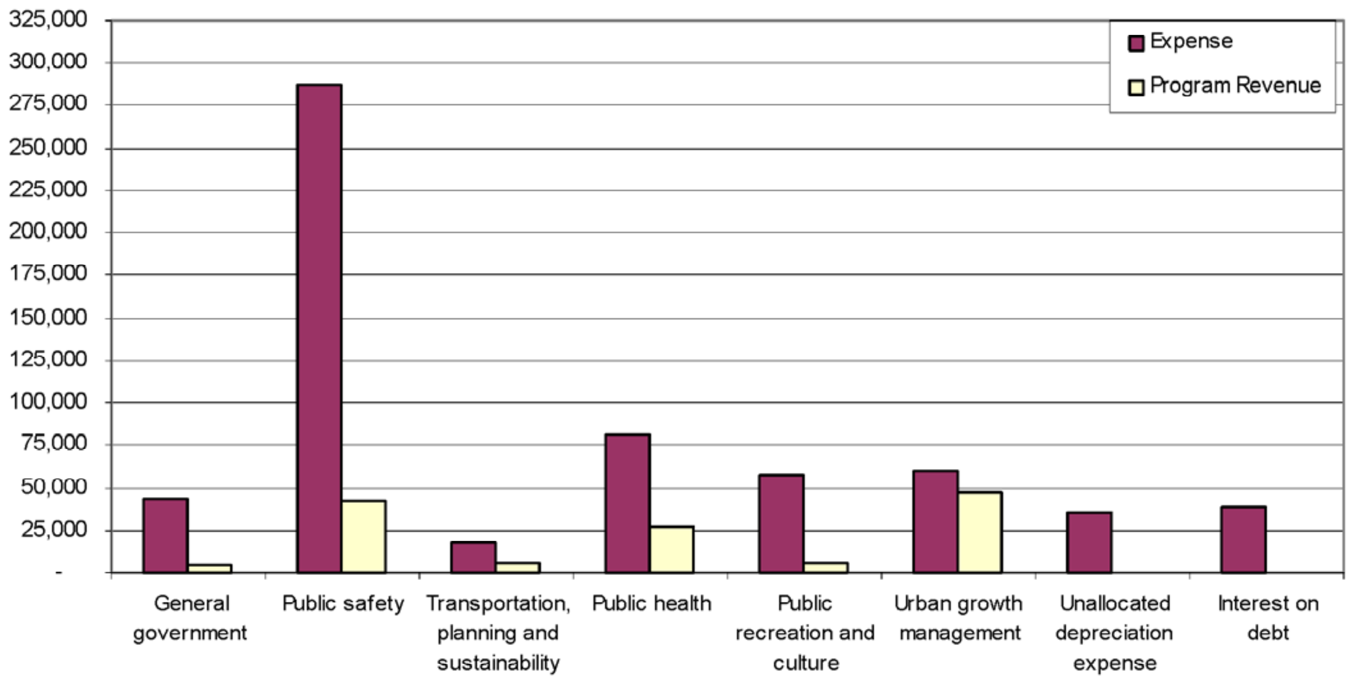
c -- Program Revenues and Expenses -- Governmental Activities

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.

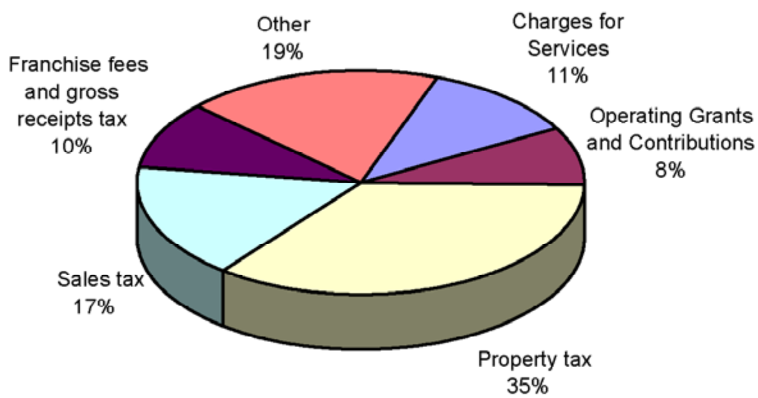
Government-wide Program Expenses and Revenues – Governmental Activities
(in thousands)



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



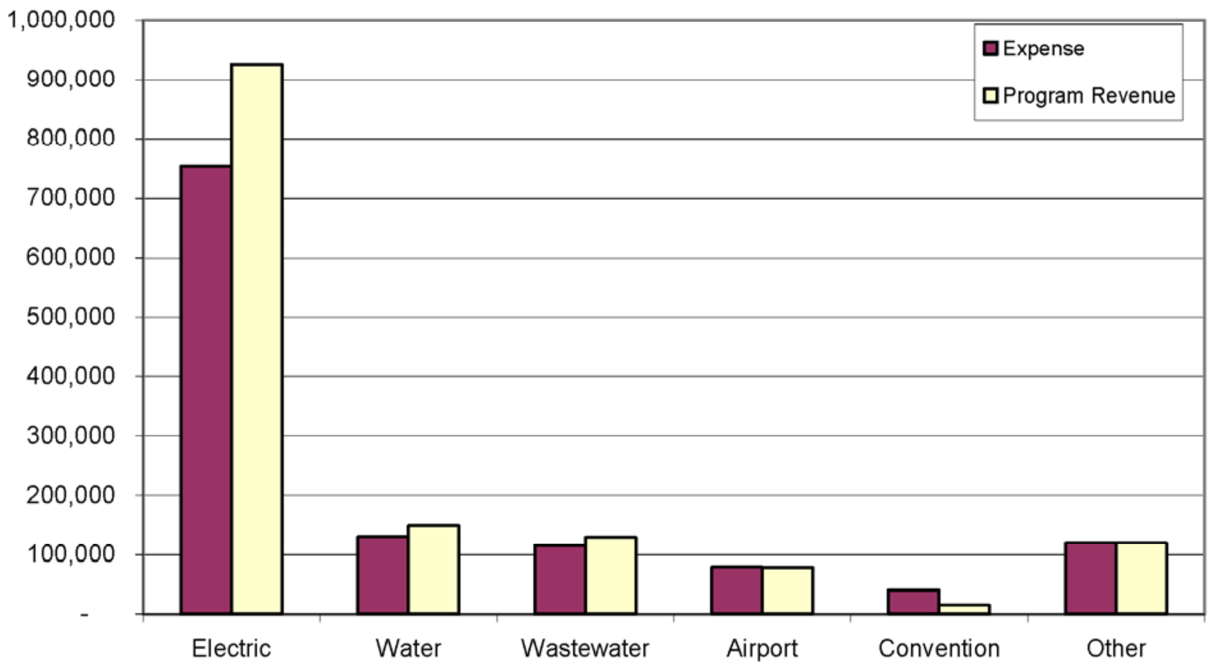
d -- Program Revenues and Expenses -- Business-type activities
Business-type activities increased the City's net assets by $140.7 million, accounting for a 4% increase in the City's total net assets and 58% of the current year increase in net assets. Net program expenses and revenues are, as follows:

- 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.

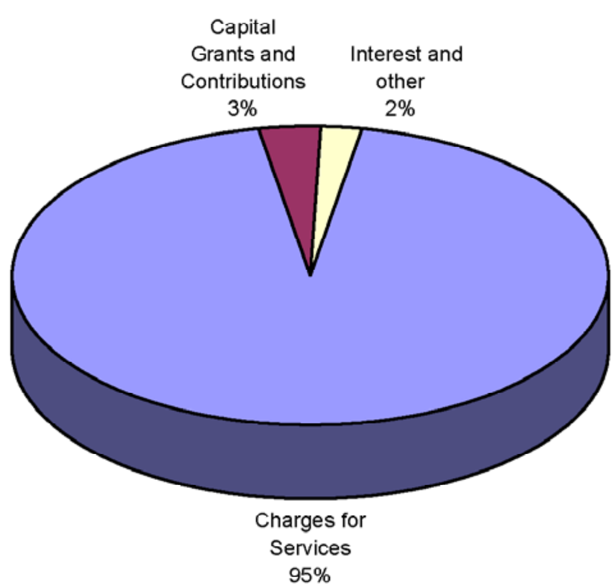
FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS, continued

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)

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

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

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

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

City of Austin, Texas
Exhibit A-2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: 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	2003 Nonmajor Governmental Funds	2003 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.

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.

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.

(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 Principal	General Obligation Bonds Interest	Contractual Obligations Principal	Contractual Obligations Interest	Revenue Notes (1) Principal	Revenue Notes (1) 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 Principal	Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations Interest	Total Airport Debt Service Requirements Principal	Total Airport Debt Service Requirements Interest	Total Airport Debt Service Requirements 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		Certificates of Obligation		Contractual Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 1,195	696	1,569	1,610	806	65
2005	1,649	639	1,616	1,535	530	31
2006	1,636	563	1,355	1,465	207	14
2007	994	480	1,429	1,408	99	8
2008	1,261	433	1,504	1,339	67	5
2009-2013	5,571	1,231	8,810	5,617	108	4
2014-2018	1,652	179	11,469	3,380	--	--
2019-2023	63	7	6,880	794	--	--
	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		Capital Lease Obligations		Total Nonmajor Debt Service Requirements		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2004	5,210	13,251	133	3	8,913	15,625	24,538
2005	6,070	12,961	107	4	9,972	15,170	25,142
2006	6,505	12,631	--	--	9,703	14,673	24,376
2007	6,330	12,300	--	--	8,852	14,196	23,048
2008	6,655	11,973	--	--	9,487	13,750	23,237
2009-2013	38,880	54,097	--	--	53,369	60,949	114,318
2014-2018	50,610	42,016	--	--	63,731	45,575	109,306
2019-2023	47,955	27,539	--	--	54,898	28,340	83,238
2024-2028	49,335	14,564	--	--	49,335	14,564	63,899
2029-2033	24,045	1,427	--	--	24,045	1,427	25,472
	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 Principal	Revenue Bonds Interest	Municipal Utility District Contract Revenue Bonds Principal	Municipal Utility District Contract Revenue Bonds Interest	Capital Lease Obligations Principal	Capital Lease Obligations 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 Out	Transfers In: General Fund	Nonmajor Governmental	Nonmajor Enterprise	Total
General Fund	$ --	12,623	8,506	21,129
Nonmajor governmental funds	--	17,519	23,528	41,047
Electric	72,864	1,772	--	74,636
Water and Wastewater	19,553	2,962	--	22,515
Airport	--	48	--	48
Nonmajor enterprise funds	--	1,761	--	1,761
Internal service funds	--	156	--	156
Total transfers out	$ 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):

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

h -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* (Capital Budget) that is an anticipated spending plan for projects in the upcoming and future years. The City's 2004 Capital Budget includes new appropriations of $401.1 million for the City's enterprise funds and $72.2 million for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

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

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

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

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton"). Under the terms of the lease, Seton will operate City-owned Brackenridge Hospital and will provide all necessary medical services for residents of Austin regardless of their ability to pay. The City will reimburse Seton for services provided through three programs. Under the Charity Care Program, the City will reimburse Seton a maximum of $5.6 million annually for providing medical care to the medically indigent; provided however, that Seton must first provide charity care in the amount of 4% of net revenues as required by State law. Under the Medical Assistance Program (MAP), the City paid Seton approximately $9.8 million in fiscal year 2003 for patients enrolled in this program. Under the Physician Services Program, the City paid Seton approximately $5.6 million during fiscal year 2003 for providing physician services to patients in the first two programs.

14 – COMMITMENTS AND CONTINGENCIES, continued

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

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

j -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM 812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports in the Solid Waste Services Fund, a nonmajor enterprise fund, a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The $7.4 million reported as accrued landfill closure and postclosure costs at September 30, 2003, represents the cumulative amount reported to date based on the use of 81.2% of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of $1.7 million as the remaining estimated capacity is filled over the next nine years. The total estimated costs of $9.1 million include costs of closure in 2012 of $2.4 million and postclosure costs over the subsequent thirty years of $6.7 million. These amounts are based on what it would cost to perform all closure and postclosure care in 2003. Actual costs may be higher due to inflation, changes in technology or changes in regulations. State and federal laws require owners to demonstrate financial assurance for closure, postclosure, and/or corrective action. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

k -- Risk-Related Contingencies

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

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 Fund Balances--Budget and Actual-Budget Basis **RSI-1**
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

Form of Bond Counsel's Opinion

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Proposed Form of Opinion of Bond Counsel

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

CITY OF AUSTIN, TEXAS
PUBLIC IMPROVEMENT REFUNDING BONDS,
SERIES 2005,
DATED FEBRUARY 1, 2005,
IN THE PRINCIPAL AMOUNT OF $145,345,000

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which Bonds are issued in the aggregate principal amount of $145,345,000. The Bonds bear interest from the date and mature on the dates specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the ordinance of the City authorizing the issuance of the Bonds (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, the charter of the City, certified copies of the proceedings of the City, and other proofs authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond No. R-1); however, we express no opinion with respect to any statement of insurance printed on the Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with the Constitution and laws of the State of Texas, and the Bonds and the Ordinance constitute valid and legally binding obligations of the City; and that the ad valorem taxes, upon all taxable property within the City, necessary to pay the interest on and principal of said Bonds, have been pledged for such purpose, within the limits prescribed by the Constitution and the charter of the City. The opinion hereinbefore expressed is qualified to the extent that the obligations of the City, and the enforceability thereof, are subject to applicable bankruptcy, reorganization or similar laws relating to or affecting creditors' rights generally, and the exercise of judicial discretion in accordance with general principles of equity.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. In addition, we have relied upon the report of The Arbitrage Group, Inc., independent certified public accountants, with respect to certain arithmetical and mathematical computations relating to the Bonds and the obligations refunded with the proceeds of the Bonds. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code, and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

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APPENDIX D

Summary of Refunded Obligations

Bond Series	Maturity Date	Coupon	Par Amount	Call Date	Call Price
Public Improvement Bonds, Series 1997	9/1/2008	5.000%	$ 2,055,000	9/1/2007	100
	9/1/2009	5.000%	2,165,000	9/1/2007	100
	9/1/2010	5.000%	2,290,000	9/1/2007	100
	9/1/2011	5.000%	2,415,000	9/1/2007	100
	9/1/2012	5.125%	2,555,000	9/1/2007	100
	9/1/2013	5.125%	2,700,000	9/1/2007	100
	9/1/2014	5.300%	2,855,000	9/1/2007	100
	9/1/2015	5.350%	3,020,000	9/1/2007	100
	9/1/2016	5.400%	3,200,000	9/1/2007	100
	9/1/2017	5.400%	3,390,000	9/1/2007	100
Certificates of Obligation, Series 1997	9/1/2010	5.000%	115,000	9/1/2007	100
	9/1/2011	5.000%	120,000	9/1/2007	100
	9/1/2012	5.100%	130,000	9/1/2007	100
	9/1/2013	5.150%	135,000	9/1/2007	100
	9/1/2014	5.200%	145,000	9/1/2007	100
	9/1/2015	5.250%	145,000	9/1/2007	100
	9/1/2016	5.250%	155,000	9/1/2007	100
	9/1/2017	5.250%	165,000	9/1/2007	100
Public Improvement Bonds, Series 1998	9/1/2010	4.500%	955,000	9/1/2008	100
	9/1/2011	4.600%	1,010,000	9/1/2008	100
	9/1/2012	4.700%	1,075,000	9/1/2008	100
Certificates of Obligation, Series 1998	9/1/2010	4.500%	1,175,000	9/1/2008	100
	9/1/2011	4.600%	1,245,000	9/1/2008	100
	9/1/2012	4.700%	1,320,000	9/1/2008	100
Public Improvement Bonds, Series 1999	9/1/2010	5.750%	3,630,000	9/1/2009	100
	9/1/2011	5.750%	3,830,000	9/1/2009	100
	9/1/2012	5.750%	4,040,000	9/1/2009	100
	9/1/2013	5.750%	4,260,000	9/1/2009	100
	9/1/2014	5.750%	4,500,000	9/1/2009	100
	9/1/2015	5.750%	4,760,000	9/1/2009	100
	9/1/2016	5.375%	5,030,000	9/1/2009	100
	9/1/2017	5.375%	5,320,000	9/1/2009	100
	9/1/2018	5.375%	5,630,000	9/1/2009	100
	9/1/2019	5.500%	5,955,000	9/1/2009	100

Certificates of Obligation, Series 1999	9/1/2012	5.200%	300,000	9/1/2009	100
	9/1/2013	5.250%	320,000	9/1/2009	100
	9/1/2014	5.300%	335,000	9/1/2009	100
	9/1/2015	5.350%	355,000	9/1/2009	100
	9/1/2016	5.400%	375,000	9/1/2009	100
	9/1/2017	5.500%	400,000	9/1/2009	100
	9/1/2018	5.500%	420,000	9/1/2009	100
	9/1/2019	5.500%	445,000	9/1/2009	100
Public Improvement Bonds, Series 2000	9/1/2013	5.625%	4,135,000	9/1/2010	100
	9/1/2014	5.750%	4,385,000	9/1/2010	100
	9/1/2015	5.750%	4,655,000	9/1/2010	100
	9/1/2018	5.250%	5,575,000	9/1/2010	100
	9/1/2019	5.375%	5,925,000	9/1/2010	100
	9/1/2020	5.375%	6,300,000	9/1/2010	100
Certificates of Obligation, Series 2000	9/1/2015	5.250%	370,000	9/1/2010	100
	9/1/2016	5.250%	390,000	9/1/2010	100
	9/1/2017	5.250%	415,000	9/1/2010	100
	9/1/2018	5.375%	445,000	9/1/2010	100
	9/1/2019	5.375%	470,000	9/1/2010	100
	9/1/2020	5.375%	500,000	9/1/2010	100
Public Improvement Bonds, Series 2001	9/1/2013	5.000%	4,605,000	9/1/2011	100
	9/1/2014	5.000%	4,845,000	9/1/2011	100
	9/1/2015	5.000%	5,100,000	9/1/2011	100
	9/1/2016	5.000%	5,365,000	9/1/2011	100
	9/1/2017	5.000%	5,650,000	9/1/2011	100
Certificates of Obligation, Series 2002	9/1/2018	5.375%	2,150,000	9/1/2012	100
	9/1/2019	5.375%	2,250,000	9/1/2012	100
	Total Par Amount		$ 147,970,000		

APPENDIX E

Form of Specimen Bond Insurance Policy

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

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

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

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

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

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

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ______________________________
Assistant Secretary

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

STD-TX-7
12/04

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