

OFFICIAL STATEMENT DATED JULY 18, 2002

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

NEW ISSUE – Book-Entry-Only

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

\$172,880,000
City of Austin, Texas
(Travis and Williamson Counties)
Electric Utility System Revenue Refunding Bonds, Series 2002A

Dated: July 15, 2002

Due: November 15, as shown below

The bonds offered hereby are the \$172,880,000 City of Austin, Texas (the "City") Electric Utility System Revenue Refunding Bonds, Series 2002A (the "Bonds"). The Bonds are the third series of "Parity Electric Utility Obligations" issued pursuant to the master ordinance governing the issuance of electric utility system indebtedness (the "Master Ordinance") and are authorized and being issued in accordance with a Supplemental Ordinance (the "Third Supplement"). The Master Ordinance provides the terms for the issuance of Parity Electric Utility Obligations and the covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations (as hereinafter defined) and Prior Subordinate Lien Obligations (as hereinafter defined) while they remain outstanding. The Master Ordinance provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations (as hereinafter defined) currently authorized having a combined pledge of Electric Light and Power System and Water and Wastewater System revenues may continue to be issued on a subordinate lien basis to the Parity Electric Utility Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from, and together with the outstanding Parity Electric Utility Obligations and Prior Subordinate Lien Bonds, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Electric Utility System as provided in the Master Ordinance and the Third Supplement. **Neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.** See "Security for the Bonds" herein.

The definitive Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds shall commence to accrue on July 15, 2002 and shall be payable on November 15, 2002 and each May 15 and November 15 thereafter until maturity. The Bonds will be registered initially in the name Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The City reserves the right to discontinue such book-entry system. See "Description of the Bonds" herein.



Payment of the principal of and interest on the Bonds when due will be guaranteed by a municipal bond Insurance policy to be issued by AMBAC simultaneously with the delivery of the Bonds. (See "Bond Insurance" herein.)

MATURITY SCHEDULE

<u>Maturity</u> <u>(November 15)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>Or Yield</u>	<u>Maturity</u> <u>(November 15)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>
2003	\$13,795,000	4.00%	1.70%	2010	\$ 185,000	4.00%	3.83%
2004	18,075,000	5.00%	2.05%	2011	190,000	4.00%	3.93%
2005	19,830,000	5.00%	2.47%	2012	17,965,000	5.50%	4.06%
2006	3,880,000	3.00%	2.79%	2013	22,885,000	5.50%	4.17%
2006	1,500,000	4.00%	2.79%	2014	24,135,000	5.50%	4.28%
2007	11,930,000	5.25%	3.11%	2015	12,545,000	5.50%	4.38%
2008	12,555,000	5.25%	3.43%	2016	13,230,000	5.50%	4.46%
2009	180,000	4.00%	3.63%				

(Plus Accrued Interest from July 15, 2002)

<i>Bear, Stearns & Co. Inc.</i>	<i>Lehman Brothers</i>	<i>Goldman, Sachs & Co.</i>
<i>Morgan Keegan & Company, Inc.</i>	<i>Estrada Hinojosa & Company, Inc.</i>	<i>Siebert Brandford Shank & Co., LLC</i>
	<i>Morgan Stanley</i>	

The Bonds are not subject to optional redemption prior to the stated maturities.

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. The opinion of Bond Counsel will be printed or attached to the Bonds. (See APPENDIX E “Form of Bond Counsel’s Opinion”.) Certain legal matters will be passed on for the Underwriters by Locke Liddell & Sapp LLP, Counsel to the Underwriters.

It is expected that the Bonds will be delivered through the facilities of DTC on or about August 20, 2002.

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CITY OF AUSTIN

Elected Officials

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

Appointed Officials

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

BOND COUNSEL

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

SECURITIES COUNSEL TO THE CITY

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

FINANCIAL ADVISOR

Public Financial Management
Austin, Texas

AUDITORS

KPMG LLP and Richard Mendoza, CPA
Austin, Texas

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Austin, Texas 78701
(512) 472-7194

No dealer, salesman or any other person has been authorized by the City or by the Underwriters to give any information or to make any representations, other than the information and representations contained herein, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the 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, any of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The Underwriters have provided the following sentence for inclusion in the Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and to the circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date.

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

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OFFICIAL STATEMENT

\$172,880,000
City of Austin, Texas
Electric Utility System Revenue Refunding Bonds, Series 2002A

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City") of its \$172,880,000 Electric Utility System Revenue Refunding Bonds, Series 2002A (the "Bonds"). The Bonds are to be issued pursuant to authority conferred by the laws of the State of Texas, a master ordinance of the City Council (the "Master Ordinance") providing the terms for the issuance of Parity Electric Utility Obligations and the covenant and security provisions related thereto, and a supplemental ordinance of the City Council (the "Third Supplement") providing for the specific terms relating to the issuance of the Bonds in accordance with the Master Ordinance. A summary of certain provisions of the Master Ordinance is attached hereto as APPENDIX C. As noted under "Plan of Financing" below, the City will not issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations but must comply with the covenants contained in the ordinances (collectively, the "Bond Ordinance"), authorizing their issuance while such obligations are outstanding. A summary of certain provisions of the Bond Ordinance is attached hereto as APPENDIX D. **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance as modified by the Third Supplement, or the Bond Ordinance, as applicable (see APPENDICES C and D).** All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

PLAN OF FINANCING

The Bonds are being issued to refund approximately \$203,855,000 of the City's outstanding Combined Utility Systems Revenue Bonds issued for the Electric Utility System (the "Refunded Bonds"). The refunding will result in debt service savings to the City. (See APPENDIX F for a listing of the Refunded Bonds). Proceeds of the Bonds will also be used to pay costs of issuance. The City has determined to discontinue financing for the Electric Light and Power System and the Water and Wastewater System on a combined basis. The Bonds are the third series of Parity Electric Utility Obligations to be issued under the Master Ordinance. Pursuant to the Master Ordinance no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations. At such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations then Outstanding shall be Parity Electric Utility Obligations or obligations subordinate to the Parity Electric Utility Obligations then Outstanding, and shall be payable only from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance. The Master Ordinance has revised the terms for the issuance of Parity Electric Utility Obligations and the covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while any such obligations remain outstanding.

As noted under "Debt Payable from Systems Revenues" herein approximately \$1.6 billion (excluding Refunded Bonds) of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of June 1, 2002 and no assurances can be given as to when or if such obligations will be defeased or paid so as to allow the Parity Electric Utility Obligations (including the Bonds) to be first lien obligations of the Net Revenues of the Electric Utility System.

Refunded Bonds

The Bonds, together with the Series 2002B Bonds and the Water and Wastewater System Revenue Refunding Bonds being issued concurrently with the Bonds, are being issued to refund the outstanding and unpaid "City of Austin, Texas Combined Utility System Revenue Bonds, Series 1992 and Series 1992A, in the aggregate principal amount of \$349,780,000 (the "Defeased Obligations"). The Defeased Obligations being refunded by the Bonds are identified in Appendix F (the "Refunded Bonds"). The Defeased Obligations are to be redeemed on November 15, 2002, and the proceeds of sale of the Bonds, the Series 2002B Bonds and the two series of Water and Wastewater Revenue Refunding Bonds, along with other available funds of the City, are to be deposited with JPMorgan Chase Bank, Dallas, Texas (the "Escrow Agent") and held pursuant to an Escrow Agreement in a trust account pending the payment of the Defeased Obligations on such redemption date.

The amount deposited to the credit of the trust account may be invested in whole or in part in non callable direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America ("Federal Securities"). In the event the amount deposited with the Escrow Agent is invested in Federal Securities, 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 the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the trust account, will be sufficient to pay, when due, the principal of and interest on the Defeased Obligations. **Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds** (see "Other Information - Verification of Arithmetical and Mathematical Computations").

By deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Bonds pursuant to the terms of the ordinances authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will no longer be payable from revenues pledged to their payment, but will be payable solely from the principal of and interest on the Federal Securities and cash on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and are not to be included in or considered to be obligations payable from the City's Water and Wastewater System or Electric Light & Power System or taken into account for any other purpose.

SOURCES AND USES OF FUNDS

The sources and uses of funds* are as follows.

Sources:	
Par Amount of Bonds	\$172,880,000
Net Premium	16,174,776
Cash Contribution from the City	24,314,598
Accrued Interest	<u>867,505</u>
	<u>\$214,236,879</u>
Uses:	
Deposit to Escrow Fund	\$211,335,121
Underwriter's Discount	810,405
Cost of Issuance, including Insurance Premium	1,223,667
Deposit to Interest & Sinking Fund	<u>867,686</u>
	<u>\$214,236,879</u>

*Amounts rounded to nearest dollar.

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DEBT PAYABLE FROM SYSTEMS REVENUES

(As of June 1, 2002)

<u>Combined Utility Systems Obligations</u>	
Parity Lien Bonds (a)	\$1,350,330,069
Subordinate Lien Bonds	<u>256,944,512</u>
Sub-Total	<u>\$1,607,274,581</u>
<u>Parity Electric Utility Obligations (b)</u>	\$ 374,330,000
<u>Water & Wastewater System Separate Lien Obligations (c)</u>	
Parity Water & Wastewater Obligations	\$ 560,455,000
Maple Run MUD	11,335,000
North Austin MUD No. 1	<u>10,970,000</u>
Sub-Total	\$ 582,760,000
<u>Commercial Paper (d)</u>	\$ 309,674,000
<u>General Obligation Bonds (e)</u>	\$ 23,185,426
<u>Assumed Bonds and Obligations</u>	
Assumed District Bonds (f)	\$ 13,572,753
Contract Tax Obligations (f)	<u>450,000</u>
Sub-Total	\$ 14,022,753
TOTAL (g)	<u>\$2,911,246,760</u>

(a) Excludes the Obligations.

(b) Includes the Bonds.

(c) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only. Concurrently with the issuance of the Bonds, the City intends to issue \$139,695,000 Water & Wastewater System Revenue Refunding Bonds, Series 2002A to refund \$145,925,000 of the City's outstanding Combined Utility Systems Revenue Bonds issued for the Water & Wastewater System.

(d) The City has a Tax-Exempt Commercial Paper Program in place for the Combined Utility Systems in an amount not to exceed \$350,000,000 and a Taxable Commercial Paper Program for the Combined Utility Systems for \$160,000,000. The Commercial Paper Notes and the reimbursement obligation to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Notes are payable from the Net Revenues of both the Electric Light and Power System and the Water and Wastewater System after providing for the payment of the Prior Lien Bonds, the Subordinate Lien Bonds, the Parity Electric Utility Obligations and the Water/Wastewater Separate Lien Obligations. Pursuant to the City's Financial Policy, Commercial Paper Note proceeds can only be utilized for voter authorized projects although such voter authorization was not required by State law. The City's Financial Policy was amended by the City Council on February 16, 1995, to provide for the issuance of commercial paper to finance routine capital improvements required for normal business operation or improvements to comply with local, state and federal mandates without prior voter authorization. The Electric Light and Power Utility may therefore utilize commercial paper for all improvements, excluding major generation needs.

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

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

(g) Does not include Certificates of Participation outstanding of \$10,085,000 and \$6,600,000 issued for subleases for space to house the administrative offices of the Electric Utility and the Water and Wastewater Utility, respectively. The City anticipates funding the required lease payments from the revenues 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 revenues of the Electric Light and Power System and the Water and Wastewater System are not specifically pledged in such subleases.

SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

Operating Summary

	(000's)				
	Fiscal Year Ended September 30				
	(Unaudited) 12 Months Ended 3-31-02	2001	2000	1999	1998
Combined Gross Revenues	\$ 1,054,288	\$1,087,541	\$1,070,558	\$926,692	\$918,508
Combined Maintenance and Operating Expenses	<u>532,348</u>	<u>561,097</u>	<u>516,441</u>	<u>429,926</u>	<u>413,939</u>
Combined Net Revenues	<u>\$ 521,940</u>	<u>\$ 526,444</u>	<u>\$ 554,117</u>	<u>\$496,766</u>	<u>\$504,569</u>
Principal and Interest on Revenue Bonds (1)	\$ 235,736	\$ 234,412	\$ 236,916	\$231,711	\$234,464
Debt Service Coverage on Revenue Bonds (1)	2.21x	2.25x	2.34x	2.14x	2.15x

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

Electric Utility System Only

Operating Summary

	(000's)				
	Fiscal Year Ended September 30				
	(Unaudited) 12 Months Ended 3-31-02	2001	2000	1999	1998
Gross Revenues	\$814,009	\$854,090	\$820,068	\$703,929	\$705,198
Maintenance and Operating Expenditures	<u>427,107</u>	<u>458,685</u>	<u>420,075</u>	<u>342,914</u>	<u>332,986</u>
Net Revenues	<u>\$386,902</u>	<u>\$395,405</u>	<u>\$400,533</u>	<u>\$361,015</u>	<u>\$372,212</u>
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Bonds	\$176,356	\$168,404	\$175,053	\$174,131	\$175,645
Net Revenues available for Separate Lien Obligations	\$210,546	\$227,001	\$225,480	\$186,884	\$196,567
Principal and Interest on Separate Lien Obligations (1)	\$ 4,789	\$ 1,511	N/A	N/A	N/A
Debt Service Coverage (Separate Lien Obligations)	43.96x	150.23x	N/A	N/A	N/A

(1) Represents interest only for the Electric Utility System Obligations.

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DEBT SERVICE REQUIREMENTS* (a)

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds (b)	Outstanding Subordinate Lien Bonds	Total Prior & Subordinate Lien Bond Requirements	The Bonds		Electric Utility System Obligations	Water and Wastewater Separate Lien Obligation Bonds (c)	Assumed Bonds and Obligations	Total Separate Lien and Combined Utility Systems Requirements
				Principal	Interest				
2003	\$ 161,148,245	\$ 11,861,719	\$ 173,009,964	\$ -	\$ 7,435,760	\$ 10,418,213	\$ 39,787,341	\$ 2,720,262	\$ 233,371,540
2004	157,170,577	11,868,593	169,039,170	13,795,000	8,647,013	10,905,713	51,502,368	2,728,868	256,618,130
2005	144,759,270	11,909,216	156,668,486	18,075,000	7,919,238	10,880,713	61,959,573	2,466,480	257,969,489
2006	130,384,392	12,187,373	142,571,764	19,830,000	6,971,613	14,443,713	65,008,978	2,053,841	250,879,908
2007	181,787,921	14,598,243	196,386,164	5,380,000	6,387,663	15,034,213	53,255,928	1,071,855	277,515,821
2008	143,006,761	14,586,715	157,593,476	11,930,000	5,986,300	15,305,838	60,227,973	994,987	252,038,573
2009	145,823,524	15,722,664	161,546,188	12,555,000	5,343,569	14,663,150	52,873,569	906,295	247,887,771
2010	170,923,974	15,393,729	186,317,703	180,000	5,010,400	16,255,169	38,707,496	911,470	247,382,238
2011	171,661,044	16,188,233	187,849,276	185,000	5,003,100	16,570,750	29,245,776	914,612	239,768,515
2012	166,212,015	17,141,238	183,353,253	190,000	4,995,600	16,883,575	28,683,144	915,777	235,021,348
2013	120,004,378	17,406,641	137,411,019	17,965,000	4,497,763	29,546,663	40,566,251	930,072	230,916,767
2014	122,221,937	18,859,978	141,081,914	22,885,000	3,374,388	27,913,175	49,424,890	1,077,183	245,756,550
2015	76,040,369	30,755,713	106,796,081	24,135,000	2,081,338	15,879,463	43,944,150	1,078,343	193,914,374
2016	82,912,578	31,239,715	114,152,293	12,545,000	1,072,638	9,203,563	38,248,100	1,088,425	176,310,018
2017	76,969,426	21,563,885	98,533,311	13,230,000	363,825	9,177,813	38,165,800	947,019	160,417,767
2018	83,923,688	21,805,425	105,729,113	-	-	9,238,625	22,910,800	650,355	138,528,893
2019	51,639,217	21,129,813	72,769,030	-	-	9,292,500	22,874,300	-	104,935,830
2020	26,826,434	23,728,400	50,554,834	-	-	9,242,500	22,801,550	-	82,598,884
2021	23,174,159	23,806,325	46,980,484	-	-	9,280,000	22,833,800	-	79,094,284
2022	13,622,644	29,843,513	43,466,156	-	-	9,302,500	22,828,200	-	75,596,856
2023	14,166,181	28,853,025	43,019,206	-	-	9,407,500	22,975,200	-	75,401,906
2024	14,818,419	28,640,038	43,458,456	-	-	9,395,000	23,008,950	-	75,862,406
2025	1,571,703	25,298,938	26,870,641	-	-	9,465,000	23,000,575	-	59,336,216
2026	1,573,031	9,630,775	11,203,806	-	-	9,515,000	23,050,075	-	43,768,881
2027	-	10,046,013	10,046,013	-	-	9,545,000	23,052,325	-	42,643,338
2028	-	10,138,313	10,138,313	-	-	9,652,500	23,182,550	-	42,973,363
2029	-	-	-	-	-	9,637,500	23,137,550	-	32,775,050
2030	-	-	-	-	-	9,700,000	23,237,450	-	32,937,450
2031	-	-	-	-	-	9,737,500	15,471,750	-	25,209,250

(a) Includes Assumed MUD's, Water District Bonds and Contract Tax Obligations, each payable from City ad valorem taxes and additionally payable from surplus Net Revenues of the Waterworks and Sewer System.

(b) Excludes the Refunded Bonds. Also excludes the Refunded Bonds which are being refunded by the Water and Wastewater Utility Obligations being issued simultaneously with the issuance of the Bonds.

(c) Includes the \$139,695,000 Electric Utility System Revenue Refunding Obligations, Series 2002A being issued simultaneously with the Bonds.

* As of June 1, 2002.

SECURITY FOR THE BONDS

Pledges of Net Revenues

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

Parity Electric Utility Obligations . . . The Bonds are "Separate Lien Obligations" under the terms of the Bond Ordinance, and represent the third issue or series of Separate Lien Obligations of the City's Electric Utility System. The Master Ordinance and the Third Supplement pledge the Net Revenues of the Electric Utility System to the payment of the "Parity Electric Utility Obligations" (the Outstanding Parity Electric Utility Obligations, the Bonds, the Series 2002B Bonds described in "Plan of Financing" above, and additional parity obligations hereafter issued or incurred), and the Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System, subject to the prior claim on and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

Additionally, the Parity Electric Utility Obligations are secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplemental Ordinance and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance. The Third Supplement affirms that a Reserve Fund will be created and established only when the "Pledged Net Revenues" of the System for a Fiscal Year are less than one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. When a Reserve Fund is required to be maintained, the amount to be accumulated is to be based on the amount of the shortfall in the Pledged Net Revenues below 150% of the annual Debt Service Requirements for the Parity Electric Utility Obligations and range from a maximum amount of 50% of the Maximum Annual Debt Service when the Pledged Net Revenues for a Fiscal Year are less than 110% of the annual Debt Service Requirement for such Fiscal Year to a minimum of 10% of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year. Currently, the Pledged Net Revenues are in excess of 150% of the Annual Debt Service Requirements, and therefore the City is not required, and currently does not intend, to fund a reserve fund for the Bonds (see "No Reserve Fund for Parity Electric Utility Obligations" below).

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

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

Rate Covenant Required by Master Ordinance

The City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient: (i) to pay all current Operating Expenses; (ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable

in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility System reasonably anticipated to be paid from Gross Revenues.

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

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

In accordance with the Bond Ordinance, a reserve fund has been established for the benefit of the Prior First Lien Obligations and Prior Subordinate Lien Obligations (but not the Bonds, or any additional Parity Electric Utility Obligations) and the amount required to be accumulated and maintained in such Reserve Fund shall be equal to the greater of (i) \$85,000,000 or (ii) the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest on (or other similar payments) all Prior First Lien Obligations and all Prior Subordinate Lien Obligations then outstanding.

If the reserve fund at any time contains less than the Required Reserve, the City is to cure the deficiency within twelve (12) months from the date the deficiency in funds occurred with available Net Revenues of the Electric Light and Power System or the Water and Wastewater System or both, subject to payments required for the payment of principal of and interest on the Prior First Lien Obligations and the establishment and maintenance of any special funds created for the payment and security thereof. The Bond Ordinance provides for the investment of funds and requires valuation of such investments within 45 days of the end of the City's Fiscal Year on a current market value basis, except for State and Local Government Series investments held in book-entry form, which will be valued at cost. Valued in this manner, as of June 1, 2002, the Reserve Fund contained approximately \$168,216,924. If the Required Reserve is on deposit in the Reserve Fund, investment earnings on funds in the Reserve Fund may be transferred to the "Interest and Redemption Fund" created and established for the payment of the Prior Subordinate Lien Obligations.

On the 30th day of May, 2002, the City obtained the consent of (i) the holders of at least 51% of the principal amount and Maturity Amount of the outstanding Prior First Lien Obligations and (ii) the holders of at least 51% of the principal amount and maturity amount of the outstanding Prior Subordinate Lien Obligations to amend the provisions of the Bond Ordinance relating to the Reserve Fund to allow for the funding of all or a part of the Required Reserve with a surety bond or insurance policy issued by an insurance company or association rated in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by AM Best. The amendment to the provisions of the Bond Ordinance also provides that the amount to be accumulated and maintained as a Required Reserve shall be an amount equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, as determined on (i) the date of the deposit of a surety bond or insurance policy to the Reserve Fund occurs or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing a surety bond or insurance policy falls below (i) "Aa2" by Moody's Investors Service, Inc., (ii) "AA" by Standard & Poor's Ratings Services, (iii) "AA" by Fitch Ratings or (iv) if applicable, "A+" by AM Best.

The amendments to the provisions of the Bond Ordinance relating to the Reserve Fund further provide the City may at any time substitute one or more surety bonds or insurance policies for the cash and securities deposited to the credit of the Reserve Fund, and following such initial substitution, the cash and securities released from the Reserve Fund, net of costs incurred with respect to the initial substitution of the surety bond or insurance policy, shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended to pay, discharge and defease the Prior First Lien Obligations and Prior Subordinate Lien Obligations in a manner that reduces the principal amount and Maturity Amount of outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations. The amended provisions of the Bond Ordinance relating to the Reserve Fund are expected to be effective at the time of the Bonds are delivered to the Underwriters.

No Reserve Fund for Parity Electric Utility Obligations

The Master Ordinance does not provide for a Reserve Fund for the Parity Electric Utility Obligations. The Third Supplement, however, affirms that a Reserve Fund shall not be required to be established or maintained by the City for the payment of the Parity Electric System Obligations so long as the "Pledged Net Revenues" of the System for a Fiscal Year (the Net Revenues of the System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements

for Prior First Lien Obligations and Prior Subordinate Lien Obligations in such Fiscal Year) equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. If for any Fiscal Year such “Pledged Net Revenues” do not exceed 150% of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, the City shall be obligated to establish and maintain on the books of the City a separate fund or account designated as the “Electric Utility System Revenue Obligation Reserve Fund” (the “Reserve Fund”). When a Reserve Fund is required to be established, the Required Reserve Amount to be accumulated and maintained in such Fund shall be determined and redetermined as follows:

- (i) ten per cent (10%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year;
- (ii) twenty per cent (20%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 140% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 130% of the annual Debt Service Requirement for such Fiscal Year;
- (iii) thirty per cent (30%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 130% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 120% of the annual Debt Service Requirement for such Fiscal Year;
- (iv) forty per cent (40%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 120% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 110% of the annual Debt Service Requirement for such Fiscal Year;
- (v) fifty per cent (50%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 110% of the annual Debt Service Requirement for such Fiscal Year.

When a Reserve Fund is required, the City may deposit cash to the Reserve Fund or acquire and deposit a surety bond to provide the Required Reserve Amount or a combination of such cash and a surety bond. In funding such Required Reserve Amount, or to increase the Required Reserve Amount pursuant to a Supplement, the Required Reserve Amount or increase in the Required Reserve Amount, as applicable, may be funded in up to twelve (12) substantially equal consecutively monthly deposits commencing not later than the month following that receipt of audited financial statements for the System for the preceding Fiscal Year.

Issuance of Additional Prior First Lien Obligations and Prior Subordinate Lien Obligations Precluded

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

Issuance of Parity Electric Utility Obligations

Under the Master Ordinance the City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of the Master Ordinance and any Supplement. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing: (i) the City is in compliance with all covenants contained in the Master Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions in the Master Ordinance and Supplement thereof, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility Operations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any, and (ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility System’s Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, exceed one hundred ten percent (110%) of the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the Parity Electric Utility Obligations then being issued.

For purposes of clause (ii) in the preceding paragraph, if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the required Designated Financial Officer's certificate described above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

In making a determination of Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Electric Utility System for the period of time covered by such certification based on such change in rates, charges and fees being in effect for the entire period covered.

The proposed Series 2002B Bonds will constitute Parity Electric Utility Obligations.

Short-Term Parity Electric Utility Obligations

The City may issue or incur Parity Electric Utility Obligations issued in the form of commercial paper that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Electric Utility Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

Credit Agreements

Payments to be made under a Credit Agreement may be treated as Parity Electric Utility Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

System Fund

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

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

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

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, and (ii) the special Funds and Accounts for the payment of the Parity Electric Utility Obligations.

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

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

BOND INSURANCE

Ambac Assurance Corporation

Ambac Assurance Corporation (“Ambac Assurance”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$5,389,000,000 (unaudited) and statutory capital of approximately \$3,363,000,000 (unaudited) as of March 31, 2002. Statutory capital consists of Ambac Assurance’s policyholders’ surplus and statutory contingency reserve. Standard & Poor’s Credit Markets Services, a Division of The McGraw-Hill Companies, Moody’s Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Obligations.

Ambac Assurance makes no representation regarding the Obligations or the advisability of investing in the Obligations and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under this heading.

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including Ambac Assurance. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the “NYSE”), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company’s Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002;
- 2) The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;
- 3) The Company’s Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002; and
- 4) The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **“Available Information”**.

DESCRIPTION OF THE BONDS

The Bonds will be dated July 15, 2002, and interest will accrue from their dated date and will be payable on each May 15 and November 15, commencing November 15, 2002, until maturity. The Bonds will mature on November 15 in the years and in the principal amounts set forth on the cover page hereof. Principal of the Bonds is payable only at maturity.

BOOK-ENTRY-ONLY SYSTEM

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

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

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

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

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Issuer 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 Issuer 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 Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is The Bank of New York Trust Company of Florida, N.A. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be given to each registered owner of the Bonds, which notice will also give the address of the new Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to act as and perform the duties of Paying Agent/Registrar for the Bonds.

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

Record Date for Interest Payment

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

Registration

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

For a more detailed explanation of the various covenants and agreements with the holders of the Bonds, including provisions for amendments to the Master Ordinance and Supplemental Ordinance, and defeasance of the Bonds, see APPENDIX C attached hereto.

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THE SYSTEMS

The City owns and operates an Electric Light and Power System and a Water and Wastewater System (also referred to herein as the Water and Wastewater Utility) which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The City constructed a new 180 MW gas fired peaking facility in partnership with Enron which became commercial in June 2001. Under the Agreement with Enron, the City will have complete ownership of the plant in November 2003. The Electric Light and Power System had approximately 1,199 full-time regular employees as of September 30, 2001. The Water and Wastewater System had approximately 881 full-time regular employees as of the same date.

THE ELECTRIC UTILITY "AUSTIN ENERGY"

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City</u>
Juan Garza	General Manager	1 Year, 8 Months
Al Lujan	Senior Vice President Regulated Operations	2 Years, 4 Months
Andy Ramirez, P.E.	Senior Vice President Power Production	5 Years, 10 Months
Bob Kahn	Vice President Legal Services	10 Years, 4 Months*
Elaine Hart Kuhlman, CPA	Senior Vice President Finance and Corporate Services	13 Years, 11 Months
Roger Duncan	Vice President Governmental Relations, Energy and Environmental Policy	12 Years, 6 Months
Michael McCluskey	Senior Vice President Wholesale and Retail Markets	16 Years, 3 Months
Harvey Winkelmann, CPA	Vice President Finance	18 Years, 2 Months

* Length of service not continuous.

Competitive Positioning

With increasing competition in the electric utility industry due to regulatory and market changes, the City continues its initiatives at both the policy level and departmental level to strengthen its electric utility's competitive position. In December 1996, the City Council approved financial targets for the Electric Utility Department to achieve over the next six years. In September 1999, these targets were updated and extended through 2003 and are outlined below.

- Complete an annual competitive pricing rate analysis to evaluate its rate structure for all customer classes, using the Electric Reliability Council of Texas ("ERCOT") average retail price as a standard.
- Complete an annual review of operations and competitive position.
- Direct all excess electric utility cash to a debt management fund to achieve a debt-to-capital ratio of 62% by the year 2003 and allow use of the fund to improve the competitive position of the electric utility.
- Continue to reduce operating expenses per kWh.
- Decrease the transfer to the General Fund as necessary to achieve competitive pricing establishing a range between 6.6% and 9.1% of total revenue.
- Adjust conservation spending for the electric utility as necessary to achieve competitive pricing using the ERCOT average retail price as a standard and cost effective conservation programs are targeted as the first priority in meeting new load growth requirements.
- Establish a renewable energy goal of five percent of the energy mix coming from renewable sources by December 31, 2004.

The utility's competitive position has been improved through reduced costs and improved customer service through the initial joint work of a management consulting firm and electric utility management, which was completed in 1998, as well as the ongoing efforts of electric utility management. The electric utility is meeting these long-range financial targets. The electric utility adopted a "Doing Business As" (DBA) during 1998 in order to establish a positive, consumer-focused brand and name recognition before competition occurs. Its new trademark name is "Austin Energy®".

Generation – TABLE ONE

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

<u>Unit</u>	<u>Year Installed</u>	<u>Nameplate Rating (MW)</u>	<u>Fuel</u>
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Holly Street Power Plant			
Unit No. 1	1960	100.0	Gas/No. 2 oil backup
Unit No. 2	1964	100.0	Gas/No. 2 oil backup
Unit No. 3	1966	165.0	Gas/No. 2 oil backup
Unit No. 4	1974	193.0	Gas/No. 2 oil backup
Photovoltaic Plant (PV300)	1986	0.30	Solar
Decker Power Station			
Unit No. 1	1970	325.0	Gas/No. 2 oil backup
Unit No. 2	1977	405.0	Gas or Nos. 1 through 5 oil
Gas Turbines	1988	200.0	Gas/No. 1 oil backup
Sand Hill Energy Center	2001	80.0	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	200.0	Nuclear
Total Capacity		2,538.3	

See Table Six “Generation and Use Data – System Peak Demand” for further description of peak demand to generation capacity. Generation capacity is adequate to meet native load.

Conventional System Improvements

In September 2001, the 2002-2006 Capital Improvements Spending Plan was approved by the City Council in the amount of \$842,117,000. 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 generation additions and other general additions. Funding for the total Capital Plan is provided from current revenues and commercial paper.

In 2001 Austin Energy rebuilt the existing Austrop to Fayette 345 kV single circuit line to add a second 345 kV circuit. This rebuild along with the addition of the new Lost Pines 345 kV Switchyard (located near Bastrop, Texas) was undertaken to accommodate the new Lost Pines Power Park I Generation Plant and to relieve existing transmission congestion between the Fayette Power Plant and Austin. Lost Pines Power Park is jointly owned by Lower Colorado River Authority (“LCRA”) and Calpine Corporation, an independent power producer. ERCOT requires that the transmission provider in that service area provide the necessary interconnection. Austin Energy was designated by ERCOT as the transmission provider since they already own the existing 345 kV transmission line in the area. The Lost Pines 345 kV switchyard and all the 345 kV transmission lines were completed between January 2001 and July 2001. Austin Energy is also continuing a vigorous construction program of non-345 kV related transmission and substation projects to accommodate Austin’s growth. The City is currently proceeding with construction of a 300 MW combined cycle gas-fired electric generating facility at the Sand Hill Energy Center. The estimated cost of the facility is \$145 million and will be paid with cash on hand. It is expected to begin commercial operation in 2004. The capital budget for 2002 is \$18.2 million for transmission and substations that are recoverable through Transmission Cost of Service (“TCOS”).

In 1995, the Public Utility Commission of Texas (“PUC”) adopted new rules governing the transmission system in the ERCOT, which, at the time, was an organization made up of major investor-owned and municipal systems, a state river authority, a municipal joint agency, energy marketers, independent power producers and a number of cooperatives. As part of these new rules, the PUC established a means for the transmission owners in ERCOT to recover TCOS. TCOS is based on the principle of equal transmission access for all loads and generation in ERCOT. Each load serving entity in ERCOT has been assigned a

share of the total cost of transmission in ERCOT based upon the ratio of that load serving entity's load to the entire load in ERCOT. The funds recovered through this mechanism are distributed to transmission owners in ERCOT based upon a ratio of the transmission owner's investment in transmission facilities to the entire transmission investment in ERCOT. Austin Energy's load represents approximately 3.9% of ERCOT and Austin Energy's transmission cost of service is approximately 4.5% of ERCOT's total transmission cost of service. Under interim rates for 2002, this will result in a net gain of \$1.8 million dollars from TCOS. A continuing investment in Austin Energy's Transmission System will result in a continuing positive cash flow from TCOS.

Transmission and Distribution System

The transmission and distribution lines of the Austin Energy System as of September 30, 2001, are as follows:

<u>Miles</u>	<u>Description</u>
114	345 kV transmission line (Fayette Power Project)
94	345 kV transmission line (South Texas Project)
61	345 kV transmission line (Fayette Power Project) (50% ownership with LCRA)
322	69 kV and 138 kV transmission lines
9,301	Overhead, underground and downtown network distribution lines

Austin Energy owns the following transmission substations:

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

Austin Energy owns the following distribution substations:

<u>Name</u>	<u>Capacity (MVA)</u>	<u>Name</u>	<u>Capacity (MVA)</u>
Angus Valley	60	Lakeshore	60
Austin Dam	60	Lakeway	60
Barton	90	McNeil	120
Bee Creek	60	Magnesium	90
Bergstrom	60	North	60
Brackenridge	210	Northland	100
Brodie	60	Oak Hill	90
Burleson	90	Onion Creek	30
Cameron	90	Patton Lane	130
Cardinal Lane	80	Pedernales	60
Carson Creek	60	River Place	40
Commons Ford	60	Salem Walk	90
Daffin Gin	30	Seaholm	320
Dessau	130	Slaughter Lane	60
Ed Bluestein	200	Sprinkle	30
Fiskville	60	Steck	90
Grove	90	Summit	180
Hamilton	120	Techridge	60
HiCross	90	Trading Post	30
Howard Lane	60	Walnut Creek	60
Jett	60	Warren	60
Jollyville	90	Wheless Lane	90
Kingsbery	60	Williamson	120
Koenig Lane	110	Zilker	20

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

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

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

Power and Energy Sales Contracts

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

Power and Energy Purchase Contracts

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

Wind Power Purchase – In March 1995, the City signed a 25-year contract with LCRA to purchase up to 39,000 MWh of electric energy per year from the Texas Wind Power Project located in the Delaware Mountains east of El Paso. The project went into commercial operation in September 1995. In December 1999, Austin Energy signed a 10 year contract to purchase the output of a 20 MW wind energy project to be built by Texas Wind Power Corporation in Upton County. The original contract provided Austin Energy an option to increase the project capacity by an additional 78.4 MW. On October 26, 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and increasing the project capacity by an additional 56.7 MW. On December 19, 2000 the contract was assigned by King Wind L.P. to FPL Energy, Inc.

Landfill Gas (Methane) Power Purchase – In December 1994, the City signed a contract with Alternative Power Limited Partnership (APLP), an affiliate of Browning-Ferris Industries (BFI), to purchase energy from a 3 megawatt landfill gas plant in Austin.

In December 1999, Austin Energy signed two contracts for purchase of energy from landfill methane-recovery projects to be developed by Ecogas Inc. and Energy Developments, Inc. (EDI). Ecogas Inc. assigned its rights to EDI in October 2000. The EDI facilities are expected to be sited at landfills in San Antonio and Hutchins, Texas. The combined output of these two EDI facilities is expected to be 7.6 MW.

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Annual Summary of Customer Consumption and Average Price – TABLE FOUR

Austin Energy delivers electricity to an average of approximately 347,000 customers within its service area. The kilowatt-hour sales distributed by customer classification served by Austin Energy are shown in the following table.

	Fiscal Year Ended September 30				
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
All Customers*					
Average Monthly kWh Per Customer	2,507	2,588	2,377	2,289	2,193
Average Monthly Bill Per Customer	\$181.07	\$179.91	\$153.37	\$152.87	\$144.62
Average Monthly Revenues Per kWh	\$0.07224	\$0.06950	\$0.06452	\$0.06678	\$0.06594
Residential Customers					
Average Monthly kWh Per Customer	1,008	1,032	945	941	883
Average Monthly Bill Per Customer	\$81.64	\$83.17	\$71.03	\$72.06	\$65.99
Average Monthly Revenues Per kWh	\$0.08099	\$0.08062	\$0.07514	\$0.07656	\$0.07471
General Customers**					
Average Monthly kWh Per Customer	14,264	14,480	13,716	12,941	12,659
Average Monthly Bill Per Customer	\$952.57	\$909.80	\$798.62	\$784.47	\$765.73
Average Monthly Revenues Per kWh	\$0.06678	\$0.06283	\$0.05823	\$0.06062	\$0.06049

* Excludes UT and Nightwatchman.

** Excludes UT, Nightwatchman and the City.

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Generation and Use Data – TABLE SIX

	Fiscal Year Ended September 30									
	2001		2000		1999		1998		1997	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		10,671,549,000		10,627,483,000		10,054,296,000		9,770,302,000		8,907,873,000
kWh Received from ERCOT(1)		499,596,000		263,551,000		236,149,000		518,184,000		436,967,000
Less: kWh Delivered to ERCOT		(53,171,000)		(31,160,000)		(36,200,000)		(43,721,000)		(26,415,000)
Less: kWh Delivered to Other Utilities		<u>(46,778)</u>		<u>(355,454,000)</u>		<u>(354,082,000)</u>		<u>(532,916,000)</u>		<u>(427,189,000)</u>
Total kWh Delivered to Service Area		<u>11,117,927,222</u>		<u>10,504,420,000</u>		<u>9,900,163,000</u>		<u>9,711,849,000</u>		<u>8,891,236,000</u>
Service Area Energy Use:										
Residential	308,841	3,736,146,850	296,481	3,670,131,218	301,057	3,415,342,333	292,269	3,301,122,584	284,007	3,010,608,117
General Service (Less UT & ENW)	<u>37,080</u>	<u>6,346,850,890</u>	<u>36,553</u>	<u>6,351,518,316</u>	<u>35,790</u>	<u>5,890,650,390</u>	<u>34,665</u>	<u>5,383,228,534</u>	<u>33,349</u>	<u>5,065,826,982</u>
	<u>345,921</u>	<u>10,082,997,740</u>	<u>333,034</u>	<u>10,021,649,534</u>	<u>336,847</u>	<u>9,305,992,723</u>	<u>326,934</u>	<u>8,684,351,118</u>	<u>317,356</u>	<u>8,076,435,099</u>
Public Street Lighting	4	33,737,705	3	33,530,825	3	33,226,385	3	28,174,152	4	28,446,894
City Utility Departments	185	200,713,675	186	201,953,134	214	195,756,743	220	204,290,381	220	189,256,272
Other City Departments	<u>628</u>	<u>111,991,407</u>	<u>630</u>	<u>112,965,298</u>	<u>536</u>	<u>95,255,030</u>	<u>498</u>	<u>84,043,151</u>	<u>494</u>	<u>77,608,259</u>
	<u>817</u>	<u>346,442,787</u>	<u>819</u>	<u>348,449,257</u>	<u>753</u>	<u>324,238,158</u>	<u>721</u>	<u>316,507,684</u>	<u>718</u>	<u>295,311,425</u>
Total Service Area Sales	346,738	10,429,440,527	333,853	10,370,098,791	337,600	9,630,230,881	327,655	9,000,858,802	318,074	8,371,746,524
Sales to UT & ENW (Nightwatchman)		11,911,011		14,609,114		11,074,895		10,196,845		9,498,245
Loss and Unaccounted For		<u>676,575,684</u>		<u>119,712,095</u>		<u>258,857,224</u>		<u>700,793,353</u>		<u>509,991,231</u>
Total kWh Delivered to Service Area	<u>346,738</u>	<u>11,117,927,222</u>	<u>333,853(6)</u>	<u>10,504,420,000</u>	<u>337,600</u>	<u>9,900,163,000</u>	<u>327,655</u>	<u>9,711,849,000</u>	<u>318,074</u>	<u>8,891,236,000</u>
System Peak Demand (kW)		2,211,000 (7)		2,383,000(5)		2,239,000(4)		2,389,000(3)		2,167,000(2)

- (1) Electric Reliability Council of Texas (formerly Texas Interconnected System).
(2) Includes 1,870,000 kW Peak Demand delivered to service area plus net coincidental demand of 297,000 kW delivered to other utilities.
(3) Includes 2,070,000 kW Peak Demand delivered to service area plus net coincidental demand of 319,000 kW delivered to other utilities.
(4) Includes 2,132,000 kW Peak Demand delivered to service area plus net coincidental demand of 107,000 kW delivered to other utilities.
(5) Includes 2,284,000 kW Peak Demand delivered to service area.
(6) Reduction in number of customers is due to the installation of a new billing system in 2000 that changed the way customers are counted rather than customer loss.
(7) Includes 2,171,000 kW Peak Demand delivered to service area.

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Electric Rates – TABLE SEVEN

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

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

(1) The Fuel Adjustment Clause recovers fuel costs. The calculation of the Fuel Adjustment Clause is described in the Rate Ordinance.

(2) Minimum Bill is applied when the sum of energy, demand and fuel charges is less than \$12.00.

(3) Does not include special contracts, time-of-use and economic development rates.

Annual Adjustment Clause

The City assesses an Annual Adjustment Clause charge based on a formula designed to recover the actual cost of fuel per kWh. The intent of the fuel formula is to avoid any over or under recovery of costs associated with fuel.

Due to escalating prices for natural gas supplies, during Fiscal Year 2000, Austin Energy under recovered its fuel costs. Austin Energy increased its fuel factor effective November 2000 and February 2001 to recover these costs. All of the under recovered fuel costs were recovered by the end of Calendar Year 2001. A new fuel factor was determined and became effective January 2002.

Green Choice Energy Rider

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

Fuel

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

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

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

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 Department of the City initiated a local rate proceeding in response to the increasing competitive nature of the electric utility industry. The Department 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 Energy Inc. (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 Energy, Inc. 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. Austin Energy intends to vigorously defend in this matter.

The City filed with the PUCT a filing package delineating transmission cost of service and costs for ancillary services related to transmission service. The PUCT entered a Final Order on the filing by the City effective January 1, 1997. The Final Order increased net income to the system by approximately \$6.0 million on an annual basis.

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 and Other Regulation. Austin Energy’s generating units are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. Austin Energy believes that its operating generating units are presently in compliance with all such regulations now in effect. Federal and State standards and procedures governing protection of the environment are subject to change. These changes arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures.

In 1999, 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). Austin Energy’s units were “grandfathered” from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. This new law also allowed units that would not normally be participants to opt-in to the program. This provision has allowed Austin Energy the opportunity to opt-in into this program, which has significantly lowered Austin Energy’s projected compliance costs. Under the new law, Austin Energy’s units must meet the provisions of the permits that will be forthcoming from the SB 7 program. In order to do so, Austin Energy’s units must have enough SB 7 emission credits (or allowances) available to cover the actual emissions from these units on a yearly basis. The allocation of these SB 7 emission credits was based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit in question. The new law also provides for a regional emission-trading program among all grandfathered utility plants within their region. The state has been divided into two trading regions, East and West. Cross-regional trading of allowances is not allowed. Under the trading program, an individual power plant may exceed its allocation of NOx allowances only if an offsetting quantity of allowances is acquired from a generating unit which has excess allowances remaining at the end of the compliance year (May-April). The emission-trading program will also allow Austin Energy to sell in the open market emission allowances derived from excess NOx reductions.

As part of the development of various State Implementation Plans to comply with ambient air quality standards in the Clean Air Act Amendments of 1990, the Texas Natural Resource Conservation Commission (“TNRCC”) issued in May 2000 revised rules calling for power plant emission reductions in Central and East Texas (30 TAC 117, Control of Air Pollution from Nitrogen

Compounds). Austin Energy is allowed to average the emissions of the generation units subject to the section 117 requirements across the utility system. Thus, Austin Energy could emit greater than the emission rate limitation at a section 117 unit if another of Austin Energy's section 117 units over complies by an equal amount.

Austin Energy will continue to make the necessary changes to assure future compliance with the evolving regulatory requirements. An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual generating units not in compliance. Further compliance with environmental standards or deadlines may substantially increase capital and operating costs.

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.

Price-Anderson coverage for nuclear construction and operation activities has been extended. Public Law 100-408, signed by the President on August 22, 1988, contains a 15-year extension of the Price-Anderson Act and raises the amount of insurance available for a nuclear accident from \$700 million to approximately \$9.1 billion. The \$9.1 billion would come from nuclear liability insurance available from private sources of approximately \$200 million per reactor (the maximum amount currently attainable) with retrospective assessments of up to \$83 million on each operating reactor (payable at a rate not to exceed \$10 million per year) in the event of an accident. Such limit and retrospective assessments are subject to adjustment for inflation.

In addition, the participants are required to maintain on-site property damage insurance to cover the costs of cleanup of the facility in the event of an accident. The property insurance obtained is composed of both a primary layer of insurance in the amount of \$500 million and a layer of excess insurance that would contribute \$2.25 billion of additional coverage through a retrospective assessment from each electric utility licensee of an NRC licensed power reactor.

Finally, the NRC has amended its regulations effective July 27, 1988 setting forth minimum amounts required to demonstrate reasonable assurance of funds for decommissioning by reactor type. On or before July 26, 1990, each holder of an operating license for a production of utilization facility in effect on July 27, 1990, 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 the minimum amount is \$105 million (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with Bank One, NA. The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at December 31, 2001 was \$74,946,217 (unaudited). For Fiscal Year 2002, Austin Energy estimates that it will collect approximately \$4,958,221 for decommissioning expense.

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THE WATER AND WASTEWATER SYSTEM

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City</u>
Chris Lippe, P.E.	Director, Water and Wastewater Utility	18 Years, 3 Months
Pervez Moheet, CPA	Assistant Director, Business Support Services	23 Years, 2 Months
Jane Burazer	Assistant Director, Water and Wastewater Treatment	8 Years, 8 Months
Reynaldo Cantu, P.E.	Assistant Director, Engineering	12 Years
Andrew Covar, P.E.	Assistant Director, Water Resource Planning and Analysis	9 Years
David Juarez, P.E.	Assistant Director, Operations Maintenance	11 Years, 3 Months*

*Length of service not continuous.

WATER SYSTEM

Service Area

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

The City has previously acquired the systems and assets of eleven water control and improvement districts. The City has paid off and canceled the bonded indebtedness of eight of these districts and is presently paying, from surplus revenues of the Water and Wastewater Utility, the unpaid bonded indebtedness of the other three districts. TNRCC (formerly the Texas Water Commission) is empowered to grant the City a certificate of convenience and necessity to provide water and wastewater service to retail customers outside the City's boundaries. The City is not required to obtain such a certificate.

Water Supply

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

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

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

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

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

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

Using the twenty-five years from 1976-2000, the average flow was 1,296,638 acre feet per year. Using the lowest year, 1983, the flow for the Colorado River at Austin was 587,000 acre feet, or 192 billion gallons, which is over 4 times the amount of water treated for distribution (52.2 billion gallons) by the City for the fiscal year ended September 30, 2000.

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

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

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

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

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

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

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

Water Treatment Plants

The City's Water and Wastewater Utility has three water treatment plants (Green, Davis and Ullrich) which have a rated capacity of 260 million gallons per day ("mgd"). The water treatment plants have a combined clear well storage capacity of 38.8 million gallons on site. The City's Water and Wastewater Utility includes a water distribution system having 2,825 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 113 million gallons, 25,838 fire hydrants and forty-two booster pump stations.

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

The Green Plant is located east of Shoal Creek near its junction with the Colorado River and has a rated capacity of 35 mgd. An intake station on the river contains four traveling water screens and four raw water pumps. The Green Plant was constructed in 1924 and expanded in 1935, 1938, 1949 and 1985. The firm pumping capacity (i.e., with one of the largest pumps out of service) is 42 mgd. Water is pumped through a forty-two inch line to the chemical feed building, where it is split into two parallel treatment units. The Green Plant operates on a site that limits any major expansion or upgrading of treatment processes. Its capacity can be replaced by the planned expansion of the Ullrich Plant and construction of a transmission line from the Ullrich Plant north to the Green Plant service area. If the requirements for the Safe Drinking Water Act (SDWA) Phase II Disinfection/Disinfection By-Products Rule require expensive space consuming modifications, the aging Green Plant may need to be replaced by the year 2003. Without the restrictions of this proposed rule, it could continue in service.

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

The Ullrich Plant, located on a site south of Red Bud Trail and Forest View Drive, has a rated capacity of 100 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, six upflow-solids contact clarifiers, twelve filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. It is likely that other improvements will be needed prior to 2005 in order to meet the Disinfectant/Disinfection By-Products Rule of the federal Safe Drinking Water Act.

Construction of Water Treatment Plant No. 4 will add incremental initial capacity of up to 60 million gallons per day with an intake structure rated at 150 million gallons per day. Based on revised growth projections, the City anticipates that construction of Water Treatment Plant No. 4 will not be started before the year 2017. \$104 million of bonds have been authorized for this project based on an earlier schedule pursuant to which the plant would have been already under construction. Additional costs incurred due to the revised timing are anticipated to be funded with capital recovery fees.

Water Conservation Plan

The Water and Wastewater Utility developed a water conservation plan for emergency purposes in the early 1980's after experiencing an equipment failure in the distribution system during a high summer demand period. Although the problems were short lived, they had sufficient impact to cause the development of a plan for any potential future problems. The plan is designed to educate customers to use water effectively and to reduce the peak demands on the Water and Wastewater Utility. The contingency plan, which is in effect from May 1 to September 30 of each year, has three stages with progressively more restrictive water use provisions. The plan is presently designed to shift from voluntary to mandatory stages when daily pumpage exceeds a specific limit established by the City Manager which relates to treatment capacity. If higher levels of pumpage should occur, the plan would move to one of the more restrictive mandatory levels. Currently, the treatment facilities have a rated capacity of 227 mgd. Mandatory water restrictions were required during the extreme drought conditions of July through September 2000. Inclining block rates implemented April 1, 1994, are designed to promote water conservation by Single Family Residential Customers.

Water Storage and Pumping Facilities

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

	<u>Total Storage Capacity</u> <u>(Millions of Gallons)</u>	<u>Firm Pumping Capacity</u> <u>(Gallons per Minute)</u>
North System		
Anderson Mill	3	(1)
East Austin	12	37,700
Forest Ridge	3	5,000
Four Points (ground)	7	
Four Points (elevated)	1	3,600
Guilford Cove	0.275	600
Highland Park	2	1,000
Howard Lane	20	(1)
Jollyville	11	51,000
Martin Hill	34	(1)
North Austin	10	39,800
Pond Springs	3	(1)
Spicewood Springs	10	59,000
South System		
Center Street	8	31,400
Davis Lane	20	43,500
Eberhart	1.5	11,500
La Crosse	2	(1)
Leuthan Lane	3	860
Loop 360	0.439	1,200
Lost Creek	(2)	2,000
Oak Hill Pump	(2)	250
Oak Hill Reservoir	1	(1)
Pilot Knob	10	(1)
Slaughter Lane	6	15,000
Travis County	(2)	1,800
Westlake Drive	0.010	200

(1) Storage only, no pumps.

(2) Pumps only, no reservoir.

Source: City's Water and Wastewater Utility.

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Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 1988 through 2001.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (Million of Gallons)</u>
1988	36,332	6.80	162
1989	38,300	5.40	178
1990	38,311		177
1991	36,125	(5.70)	161
1992	36,989	2.40	169
1993	39,824	7.70	189
1994	39,766	(0.10)	199
1995	39,542	(0.70)	192
1996	45,835	15.90	205
1997	42,812	(6.60)	195
1998	46,438	8.50	211
1999	46,422	(0.03)	216
2000	52,194	12.40	227
2001	50,140	(3.94)	243

Source: City's Water and Wastewater Utility.

Projected Water Pumpage - TABLE NINE

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

<u>Fiscal Year</u>	<u>Total Pumpage (Million of Gallons)</u>	<u>Maximum Day Pumpage (Million of Gallons)</u>
2002	48,051	235
2003	48,827	241
2004	49,459	247
2005	50,288	253
2006	51,272	259
2007	52,304	265
2008	53,348	271
2009	54,427	277
2010	55,509	281
2011	57,737	285

Source: City's Water and Wastewater Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	2001		2000		1999		1998		1997	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		50,184,839		52,326,065		46,679,391		46,668,512		42,802,212
Less: Sales to Other Water Utilities (1)		<u>3,689,468</u>		<u>3,863,466</u>		<u>3,146,201</u>		<u>3,797,257</u>		<u>3,662,066</u>
Thousands Gallons to System		46,545,371		48,462,599		<u>43,533,190</u>		<u>42,871,255</u>		<u>39,140,146</u>
Water Sales:										
Urban	165,536	37,653,186	161,243	41,973,466	159,625	35,594,247	152,545	36,026,412	143,177	30,219,525
Rural	<u>11,700</u>	<u>2,219,216</u>	<u>11,242</u>	<u>2,435,328</u>	<u>10,607</u>	<u>1,852,000</u>	<u>10,131</u>	<u>1,968,939</u>	<u>11,139</u>	<u>1,787,935</u>
	177,236	39,872,402	172,485	44,408,794	170,232	37,446,247	162,676	37,995,351	154,316	32,007,460
City Departments	<u>392</u>	<u>588,880</u>	<u>392</u>	<u>650,006</u>	<u>379</u>	<u>619,553</u>	<u>481</u>	<u>705,983</u>	<u>364</u>	<u>559,575</u>
Total Sales to Ultimate Consumer	<u>177,628</u>	<u>40,461,282</u>	<u>172,877</u>	45,058,800	<u>170,661</u>	38,065,800	<u>163,157</u>	38,701,334	<u>154,680</u>	32,567,035
Used by Water Utility		1,531,430		1,613,380		1,422,526		1,418,185		48,299
Loss and Unaccounted For		<u>4,552,659</u>		<u>1,790,419</u>		<u>4,044,864</u>		<u>2,751,736</u>		<u>6,524,813</u>
Thousands Gallons to System		<u>46,545,371</u>		<u>48,462,599</u>		<u>43,533,190</u>		<u>42,871,255</u>		<u>39,140,147</u>
Maximum Daily Consumption		240,285		220,305		204,746		206,371		190,919
Average Daily Consumption in Thousands of Gallons		127,522		132,774		119,269		117,455		107,233

(1) Includes sales to all wholesale customers.

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Large Water Customers - TABLE ELEVEN

**Water and Wastewater Utility
Large Water Customers
Five Year Comparative Data (1997 - 2001)**

Fiscal Year Ended September 30
(Dollars in Thousands) (4)

	<u>2001</u>		<u>2000</u>		<u>1999</u>		<u>1998</u>		<u>1997</u>	
	<u>Gallons</u>	<u>Revenue</u>								
Motorola, Inc. (1)	1,931,463	\$4,886	1,814,060	\$4,031	1,781,016	\$3,855	1,904,313	\$3,927	1,894,879	\$3,918
Advanced Micro Devices	1,135,801	4,094	1,044,510	2,082	1,186,752	2,570	1,250,741	2,584	1,151,306	2,384
University of Texas (2)	979,919	2,340	1,029,359	2,341	908,424	2,056	824,213	1,784	824,049	1,767
Travis County Water Control and Improvement District No. 10	848,672	1,666	901,248	1,831	699,180	1,416	737,810	1,509	579,175	999
Wells Branch Municipal Utility District	587,057	1,076	646,054	1,328	544,046	1,107	559,016	1,013	463,043	851
Anderson Mill Municipal Utility District	492,533	1,153	546,213	936	510,713	872	542,058	899	467,978	799
Samsung (3)	486,185	851	462,139	1,005	353,927	768	363,761	812	48,002	91
North Austin Municipal Utility District	364,580	712	406,345	850	297,789	622	323,138	658	276,784	557
Lost Creek Municipal Utility District	303,592	608	355,547	758	282,637	600	320,721	655	237,423	497
Shady Hollow MUD	<u>247,103</u>	<u>496</u>	<u>300,277</u>	<u>800</u>	<u>217,346</u>	<u>576</u>	<u>266,715</u>	<u>671</u>	<u>195,505</u>	<u>494</u>
	<u>7,376,905</u>	<u>\$17,882</u>	<u>7,505,752</u>	<u>\$15,962</u>	<u>6,781,830</u>	<u>\$14,442</u>	<u>7,092,486</u>	<u>\$14,510</u>	<u>6,138,144</u>	<u>\$12,357</u>

(1) Totals for Motorola, Inc. include their east Austin plant site and their west Austin plant sites.

(2) Totals for the University of Texas at Austin are citywide for 1996 and 1999.

(3) These facilities have no comparative data prior to 1997.

(4) These columns may not add to the totals provided due to rounding.

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WASTEWATER SYSTEM

Service Area

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

Facilities

The Water and Wastewater Utility has three main wastewater treatment plants with a permitted capacity of 130 mgd, one sludge treatment and disposal facility, over 2,635 miles of sanitary wastewater mains and lines, and 114 lift stations. The three treatment plants are the Walnut Creek Wastewater Treatment Plant which began operations in 1977, the Govalle Wastewater Treatment Plant constructed in 1936, and the South Austin Regional Wastewater Treatment Plant completed in 1986. The Hornsby Bend Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 1997 and 1998, the City received from the TNRCC and the U.S. Environmental Protection Agency renewals of discharge permits for all its wastewater treatment plants. The permits are valid for five years and will be renewed in 2002 and 2003.

The Walnut Creek Wastewater Treatment Plant is currently permitted to discharge an average flow of 60 mgd. During 2000 average flow was 47 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant is currently in the engineering design phase with construction scheduled to be completed in approximately 2004.

The Govalle Wastewater Treatment Plant was initially constructed in 1937 and has undergone several expansions. It now has a permitted capacity of 20 mgd. During 1999 average flow was 10 mgd. Sludge from this plant is also pumped to the anaerobic digesters at Hornsby Bend. Extensive modernization completed in 1986 and subsequent improvements completed in 1988 have enabled the Govalle plant to reliably produce the quality of effluent required by state and federal permits. A major interceptor tunnel completed in 1988 diverts any excess flows from Govalle to the South Austin Regional Plant.

The South Austin Regional Wastewater Treatment Plant, which replaced the Williamson Creek Treatment Plant, began operation in April 1986. The plant is now permitted to discharge at a rate of 50 mgd. During 2000 average flow was 33 mgd. A major interceptor transports the wastewater to the South Austin plant from the site of the former Williamson Creek plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant. A 25 mgd upgrade to this plant is currently in the engineering design phase with construction scheduled to be completed in approximately 2005.

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

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

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

Lift Stations

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

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

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

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 1988 through fiscal year 2001.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
1988	21,193	(9.7)
1989	22,771	7.4
1990	22,935	(0.7)
1991	25,002	9.0
1992	30,126	20.5
1993	26,797	(11.1)
1994	25,257	(5.7)
1995	30,038	18.9
1996	28,140	(6.3)
1997	32,898	16.9
1998	31,609	(3.9)
1999	34,298	8.5
2000	30,684	(10.5)
2001	34,289	11.7

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Projected Wastewater Flows - TABLE THIRTEEN

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

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>
2002	33,470
2003	34,173
2004	34,938
2005	35,803
2006	36,675
2007	37,372
2008	38,082
2009	38,806
2010	39,543

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

To meet these projections, the capacity of the Walnut Creek Wastewater Treatment Plant is expected to be increased from 60 mgd to 75 mgd by the year 2000. Also, if the Govalle Plant is shut down by the year 2002 as presently planned, the South Austin Regional Wastewater Treatment Plant will have to be expanded to a capacity of 75 mgd.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

During the next five years, it is anticipated that the Water and Wastewater System will require approximately \$701.2 million for system improvements. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of \$549.0 million additional Parity Water/Wastewater Obligations and (2) the application of \$152.2 million of anticipated transfers from current revenues and amounts on hand.

Services Financed by Utility Districts

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

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

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

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

Some of the contractual commitments of the City with the most recently approved districts varies from the process described above in that the issuance by the district of bonds for such improvements and extensions creates a lien on and pledge of the Net Revenues of the Water and Wastewater System to cover the City's payments on the total debt service. The lien is known as a Separate Lien Obligation and is on a parity, with respect to the lien on and pledge of the Net Revenues of the Water and Wastewater System, with

the Subordinate Lien Bonds already issued by the City or to be issued in the future. No pledge of the City's ad valorem taxes is made. The City will own, operate and maintain the facilities after completion of the project. In addition, the City may request that some of the districts finance improvements to the City's water and/or wastewater treatment facilities.

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

The City previously consented to the creation of twelve MUDs inside the City's corporate limits, of which nine have been dissolved. Three of the twelve MUDs had their annexation status changed from full purpose to limited purpose in 1995 and were reannexed for full purpose in 1998. The creation of the inside City districts were approved by the TNRCC. They receive retail water and wastewater services as well as other services from the City and will issue bonds and levy an ad valorem tax to finance internal water, wastewater and drainage facilities. Under existing law, the City will not have to assume any of the debt issued for these City districts, so long as they are not dissolved.

Development in some area MUDs may have impacted an initiative petition which was submitted to the City Council by the Save Our Springs (SOS) Coalition on March 13, 1992. Certification of the petition caused an ordinance "to prevent pollution of Barton Springs, Barton Creek and the Barton Springs Aquifer" to be added to the City's August 8, 1992 election. At the election, the voters of the City approved the ordinance. Certain developers challenged the ordinance as an unconstitutional taking of property without just compensation. Ultimately, the Texas Supreme Court upheld the constitutionality of the ordinance. See "The City - Recent Annexation" herein.

Water and Wastewater Rates

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

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

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

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Water Service Rates Effective November 1, 2001 TABLE FOURTEEN

Monthly Customer Charges

<u>Customer Account Charge</u>	<u>Equivalent Meter Charge</u>			
	<u>Charge per Month</u>	<u>Meter Size</u>	<u>Retail Charge per Month</u>	<u>Wholesale Charge per Month</u>
Retail Customer Account Charge (\$/Month)	\$1.53	5/8	\$ 1.79	\$ 1.79
		3/4	2.32	2.32
Wholesale Customer Account Charge (\$/Month)	\$1.53	1	3.07	3.07
		1 ¼	4.14	4.14
		1 ½	5.20	5.20
		2	7.34	7.34
		3	16.72	16.72
		4	27.39	27.39
		6	54.06	54.06
		8	80.74	80.74
		10	107.41	107.41
	12	123.41	123.41	

Volume Unit Charge (1)

<u>Unit Cost per 1,000 Gallons</u>	<u>Inside City</u>	<u>Outside City</u>
<u>Single-Family Residential (2)</u>		
0 – 2,000 Gallons	\$0.70	\$0.70
2,001 – 9,000 Gallons	2.00	2.00
9,001 – 15,000 Gallons	3.50	3.50
15,001 – Over Gallons	6.12	6.02
<u>Multifamily (3)</u>		
Off Peak	\$2.27	\$2.13
Peak	2.47	2.34
<u>Commercial (3)</u>		
Off Peak	\$2.79	\$2.52
Peak	3.00	2.77
<u>Large Volume/Industrial (3)</u>		
Off Peak	\$2.44	
Peak	2.67	
<u>Golf Courses (3)</u>		
Off Peak	\$2.79	\$2.52
Peak	3.00	2.77

(1) Wholesale unit charges vary between \$1.42 and \$2.33 for each 1,000 gallons.

(2) The City of Austin has approved an inclining block rate structure to promote water conservation for the Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.

(3) Off Peak (November 1 – June 30 Bills). Peak (July 1 – October 31 Bills).

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Wastewater Service Rates Effective November 1, 2001 – TABLE FIFTEEN

Customer Account Charge

Customer Account Charge (\$/month)	<u>Inside City</u> \$2.60	<u>Outside City</u> \$2.60	<u>Wholesale Customers</u> \$2.60
------------------------------------	------------------------------	-------------------------------	--------------------------------------

Volumes Unit Charge

	<u>Unit Cost per 1,000 Gallons*</u>	
	<u>Inside City</u>	<u>Outside City</u>
Retail Inside City:		
Single-Family		
0 - 2,000 Gallons	\$2.10	\$3.00
2,001 - Over Gallons	4.76	5.40
Multifamily	3.73	3.73
Commercial	4.09	4.09
Large Volume/Industrial	3.59	
Golf Courses	4.09	4.09

Wholesale unit charges vary between \$2.57 and \$3.20 for each 1,000 gallons.

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

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance, under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 as shown below. There are a number of express exemptions from payment of these fees. The City's current policy is to restrict the use of Capital Recovery Fee receipts for the defeasance of water and wastewater revenue bond debt.

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

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Analysis of Water Bills - TABLE NINE A

<u>Average Monthly Bill Per Customer - Water</u>	Fiscal Year Ended September 30				
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Inside City (Urban)					
Residential	\$ 24.64	\$ 30.13	\$ 23.50	\$ 24.38	\$ 19.84
Multi-Family	306.69	338.37	306.97	287.39	268.40
Commercial	186.12	199.83	166.96	167.04	141.46
Industrial	86,254.81	95,352.85	90,525.34	90,635.15	90,714.07
City Departments	342.98	321.34	315.39	273.08	309.89
Outside City (Rural)					
Residential	33.47	42.02	33.95	37.50	28.83
Multi-Family	194.34	193.96	168.54	181.26	205.62
Commercial	187.77	178.16	127.26	136.67	112.24
Average Monthly Bill					
Above Customers	50.53	57.71	48.23	49.24	43.02
Sales to Other Water Utilities*	29,057.09	38,611.80	31,045.89	30,633.76	22,886.99
Average Monthly Bill					
All Customers	\$ 53.80	\$ 61.50	\$ 51.32	\$ 52.99	\$ 46.86
<u>Average Monthly Use in 1000 Gallons - Water</u>					
Inside City (Urban)					
Residential	8.73	10.13	8.25	8.84	7.41
Multi-Family	132.98	138.10	125.51	123.52	115.50
Commercial	67.99	81.34	67.58	71.32	60.41
Industrial	36,881.81	43,836.58	41,787.88	43,884.04	43,817.22
City Departments	137.21	154.26	147.32	130.30	139.17
Outside City (Rural)					
Residential	9.96	11.98	9.87	11.11	8.74
Multi-Family	85.62	82.78	71.81	77.44	88.03
Commercial	71.80	76.62	54.05	58.24	47.36
Average Monthly Use					
Above Customers	19.01	21.76	18.62	19.79	17.57
Sales to Other Water Utilities*	15,164.45	18,938.56	15,422.55	15,821.91	11,737.39
Average Monthly Use					
All Customers	20.71	23.62	20.15	21.73	19.54
<u>Average Revenue Per 1000 Gallons - Water</u>					
Inside City (Urban)					
Residential	\$2.82	\$2.97	\$2.85	\$2.76	\$2.68
Multi-Family	2.31	2.45	2.45	2.33	2.32
Commercial	2.74	2.46	2.47	2.34	2.34
Industrial	2.34	2.18	2.17	2.07	2.07
City Departments	2.50	2.08	2.14	2.10	2.23
Outside City (Rural)					
Residential	3.36	3.51	3.44	3.37	3.30
Multi-Family	2.27	2.34	2.35	2.34	2.34
Commercial	2.62	2.33	2.35	2.35	2.37
Average Revenue					
Above Customers	2.66	2.65	2.59	2.49	2.45
Sales to Other Water Utilities*	1.92	2.04	2.01	1.94	1.95
Average Revenue					
All Customers	2.60	2.60	2.55	2.44	2.40

* Includes all Wholesale Customers.

Analysis of Wastewater Bills - TABLE NINE B

<u>Average Monthly Bill Per Customer - Wastewater</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Inside City (Urban)					
Residential	\$ 19.87	\$ 23.13	\$ 19.82	\$ 18.21	\$ 18.27
Multi-Family	385.39	477.69	413.23	379.55	370.09
Commercial	197.98	253.56	191.99	176.54	167.14
Industrial	110,619.51	127,044.30	118,340.25	119,765.31	114,209.91
City Departments	**	***	169.76	217.44	236.69
Outside City (Rural)					
Residential	23.51	28.91	23.50	21.62	21.48
Multi-Family	322.64	373.97	295.60	305.84	381.17
Commercial	561.31	668.53	634.63	490.90	436.06
Average Monthly Bill					
Above Customers	48.98	58.34	50.14	47.80	47.41
Sales to Other Utilities*	29,393.59	28,359.53	23,816.54	21,793.24	22,026.20
Average Monthly Bill					
All Customers	\$ 50.42	\$ 60.15	\$ 51.66	\$ 49.43	\$ 49.73
<u>Average Monthly Use in 1000 Gallons – Wastewater</u>					
Inside City (Urban)					
Residential	4.89	6.08	5.24	5.10	5.11
Multi-Family	105.94	122.67	106.47	102.36	99.78
Commercial	50.00	51.72	47.68	45.90	43.24
Industrial	32,622.39	38,611.97	36,108.57	38,260.31	36,485.28
City Departments	**	***	50.10	65.96	78.37
Outside City (Rural)					
Residential	5.04	6.46	5.26	5.18	5.16
Multi-Family	88.53	95.76	75.88	82.27	102.80
Commercial	142.72	168.11	160.33	129.87	115.24
Average Monthly Use					
Above Customers	12.76	14.66	13.25	13.31	13.18
Sales to Other Wastewater Utilities*	11,207.18	10,550.50	8,919.36	8,780.43	8,064.18
Average Monthly Use					
All Customers	13.32	15.33	13.81	13.97	14.03
<u>Average Revenue Per 1000 Gallons - Wastewater</u>					
Inside City (Urban)					
Residential	\$4.06	\$3.80	\$3.79	\$3.57	\$3.57
Multi-Family	3.64	3.89	3.88	3.71	3.71
Commercial	3.96	4.90	4.03	3.85	3.87
Industrial	3.39	3.29	3.28	3.13	3.13
City Departments	**	***	3.39	3.30	3.02
Outside City (Rural)					
Residential	4.66	4.48	4.47	4.17	4.16
Multi-Family	3.64	3.91	3.90	3.72	3.71
Commercial	3.93	3.98	3.96	3.78	3.78
Average Revenue					
Above Customers	3.84	3.98	3.79	3.59	3.60
Sales to Other Utilities*	2.62	2.69	2.67	2.48	2.73
Average Revenue					
All Customers	3.79	3.92	3.74	3.54	3.54

* Includes all wholesale customers.

** 2000 Included in Inside City Commercial.

**COMPARATIVE ANALYSIS OF ELECTRIC LIGHT AND POWER SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 1998 TO MARCH 31, 2002**
(Thousands Rounded)

INCOME	12 Months	Fiscal Year Ended September 30			
	Ended 3-31-02 (Unaudited)	2001	2000	1999	1998
Revenue	\$1,054,288	\$1,087,541	\$1,070,558	\$926,692	\$918,508
Operating Expense	<u>532,347</u>	<u>561,097</u>	<u>516,441</u>	<u>429,926</u>	<u>413,939</u>
Balance Available for Debt Service	\$ 521,941	526,444	554,117	496,766	504,569
Depreciation and Amortization Expense	<u>140,714</u>	<u>138,068</u>	<u>133,393</u>	<u>125,279</u>	<u>122,008</u>
Earnings Before Interest Expense	381,227	388,376	420,724	371,487	382,561
Interest Incurred on Debt	(178,131)	(187,296)	(183,653)	(177,327)	(193,081)
Other	<u>(2,325)</u>	<u>(1,059)</u>	<u>(2,174)</u>	<u>(9,661)</u>	<u>(6,570)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	<u>\$ 200,771</u>	<u>\$ 200,021</u>	<u>\$ 234,897</u>	<u>\$184,499</u>	<u>\$182,910</u>
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>50.49%</u>	<u>51.59%</u>	<u>48.24%</u>	<u>46.39%</u>	<u>45.07%</u>
Balance Available for Debt Service	49.51%	48.41%	51.76%	53.61%	54.93%
Depreciation and Amortization Expense	<u>13.35%</u>	<u>12.70%</u>	<u>12.46%</u>	<u>13.52%</u>	<u>13.28%</u>
Earnings Before Interest Expense	36.16%	35.71%	39.30%	40.09%	41.65%
Interest Incurred on Debt	-16.90%	-17.22%	-17.15%	-19.14%	-21.02%
Other	<u>-0.22%</u>	<u>0.10%</u>	<u>-0.20%</u>	<u>-1.04%</u>	<u>-0.72%</u>
INCOME BEFORE EXTRAORDINARY GAIN (LOSS) (a) (c) (d)	<u>19.04%</u>	<u>18.39%</u>	<u>21.95%</u>	<u>19.91%</u>	<u>19.91%</u>

(a) Income before transfers to the General Fund and Other Funds, for 12 months ended March 31, 2002, which are as follows:

Transfer to General Fund \$83,919,546
Transfers to Other Funds \$ 3,046,420

(b) Excludes Combined Utility Funds' recovered costs of (\$61,762,683) for twelve months ended March 31, 2002.

(c) There was no extraordinary gain or loss during this twelve-month period.

(d) Excludes capital contributions of \$35,146,258 for twelve months ended March 31, 2002.

OPERATING STATEMENT
ELECTRIC LIGHT AND POWER SYSTEM AND WATER AND WASTEWATER SYSTEM

	12 Months	Fiscal Year Ended September 30			
	Ended 3-31-02 (unaudited)	2001	2000	1999	1998
REVENUE					
ELECTRIC UTILITY					
Service Area Sales	\$712,538,227	\$756,246,287	\$723,260,135	\$622,488,907	\$603,337,666
Sales to Other Utilities (Including Capacity Contract)	36,136,797	33,134,735	50,780,027	51,565,929	56,566,516
Rent from Electric Property	1,848,203	995,375	851,352	878,071	870,118
Customers' Forfeited Discounts and Penalties	2,530,050	(36,129)	1,557,559	3,964,346	3,982,395
Miscellaneous	<u>14,120,776</u>	<u>15,970,414</u>	<u>6,280,055</u>	<u>3,190,335</u>	<u>3,614,356</u>
Total Electric Utility	<u>\$767,174,053</u>	<u>\$806,310,682</u>	<u>\$782,729,128</u>	<u>\$682,087,588</u>	<u>\$668,371,051</u>
WATER UTILITY					
Urban	\$ 102,628,914	\$ 98,746,345	\$ 109,962,989	\$ 91,861,270	\$ 88,970,989
Rural	6,516,642	6,438,710	7,413,123	5,581,758	5,860,807
City Utility Departments	0	0	0	309,925	369,646
City General Government Departments	0	0	(42,206)	1,086,946	1,206,260
Sales to Other Water Utilities	7,280,615	7,238,838	7,940,351	6,386,790	7,452,052
Water Connections	164,395	237,280	207,742	232,980	249,250
Customers' Forfeited Discounts and Penalties	414,002	(5,253)	263,506	605,178	630,236
Miscellaneous	<u>3,971,321</u>	<u>2,016,478</u>	<u>4,443,174</u>	<u>3,556,202</u>	<u>1,157,918</u>
Total Water Utility	<u>\$ 120,975,889</u>	<u>\$ 114,672,398</u>	<u>\$ 130,188,679</u>	<u>\$109,621,049</u>	<u>\$105,897,158</u>
WASTEWATER UTILITY					
Urban	\$ 91,643,547	\$ 92,293,455	\$ 97,895,552	\$ 91,671,869	\$ 83,179,862
Rural	2,886,000	2,810,219	2,630,647	2,228,573	1,862,117
City Utility Departments	0	1,166	6,670	546,246	501,761
City General Government Departments	0	0	0	41,788	258,645
Service to Other Utilities	3,116,357	3,337,932	3,252,372	3,030,741	3,102,116
Wastewater Connections	150,696	217,507	190,430	216,338	231,447
Customers' Forfeited Discounts and Penalties	393,098	(3,312)	260,173	573,446	539,652
Miscellaneous	<u>7,230,826</u>	<u>6,585,139</u>	<u>6,054,111</u>	<u>6,112,737</u>	<u>6,219,036</u>
Total Wastewater Utility	<u>\$ 105,420,524</u>	<u>\$ 105,242,106</u>	<u>\$ 110,289,955</u>	<u>\$104,421,738</u>	<u>\$ 95,894,636</u>
Interest	<u>\$ 60,717,935</u>	<u>\$ 61,315,883</u>	<u>\$ 47,350,612</u>	<u>\$ 30,561,222</u>	<u>\$ 48,345,300</u>
TOTAL REVENUE	<u>\$1,054,288,401</u>	<u>\$1,087,541,069</u>	<u>\$1,070,558,374</u>	<u>\$926,691,597</u>	<u>\$918,508,100</u>

OPERATING STATEMENT
ELECTRIC LIGHT AND POWER SYSTEM AND WATER AND WASTEWATER SYSTEM – (Continued)

<u>EXPENSE</u>	(Unaudited)	Fiscal Year Ended September 30			
	12 Months Ended 3-31-02	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
ELECTRIC					
Total Electric Utility	<u>\$427,107,482</u>	<u>\$458,685,525</u>	<u>\$420,074,862</u>	<u>\$342,914,020</u>	<u>\$332,985,598</u>
WATER					
Purification	\$ 15,984,716	\$ 15,302,623	\$ 14,225,476	\$ 12,649,706	\$ 14,457,475
Distribution	20,081,186	20,196,995	18,246,648	15,575,024	13,601,407
Customers' Accounting and Collection	6,089,973	5,202,484	5,456,698	3,908,047	3,194,097
Jobbing and Contract Work	(29,795)	51,692	14,214	(27,468)	16,855
Design Engineering	443,496	425,250	1,921,976	1,251,519	1,203,702
Administrative and General	<u>12,906,808</u>	<u>12,405,831</u>	<u>12,938,784</u>	<u>10,764,449</u>	<u>10,866,801</u>
Total Water Utility	<u>\$ 55,476,384</u>	<u>\$ 53,584,875</u>	<u>\$ 52,803,796</u>	<u>\$ 44,121,277</u>	<u>\$ 43,340,337</u>
WASTEWATER					
Wastewater Lines	\$ 5,601,315	\$ 6,175,380	\$ 7,591,689	\$ 8,562,780	\$ 8,588,828
Sewage Treatment Plant	19,627,566	19,171,921	17,115,187	17,633,822	16,041,275
Customers' Accounting and Collection	4,142,311	4,374,495	4,406,215	2,482,971	2,235,435
Jobbing and Contract Work	22,583	86,683	68,505	55,906	43,233
Design Engineering	7,358,682	6,846,189	1,998,054	2,312,461	1,991,976
Administrative and General	<u>13,011,338</u>	<u>12,172,179</u>	<u>12,382,295</u>	<u>11,842,412</u>	<u>8,711,831</u>
Total Wastewater Utility	<u>\$ 49,763,795</u>	<u>\$ 48,826,847</u>	<u>\$ 43,561,945</u>	<u>\$ 42,890,352</u>	<u>\$ 37,612,578</u>
TOTAL EXPENSE (1)	<u>\$532,347,661</u>	<u>\$561,097,247</u>	<u>\$516,440,603</u>	<u>\$429,925,649</u>	<u>\$413,938,513</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE	<u>\$521,940,740</u>	<u>\$526,443,822</u>	<u>\$554,117,771</u>	<u>\$496,765,948</u>	<u>\$504,569,632</u>
Electric Customers	356,780	354,302	350,382	363,178	356,282
Water Customers	181,444	178,608	176,096	173,038	163,263
Wastewater Customers	166,590	163,610	151,744	159,157	149,663

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

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the period beginning with the fiscal year (“FY”) FY96 through FY01 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY96 through FY01, were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY96 through FY01 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY96 through FY01 were primarily attributable to inflationary increases in the cost of power, and chemicals, along with system growth. Increased costs of compliance with the Safe Drinking Water Act and line maintenance are reflected in FY97.

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The Electric Light and Power System and Water and Wastewater System – TABLE SEVENTEEN

	(Unaudited) 12 Months, Ended 3-31-02	As of September 30			
		2001	2000	1999	1998
Plant Cost					
Utility Systems					
Electric	\$3,147,252,377	\$3,067,649,886	\$2,842,927,082	\$2,693,237,524	\$2,625,217,308
Water	1,194,658,507	1,169,574,534	1,090,911,586	1,003,650,278	893,668,714
Wastewater	<u>1,103,336,955</u>	<u>1,080,758,935</u>	<u>1,032,885,331</u>	<u>976,681,032</u>	<u>921,580,649</u>
Total Cost	<u>\$5,445,247,839</u>	<u>\$5,317,983,355</u>	<u>\$4,966,723,999</u>	<u>4,673,568,834</u>	<u>4,440,466,671</u>
Allowance for Depreciation:					
Electric	\$1,174,415,435	\$1,131,860,735	\$1,048,947,313	972,367,880	895,154,272
Water	273,832,185	264,352,217	242,395,336	220,477,506	202,674,479
Wastewater	<u>341,026,482</u>	<u>328,639,983</u>	<u>304,151,983</u>	<u>280,008,297</u>	<u>256,629,792</u>
Total Depreciation	<u>1,789,274,102</u>	<u>1,724,852,935</u>	<u>1,595,494,632</u>	<u>1,472,853,683</u>	<u>1,354,458,543</u>
Cost after Depreciation	<u>\$3,655,973,737</u>	<u>\$3,593,130,420</u>	<u>\$3,371,229,367</u>	<u>\$3,200,715,151</u>	<u>\$3,086,008,128</u>
City's Equity in the Systems					
Utility Systems	\$5,445,247,839	\$5,317,983,355	\$4,966,723,999	\$4,673,568,834	\$4,440,466,671
Plus: Inventories, Materials and Supplies (1)	33,659,406	34,688,816	32,904,657	32,227,327	31,950,001
Net Construction Assets and Unamortized Bond Issue Cost(2)	<u>149,323,160</u>	<u>154,575,909</u>	<u>126,423,265</u>	<u>145,027,887</u>	<u>129,476,175</u>
	<u>5,628,230,405</u>	<u>5,507,248,080</u>	<u>5,126,051,921</u>	<u>4,850,824,048</u>	<u>4,601,892,847</u>
Less:					
Allowance for Depreciation	1,789,274,102	1,724,852,935	1,595,494,632	1,472,853,683	1,354,458,543
Construction Contract Payable	<u>0</u>	<u>279,041</u>	<u>1,149,032</u>	<u>2,127,799</u>	<u>2,222,064</u>
Total	<u>1,789,274,102</u>	<u>1,725,131,976</u>	<u>1,596,643,664</u>	<u>1,474,981,482</u>	<u>1,356,680,607</u>
Utility Systems, Net	3,838,956,303	3,782,116,104	3,529,408,257	3,375,842,566	3,245,212,240
Revenue Bonds and Other Debt Service (3)	2,977,169,416	2,988,903,922	2,932,066,283	2,865,320,460	2,818,680,622
Less: Bond Retirement and Reserve Funds	<u>170,683,816</u>	<u>170,699,819</u>	<u>161,597,147</u>	<u>160,866,775</u>	<u>169,005,087</u>
Net Debt	<u>2,806,485,600</u>	<u>2,818,204,103</u>	<u>2,770,469,136</u>	<u>2,704,453,685</u>	<u>2,649,675,535</u>
Equity in Utility's Systems	<u>\$ 1,032,470,703</u>	<u>\$ 963,912,001</u>	<u>\$ 758,939,121</u>	<u>\$ 671,388,881</u>	<u>\$ 595,536,705</u>
Percentage of City's Equity in Utility Systems	26.89%	25.49%	21.50%	19.89%	18.35%

(1) Does not include fuel oil or coal inventories of approximately \$17,586,248 at March 31, 2002. Consists primarily of spare parts inventory.

(2) Includes investment in municipal utility districts of \$1,388,838.

(3) Includes Revenue Bonds and Tax and Revenue Bonds of \$2,621,844,557 (net of discounts and inclusive of premiums); Contract Revenue Bonds of \$22,755,000 (net of discounts); Capital Lease Obligation Bonds of \$18,062,461, Water District Bonds of \$225,000; Commercial Paper of \$289,829,810 (net of discounts); General Obligation Bonds of \$15,780,343 (net of discounts and inclusive of premiums); and Contractual Obligations of \$8,672,245.

LITIGATION

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

Electric Light and Power System Litigation

On October 15, 1990, the four STP owners: City of Austin, City of San Antonio, Reliant, and CPL jointly filed a lawsuit against Westinghouse Electric Corporation and two of its employees in the District Court of Matagorda County, Texas, 130th Judicial District, Cause of Action No. 90-5-0684A-C. This litigation alleged that Westinghouse knowingly sold the STP owners a nuclear steam supply system containing a steam generator tubing that is susceptible to stress corrosion cracking, that Westinghouse had failed to meet its warranty obligations and that Westinghouse violated the Texas Deceptive Trade Practices Act. A jury trial began in Bay City, Texas in July 1995 and continued until the parties reached a negotiated settlement on December 7, 1995. This settlement, which has been sealed pursuant to an order of the trial court, is viewed by STP owners as providing significant assurances that STP can continue operating economically for many years to come.

On February 22, 1994, the City of Austin filed a lawsuit in State District Court in Harris County, 162nd Judicial District, Cause of Acting No. 94-007946, against HLP (Reliant's predecessor). This lawsuit alleged that Reliant breached its contractual duties to operate, maintain and manage STP and was negligent in operating the plant. The City contended that these operational and management failures resulted in an extended shut down of both STP units beginning in early February 1993 and lasting well into 1994. Trial began on March 6, 1996, and the case went to jury on April 22, 1996. With the jury apparently deadlocked, Austin and Reliant reached a settlement on April 30, 1996. This settlement required Reliant to pay Austin \$20,000,000 plus court costs and replace Reliant as STP Project Manager by a new non-profit operating company.

Austin Energy and Enron Corporation have entered into a joint operation agreement (the Sandhill Power Project). Although Enron Sandhill is not in bankruptcy, its guarantor, Enron North America Corporation is currently under Chapter 11 protection. Prior to the bankruptcy filing, Austin Energy issued a notice of default to Enron Sandhill and Enron North America stating that Enron and the partnership were in anticipatory breach of their obligations under the joint operation agreement because of past due invoices. The letter also stated that Austin Energy would decline any requests to schedule delivery of energy from Sandhill Energy Center until payment of delinquent invoices have been received and authorized written assurances are given that future invoices will be paid in a timely manner. Austin Energy suspended all bilateral transactions with Enron in early November 2001 and no additional energy transactions are contemplated with Enron. Austin Energy does not anticipate that the Enron bankruptcy proceedings, in which Austin Energy is listed as an unsecured creditor, will have a material adverse affect on the operation of the Sandhill Energy Center.

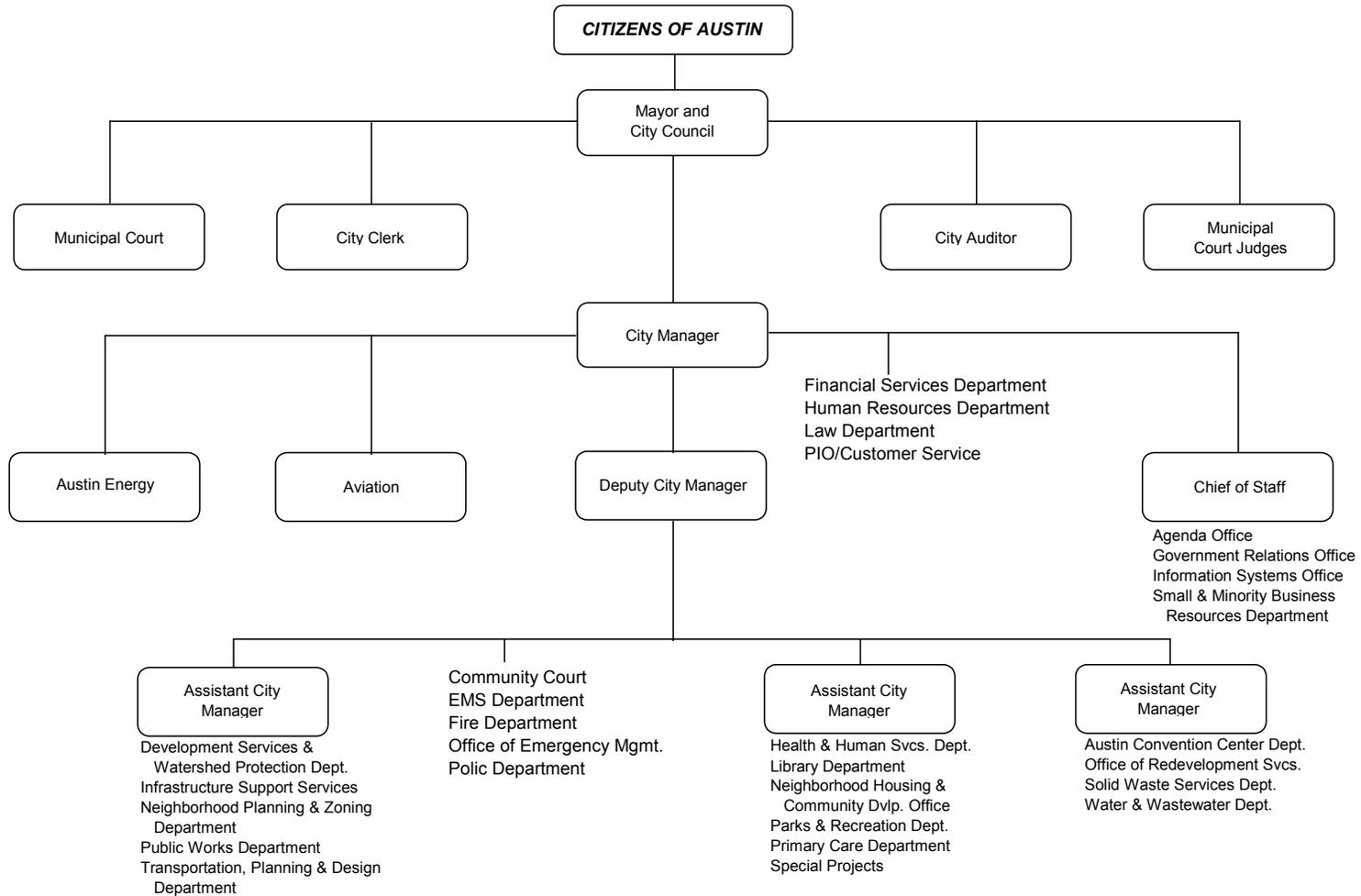
A discussion of the litigation regarding the challenge of Reliant Energy Inc and City Public Services Board of San Antonio to the PUCT rules relating to the wholesale transmission service is contained in the rate regulation section.

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that the settlement of these claims and pending litigation will not have a material adverse effect on the City's financial condition. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2000.

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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.

Acting Director of Financial Services – Vickie Schubert, CPA

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

Services Provided by the City

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

Employees

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

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

Annexation Program

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.

It is expected that some of the areas to be annexed will include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes (see Combined Water and Wastewater System Information “Services Financed by Utility Districts”). Existing utility districts, as well as those that may be created from time to time, may issue bonds for their own improvements.

Such bonds are generally payable from the receipts of ad valorem taxes imposed by the district and, in some cases, are further payable from the net revenues, if any, derived from the operation of its water and sanitary sewer systems. Texas law generally requires that districts be annexed in their entirety. Upon dissolution, the City assumes the district’s outstanding bonds and other obligations and levies and collects on taxable property within the corporate limits of the City ad valorem taxes sufficient to pay principal of and interest on such assumed bonds.

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

The City Charter and the State’s annexation laws provide 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. As noted below, the City annexed over 20,000 acres of territory for limited purposes in 1984 and has developed annual Strategic Annexation Programs since 1987. These programs prioritized areas to be considered for annexation at the end of the calendar year, thereby minimizing the fiscal impact to the City due to annexation.

The following table sets forth (in acres) the annual results of the City of Austin annexations since 1991. Negative numbers reflect disannexations in excess of acreage annexed. The data presented in the table for limited purpose acres has been adjusted. Previously, total limited purpose acres annexed annually were reduced by the number of acres converted from limited to full purpose status. This decrease in the total annual limited purpose acres annexed has been eliminated, along with the net annexation column.

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

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

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

Recent Annexation

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 Wildhorse Ranch area near Decker Lake was annexed for limited purposes in February, 2002.

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

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

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

Future Annexation

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

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

Pension Plans

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

The Police Officers contribute 9.0% and the City contributes 18% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 13.7% 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 and Firefighter's Fund over 8.5 years and 10.6 years, respectively. The Municipal Employees Fund is fully funded.

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

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

The City recognizes the cost of providing these benefits to employees and retirees by expensing the City contributions to the Health Benefits Fund in the year in which the contributions are made. Total contributions were \$27,394,366 in 1999 and \$24,600,422 in 1998. The cost for providing those benefits for 1,930 retirees and 9,020 active employees in 1999 and 1,769 retirees and 8,699 active employees in 1998 is not separable.

Insurance

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$12.7 million for claims and damages at the end of fiscal year 2001. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Health Benefits Fund.

INVESTMENTS

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

Legal Investments

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

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

State law also treats as an eligible investment a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas and electric energy to protect a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public against loss due to price fluctuations. As used in the Public Funds Investment Act, “hedging” means the buying and selling of fuel oil, natural gas, and electric energy futures or options or similar contracts on those commodity futures as a protection against loss due to price fluctuations.

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

Investment Policies

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity and the quality and capability of investment management; and that 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 and Administrative Services.

Additional Provisions

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

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Current Investments

As of June 1, 2002, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U.S. Treasuries	14.7%
U.S. Agencies	49.80%
Commercial Paper	0.0%
Repurchase Agreements	0.0%
Money Market Funds	11.7%
TexasTERM	2.4%
Local Government Investment Pools	21.4%

The dollar weighted average maturity for the combined City investment portfolios is 1.63 years. The City prices the portfolios daily utilizing a market pricing service.

TAX EXEMPTION

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

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

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

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

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

Tax Accounting Treatment of Discount and Premium Bonds

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

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Systems of the general type included in the main text of the Official Statement within the numbered tables only and in APPENDIX B. The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year end. The City will provide the updated information to each nationally recognized

municipal securities information repository (“NRMSIR”) and to any state information depository (“SID”) that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the “SEC”).

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (“the Rule”). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City’s current fiscal year is October 1 to September 30. Accordingly, it must provide updated information by March 31, 2003 and in each succeeding year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

Material Event Notices

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

Availability of Information from NRMSIRs and SID

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

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received unenhanced ratings of “A3” by Moody’s Investors Service, Inc. (“Moody’s”), “A-” by Standard & Poor’s Rating Group (“S&P”) and “A” by Fitch Ratings, Inc. (“Fitch”). The Bonds will be rated “Aaa” by Moody’s, “AAA” by S&P and “AAA” by Fitch as a result of the policy issued by the Insurer (see “Bond Insurance”). An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the City nor the Financial Advisor will undertake any responsibility to notify bondholders of any such revisions or withdrawals of rating.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

Legal Opinions

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, “Security for the Bonds,” “Description of the Bonds,” “Tax Exemption,” “Continuing Disclosure of Information,” “APPENDIX C” and “APPENDIX D” to verify that the information relating to the Bonds and the Ordinance contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the Closing occurring. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriters by Locke Liddell & Sapp LLP, counsel to the Underwriters.

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

Financial Advisor

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

Underwriting

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at an underwriting discount of \$810,405. 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.

Verification of Mathematical Calculations

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

The report of The Arbitrage Group, LLC 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 Arbitrage Group, LLC will be relied upon by Bond Counsel in rendering their opinion with respect to the exclusion of interest on the Bonds for federal income tax purposes and with respect to the defeasance of the Refunded Bonds.

Forward Looking Statements

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

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

Miscellaneous Information

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

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

Mayor
City of Austin, Texas

ATTEST:

City Clerk
City of Austin, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

Life in Austin

Austin is now the 16th largest city in the country and since 1990, has ranked number one in growth among the 30 largest cities. Texas' Capital City, Austin is unique and known for its beauty, its dynamic style, and its diverse community. Located in the heart of the Texas Hill Country, the Austin area is blessed with panoramic views, an abundance of rivers and lakes, and a climate that is conducive to outdoor activity.

Austin is a great place to enjoy the outdoors. With Austin's winter temperatures rarely dipping below freezing and often reaching into the 70's and 80's and with long summers, the city, county, and state parks and recreation facilities are busy year-round.

<u>Austin Weather</u>	
Mean temperature	69
Mean low temperature	58
Mean high temperature	78
Clear days	116
Average rainfall	32"
Average days of sunshine	300

Austin is also very fortunate to have a first-rate Parks and Recreation Department (PARC). In fact, the department is recognized as one of the finest in the country. For the third consecutive year PARC was nominated for the national Gold Medal Award given by the National Recreation and Park Association. PARC administers a number of public outdoor recreational facilities, including numerous neighborhood parks, greenbelts, athletic fields, golf courses, tennis courts, a velodrome for bicyclists and in-line skaters, miles of hike and bike trails and striped bike lanes, a youth entertainment complex, and swimming pools, including renowned Barton Springs, where as many as 300,000 people a year enjoy its constant 68 degree spring-fed water.

Austin is home to a number of outdoor events and festivals, including various art, music, and food and wine festivals; races and bicycle rides; and nightly flights of the world's largest urban bat colony. A favorite holiday event is the Trail of Lights, a festive, mile-long display of lighted scenes of the holiday season, with over 200,000 visitors over a two-week period.

In addition to outdoors recreational opportunities, Austinites can choose from a wide variety of indoors recreational activities. Long recognized as the "live music capital of the world", Austin boasts more than 100 live music venues, and is home to the annual South by Southwest (SXSW) music and film festivals. Austin also has a number of museums, art galleries, an opera facility and a wide variety of restaurants and clubs, especially in the popular Sixth Street and Warehouse District areas.

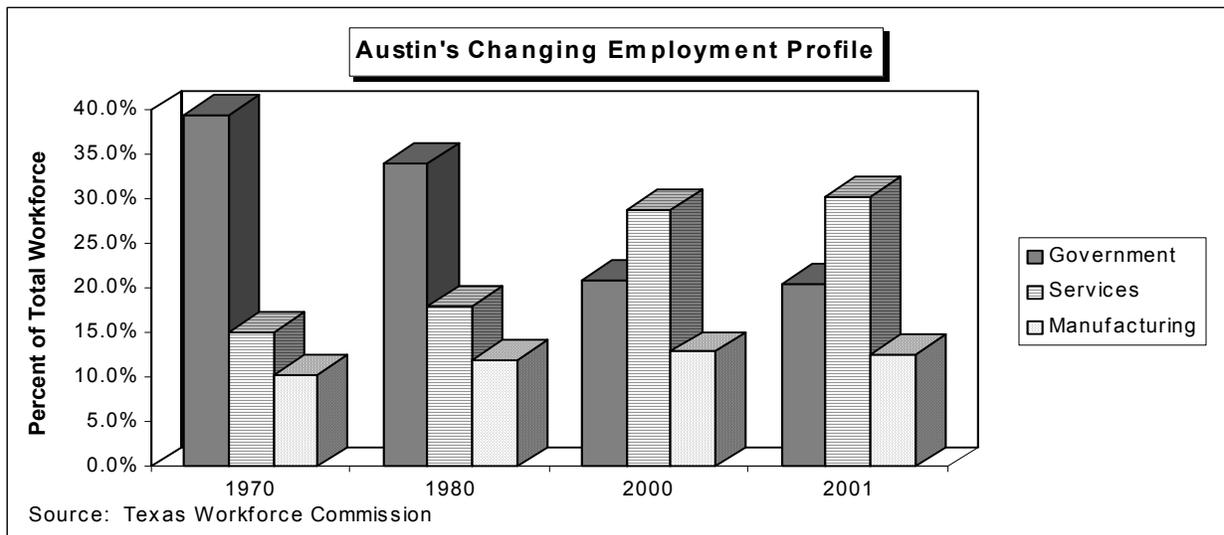
With its seven institutions of higher learning and more than 90,000 students, education is a significant aspect of life in the Austin area. Access to these institutions, especially the University of Texas at Austin (UT), has attracted many of the high-technology industries that have contributed to most of the growth in the city's economy. The largest public university in the nation, UT is known as a world-class center of education and research.

Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with 30% of its adults having a college degree and over 88% of the workforce having some college education.

Industry and Business

In 2001, the Austin metropolitan area continued to receive national recognition for its dynamic economy and its quality of life. In a summer survey of Fortune 1000 executives conducted by AT Kearney, a global management consulting firm, Austin was named the most likely place to locate a technology-related business or business unit. In addition to receiving the top ranking for location, Austin received top honors as the most appealing in the local government involvement category – a category that recognizes local government programs that foster economic growth, develop the local workforce and address quality of life and economic issues. Austin was also recognized by *Employment Review Magazine* as the best place to live and work in America. The nationwide review looked at more than 300 metropolitan areas, comparing unemployment rates, projected job growth, cost of living and other data. In its assessment of Austin, the writer states, “the capital city of Texas deserves a capital “p” for perfection...Austin has created the perfect blend of work, lifestyle and leisure, making it a true treasure of a city...”

Additionally, *FORBES* magazine named Austin the second best place to do business and advance one’s career. As the capital of Texas and the home of the University of Texas, Austin has long been considered a government and university town. However, Austin is also one of the premier high-tech communities in the country. Approximately 2,500 technology related companies employ people in the Austin area. These companies and various other professional service firms make up an important segment of Austin’s employment base. The high-tech companies have borne the brunt of the downturn in the economy, with more than 13,000 layoffs during 2001. While government employment is still a stabilizing force in the Austin economy, it now accounts for a much lower percentage of the make-up of Austin’s total employment. As the following comparison shows, since 1970, government employment has decreased substantially relative to the other large employment sectors in the Austin area.



Although Austin’s semi-conductor industry has been hit with layoffs and cutbacks, industry analysts indicate the industry can provide jobs in the future. In preparation for the future, local semi-conductor firms contributed funding for scholarships and a facility for training industry workers. The area’s large university student population, primarily at the University of Texas, help keep the city intellectually active and provide a valuable resource to companies locating to the area.

With all the features Austin has to offer, the City typically enjoys a strong tourism industry, which has a significant impact on the Austin economy. The City’s convention and meeting facilities include the Austin Convention Center, which is expanding to meet increased demand, a soon-to-be open Palmer Events Center, and the Long Performing Arts Center, soon to be under construction, to be built by Arts Center Stage. The number of hotels in the Austin area increased by 23 between 1999 and 2001 to keep up with demand. However, with the September 11 disaster, like many other cities across the country, Austin has experienced a decrease in both tourism and travel, with a 10% drop in hotel occupancy in November and a 20% drop in airport passenger traffic in December, compared to the same periods in 2000. Fortunately, Austin may be less vulnerable to the effects of reductions in air travel because more than half of the City’s visitors come from other Texas cities.

Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

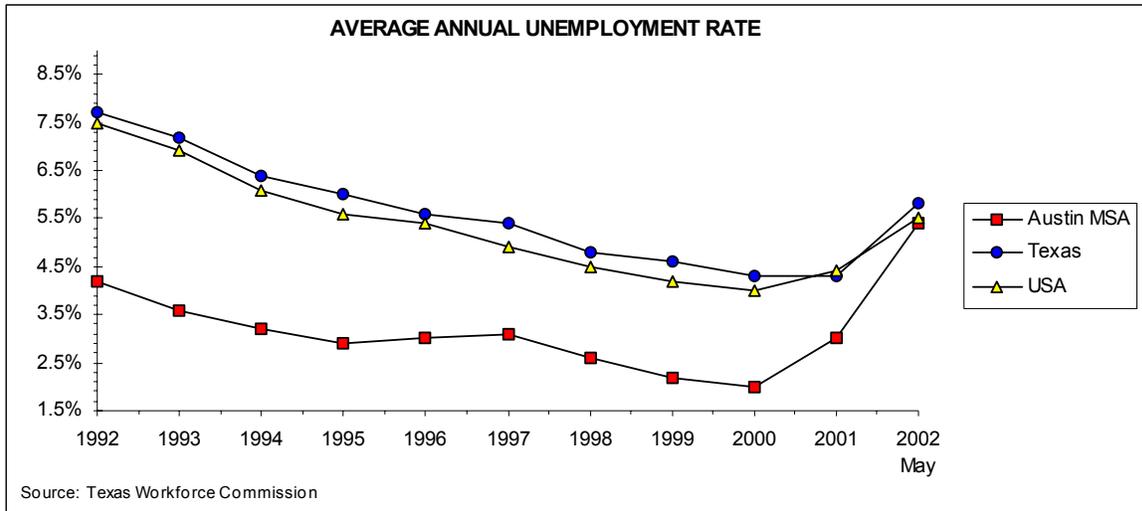
<u>Industrial Classification</u>	<u>1980</u>		<u>1990</u>		<u>2000</u>		<u>2001</u>		<u>May 31, 2002</u>	
		<u>% of Total</u>		<u>% of Total</u>						
Manufacturing	30,550	12.9%	49,300	12.6%	84,662	12.9%	86,500	12.6%	70,700	10.5%
Government	80,950	34.3%	110,400	28.8%	137,171	20.9%	140,700	20.5%	147,700	22.0%
Trade	48,400	20.5%	78,400	20.4%	150,231	22.9%	154,600	22.5%	153,400	22.8%
Services and Miscellaneous	40,950	17.3%	97,200	25.3%	190,048	28.9%	207,900	30.3%	203,500	30.3%
Finance, Insurance and Real Estate	13,700	5.8%	23,400	6.1%	32,031	4.9%	33,000	4.8%	34,300	5.1%
Contract Construction	13,300	5.6%	12,000	3.1%	39,134	6.0%	39,700	5.8%	39,700	5.9%
Transportation, Communications & Utilities	7,200	3.1%	12,100	3.2%	21,540	3.3%	22,400	3.3%	20,700	3.1%
Mining	<u>1,100</u>	<u>0.5%</u>	<u>700</u>	<u>0.2%</u>	<u>1,353</u>	<u>0.2%</u>	<u>1,600</u>	<u>0.2%</u>	<u>1,700</u>	<u>0.3%</u>
Total	<u>236,150</u>	<u>100.0%</u>	<u>383,500</u>	<u>100.0%</u>	<u>656,170</u>	<u>100.0%</u>	<u>686,400</u>	<u>100.0%</u>	<u>671,700</u>	<u>100.0%</u>

(a) Austin MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is the latest provided. Numbers for 2002 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of May 31, 2002.

Source: 2001 Comprehensive Annual Financial Report, Texas Workforce Commission.

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Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
1992	4.2%	7.7%	7.5%
1993	3.6%	7.2%	6.9%
1994	3.2%	6.4%	6.1%
1995	2.9%	6.0%	5.6%
1996	3.0%	5.6%	5.4%
1997	3.1%	5.4%	4.9%
1998	2.6%	4.8%	4.5%
1999	2.2%	4.6%	4.2%
2000	2.0%	4.3%	4.0%
2001	3.0%	4.3%	4.4%
2002 May	5.4%	5.8%	5.5%

Note: Information is updated periodically, data contained herein is latest provided.
 Source: 2001 Comprehensive Annual Financial Report, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

<u>Period</u>	<u>Amount</u>								
1-1-98	\$ 6.399	1-1-99	\$ 7.335	1-1-00	\$ 8.790	1-1-01	\$ 8.964	1-1-02	\$ 8.389
2-1-98	10.708	2-1-99	12.155	2-1-00	12.316	2-1-01	13.362	2-1-02	13.049
3-1-98	6.641	3-1-99	7.318	3-1-00	8.799	3-1-01	8.791	3-1-02	8.003
4-1-98	6.780	4-1-99	7.252	4-1-00	8.119	4-1-01	8.887	4-1-02	7.989
5-1-98	9.155	5-1-99	10.027	5-1-00	11.234	5-1-01	11.754	5-1-02	10.431
6-1-98	7.367	6-1-99	7.900	6-1-00	9.091	6-1-01	8.865	6-1-02	8.928
7-1-98	7.056	7-1-99	7.632	7-1-00	9.314	7-1-01	9.208		
8-1-98	9.587	8-1-99	10.611	8-1-00	11.313	8-1-01	10.941		
9-1-98	7.251	9-1-99	7.916	9-1-00	8.718	9-1-01	8.713		
10-1-98	7.277	10-1-99	7.855	10-1-00	9.356	10-1-01	9.299		
11-1-98	8.623	11-1-99	9.676	11-1-00	11.423	11-1-01	9.889		
12-1-98	7.417	12-1-99	9.239	12-1-00	9.346	12-1-01	8.718		

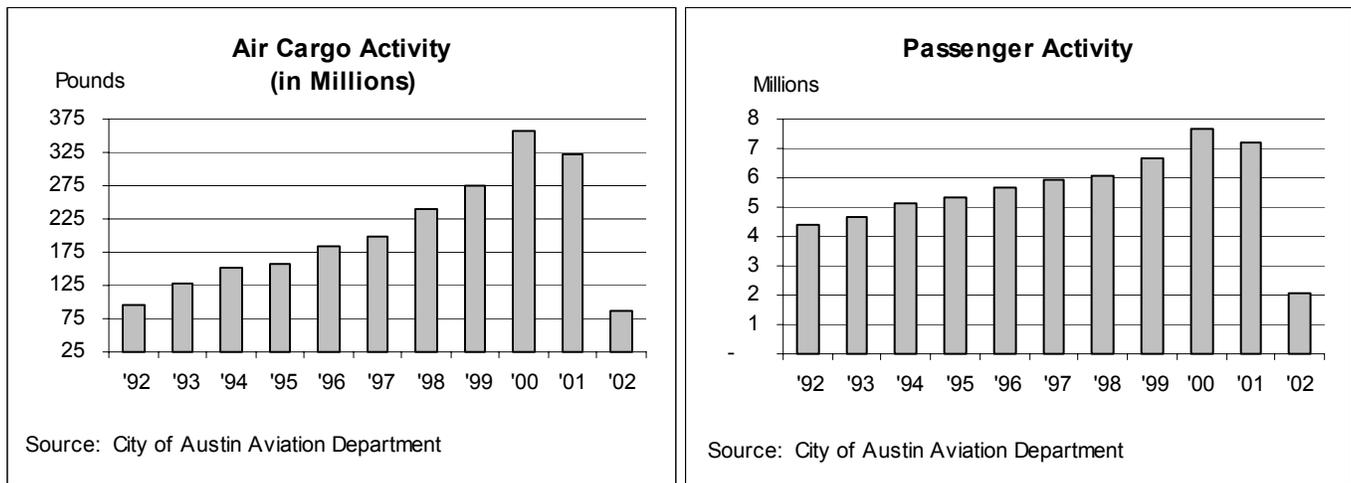
Source: State of Texas Comptroller's Office.

Ten Largest Employers (As of September 30, 2001)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
The University of Texas at Austin	Education and Research	20,211
Dell Computer Corporation	Computers	17,100
City of Austin	City Government	10,914
Austin Independent School District	Education	9,417
Motorola, Inc.	Electronic Components	8,900
HEB Grocery	Grocery/Pharmacy	7,000
Seton Medical Center	Hospital	6,715
IBM Corporation	Office Machines	5,988
Internal Revenue Service	Federal Agency	5,800
Sulzer Orthopedics, Inc.	Medical	5,479

Source: 2001 Comprehensive Annual Financial Report.

Transportation



Austin-Bergstrom International Airport

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

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

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

Austin’s Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 10 major airlines: American, America-West, Continental, Delta, Frontier, Northwest, Southwest, TWA, United and Vanguard. In addition, Atlantic Southeast and Skywest Airlines serve Austin as commuter carriers through Delta Connection. Direct service is available to 28 major U.S. destinations.

Growth Indicators

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

Population

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

(1) All years are estimates from the City's Department of Development and Review based on full purpose area as of December 31. Census years are modified to conform to U.S. Bureau of the Census data.

(2) U.S. Bureau of the Census official estimates as of July 31, except for census years; 2000 data available April 2001.

Connections and Permits

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

Source: 2001 Comprehensive Annual Financial Report.

Wealth and Income Indicators

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

Effective Buying Income and Retail Sales

<u>Area</u>	<u>Median Household EBI</u>	<u>Per Capita EBI</u>	<u>% of Households by EBI Group*</u>				<u>Per Capita Retail Sales</u>
			<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	
City of Austin	\$39,811	\$22,241	24.0%	20.4%	15.7%	39.9%	\$34,173
Austin MSA	43,415	21,661	21.8%	19.0%	15.5%	43.7%	24,039
Texas	37,636	17,677	26.4%	20.6%	15.8%	37.2%	13,648
USA	39,129	18,426	24.4%	20.7%	16.8%	38.2%	12,889

*Group A, \$0 - \$19,999 Group B, \$20,000 - 34,999 Group C, \$35,000 - 49,999 Group D, \$50,000 and over

Source: 2001 Survey of Buying Power, Sales and Marketing Management.

Housing Units

The average rental rate for a 1,000 square foot apartment in the Austin MSA was \$940 per month, with an occupancy rate of 90.0% in the fourth quarter of 2001.

Residential Sales Data

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume</u>	<u>Average Price</u>
1992	8,503	\$ 887,249,588	\$104,345
1993	9,926	1,139,100,456	114,759
1994	10,571	1,272,585,426	120,385
1995	11,459	1,439,915,043	125,658
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	18,621	3,561,039,919	191,238
2001	18,361	3,551,680,435	193,436
2002 (May)	7,499	1,501,042,178	200,166

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

Source: Real Estate Center at Texas A&M University.

City-Wide Austin Office Occupancy Rate

<u>Year</u>	<u>Occupancy Rate</u>
1992	82.6%
1993	86.3%
1994	87.9%
1995	88.4%
1996	92.2%
1997	94.7%
1998	93.4%
1999	92.8%
2000	94.5%
2001	93.0%
2002 (1 st Quarter)	86.4%

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

Education

The Austin Independent School District had an enrollment of 77,265 for the Spring of 2002. This reflects an increase of 0.28% in enrollment from the Spring of 2001. The District includes 107 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01	77,050	72,076
2001/02 ⁽¹⁾	77,265	72,115

(1) Fourth 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 50,616 for the fall semester of 2001 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-San Marcos MSA were \$2.4 billion in 2000. There are more than 20,900 hotel rooms available within the Austin Metropolitan Area, as of January 2002. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. Through the month of November 2001 the citywide occupancy rate for the Austin area was 64.8%, with an average room rate of \$94.37.

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

APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

APPENDIX D

**SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO
PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS**

**SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO
PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS**

SECTION : Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues". Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in accordance with the provisions of Section 27 hereof; and(iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xiv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, and (xvii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998", dated August 1, 1998, (iv) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (v) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION Pledge. (a) Electric Light and Power System. Subject only to the prior lien on and pledge of the Net Revenues of the Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

SECTION : Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

- (1) To pay the respective Maintenance and Operating Expenses thereof,
- (2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,(3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and
- (4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

SECTION : Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

THIRD: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

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

SECTION : Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

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

THIRD: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

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

SECTION : Reserve Fund. The City agrees and covenants to maintain at its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the greater of (i) \$85,000,000 or (ii) the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on the date the last series of Prior Lien Bonds or Subordinate Lien Bonds are delivered or incurred, as the case may be. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which may be withdrawn and transferred to the Interest and Redemption Fund required to be maintained for the payment of the Subordinate Lien Bonds during such periods as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds (including the Bonds), calculated as of the date the Bonds are to be delivered is \$144,803,190, which amount is determined to be the Required Reserve by reason of the issuance of the Bonds and is greater than \$85,000,000 and the amount currently calculated to be on deposit to the credit of the Reserve Fund is in excess of \$150,000,000 (the "Current Reserve"). No additional deposits to the Reserve Fund shall be required by reason of the issuance of the Bonds as the Current Reserve exceeds the Required Reserve.

When and so long as the money and investments in the Reserve Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the issuance of Prior Lien Bonds or Additional Subordinate Lien Bonds as provided in the paragraph below), the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the deficiency in funds occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve.

As and when Prior Lien Bonds or Subordinate Lien Bonds are issued and delivered, the Required Reserve shall be increased, if required, and any additional amount to be maintained in said Fund by reason of the issuance of such Prior Lien Bonds or Additional Subordinate Lien Bonds shall be so accumulated by the deposit of all or any part thereof in cash immediately after the delivery thereof, or, at the option of the City, in monthly installments, made on or before the last day of each month following the delivery of the Prior Lien Bonds or Subordinate Lien Bonds, equal to not less than 1/60th of the additional amount required to be accumulated in the Reserve Fund by reason of the issuance of Prior Lien Bonds or Subordinate Lien Bonds then being issued (or 1/60th of the balance of such additional amount not deposited in cash immediately following the delivery of the Prior Lien Bonds or Subordinate Lien Bonds).

Notwithstanding the foregoing provisions contained in this Section pertaining to an increase in the Required Reserve, in the event Prior Lien Bonds are hereafter issued or incurred and the proceedings pertaining to the issuance or incurrence thereof provide for, or require, the creation and establishment, or reaffirm the creation and establishment, of a separate and special reserve or contingency fund for the benefit of Prior Lien Bonds, the amount to be accumulated and maintained in such separate and special reserve or contingency fund shall offset and be subtracted from the increase, if any, in the Required Reserve as hereinabove required.

During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the Interest and Redemption Fund.

SECTION : Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchasers of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

SECTION : Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such

governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

SECTION : Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

SECTION : Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Bonds are Outstanding, the City agrees to maintain insurance, for the benefit of the Holders of the Bonds, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

SECTION : Sale or Lease of Properties. (a) The City, to the extent and in the manner required by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property not necessary or required in the efficient operations of the Systems, either or both, or any equipment not necessary or useful in the operations thereof or which is obsolete, damaged or worn out or otherwise unsuitable for use in the operation of the Systems, either or both. Save and except as hereinafter provided, the proceeds of any sale of properties of the Waterworks and Sewer System shall be deposited in the Water and Sewer Fund and the proceeds of sale of properties of the Electric Light and Power System shall be deposited in the Electric Fund.

(b) The City may, to the event and in the manner permitted by law, sell, lease or otherwise dispose of all or part of its participating interest in the South Texas Project, as approved and authorized at an election held November 3, 1981; provided such sale, lease or other disposition is approved by a majority vote of the City Council of the City with a finding on the part of the City Council that the remaining available capacity of the Electric Light and Power System (including power and energy to be received under contracts) for furnishing power and energy is adequate and sufficient to satisfy current and foreseeable power and energy demands therefor taking into consideration any generating capacity then estimated to become available and that such disposal will not jeopardize the ability of the City to meet the rate covenants herein and in any other ordinance authorizing outstanding obligations secured by a lien on and pledge of the Electric Light and Power System. All proceeds derived from such sale or disposal, net of reasonable and necessary expenses incurred in connection therewith (including attorneys and engineers), shall be deposited in a special escrow account with the City's depository bank and expended only for the purposes of making Capital Additions to the Electric Light and Power System, or for cost effective projects or purposes which reduce the peak demand requirements of the Electric Light and Power System, or for the redemption or purchase (at a price not to exceed par) of outstanding Prior Lien Bonds or Subordinate Lien Bonds, all as shall be determined in the sole discretion and determination of the City Council of the City.

SECTION : Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

SECTION : Deficiencies; Excess Net Revenues. (a) If on any occasion there shall not be sufficient Net Revenues of the Systems to make the required deposits into the Interest and Redemption Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the Systems, or from any other sources available for such purpose.

(b) Subject to making the required deposits to (i) all special funds created for the payment and security of the Prior Lien Bonds (including the Reserve Fund) (ii) all special funds created for the payment and security of the Subordinate Lien Bonds (including the Interest and Redemption Fund) and (iii) all funds or accounts created for the benefit of Separate Lien Obligations, the excess Net Revenues of the Systems, either or both, may be used by the City for any lawful purpose.

SECTION : Final Deposits; Governmental Obligations. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest

thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

SECTION : Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION : Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

APPENDIX E

FORM OF BOND COUNSEL'S OPINION

APPENDIX F

SUMMARY OF REFUNDED BONDS

	Bond	Date	Rate	Amount	Date	Price
Combined Utility System Revenue Refunding Bonds, Series 1992	SERIAL	11/15/2003	6.25%	\$ 4,090,000	11/15/02	102
	SERIAL	11/15/2004	6.25%	4,355,000	11/15/02	102
	SERIAL	11/15/2005	6.25%	4,630,000	11/15/02	102
	SERIAL	11/15/2006	6.25%	4,930,000	11/15/02	102
	SERIAL	11/15/2007	6.25%	11,595,000	11/15/02	102
	SERIAL	11/15/2008	6.25%	12,325,000	11/15/02	102
	TERM_16	11/15/2013	5.75%	11,145,000	11/15/02	100
	TERM_16	11/15/2014	5.75%	11,805,000	11/15/02	100
	TERM_16	11/15/2015	5.75%	12,500,000	11/15/02	100
	TERM_16	11/15/2016	5.75%	13,215,000	11/15/02	100
Combined Utility System Revenue Refunding Bonds, Series 1992A	SERIAL	11/15/2003	6.00%	12,070,000	11/15/02	102
	SERIAL	11/15/2004	6.00%	25,385,000	11/15/02	102
	SERIAL	11/15/2005	6.00%	34,180,000	11/15/02	102
	TERM_14	11/15/2012	5.75%	17,785,000	11/15/02	100
	TERM_14	11/15/2013	5.75%	11,600,000	11/15/02	100
	TERM_14	11/15/2014	5.75%	12,245,000	11/15/02	100
Total Par Refunded				\$ 203,855,000		

APPENDIX G

SPECIMEN BOND INSURANCE POLICY