

**COMMERCIAL PAPER OFFERING MEMORANDUM
DATED JUNE 12, 2002**

**CITY OF AUSTIN, TEXAS
(TRAVIS AND WILLIAMSON COUNTIES)
COMBINED UTILITY SYSTEMS COMMERCIAL PAPER NOTES, SERIES A**

OFFERING

Goldman, Sachs & Co. and Lehman Brothers as Commercial Paper Dealers are offering for sale on behalf of the City of Austin, Texas (the "City") commercial paper notes styled "City of Austin, Texas, Combined Utility Systems Commercial Paper Notes, Series A" (the "Notes") in the aggregate principal amount not to exceed \$350,000,000. Interest on the Notes is payable on an actual/365 or 366-day year basis, and the Notes will be sold at par.

The Notes are exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended. In the opinion of Fulbright & Jaworski, L.L.P., Dallas, Texas, acting as bond counsel to the City ("Bond Counsel"), the interest on the Notes is excludable from gross income for federal income tax purposes under existing law. (See Appendix E).

THE CITY OF AUSTIN

The City is located in southeast central Texas in Travis and Williamson Counties and is the capital of the State of Texas. The City's estimated December 31, 2001 population is 661,639, up 46.76% from the December 31, 1990 Census estimate of 450,830. Travis County's estimated 2001 population is 837,206.

As of March 2002, the Texas Employment Commission reported average annual unemployment of 5.8% in Austin and 5.4% in Travis County versus 5.6% in Texas and 6.1% in the United States. Though Austin experienced an economic downturn in 2001 due to both the national slowdown of the high-tech industry and the September 11 tragedy, which lead to a decrease in airline traffic and tourism, retail average occupancy rates remained higher than any other Texas market, and Austin's unemployment rate has remained significantly lower than both the national and state average. The Austin economy is expected to see continued growth over the next several years.

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, including the Electric Utility System (the "Electric Light and Power System") and the Waterworks and Sewer Utility System (the "Waterworks and Wastewater System"), the preparation and administration of an annual budget and the preparation of a report of the finances and administrative activities.

THE SYSTEMS

The City owns and operates the Electric Light and Power System and the Waterworks and Wastewater System 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 Waterworks 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 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 Waterworks and Wastewater System had approximately 881 full-time regular employees as of the same date.

THE ELECTRIC LIGHT AND POWER SYSTEM "AUSTIN ENERGY"

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City</u>
Juan Garza	General Manager	1 Year 4 Months
Al Lujan	Senior Vice President Regulated Operations	2 Years
Andy Ramirez, P.E.	Senior Vice President Power Production	5 Years 6 Months
Bob Kahn	Vice President Legal Services	10 Years*
Elaine Hart Kuhlman, CPA	Senior Vice President Finance and Corporate Services	13 Years 8 Months *
Roger Duncan	Vice President Governmental Relations, Energy and Environmental Policy	12 Years 3 Months
Michael McCluskey	Senior Vice President Wholesale and Retail Markets	16 Years
Harvey Winkelmann, CPA	Vice President Finance	17 Years 10 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

The City either owns or has an ownership interest in a diverse mix of generation sources, including coal, nuclear and gas facilities. In addition, Austin Energy has renewable energy sources from solar photovoltaic systems and has contracted to purchase power from wind and landfill methane projects. 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 anticipated to be 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 the Lower Colorado River Authority ("LCRA") and Calpine Corporation, an independent power producer. ERCOT requires that the transmission provider in that service area to 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 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 ("PUCT") adopted new rules governing the transmission system in ERCOT, which, at the time, was an organization made up of major investor-owned and municipal systems, a state river authority, a municipal joint agency, energy marketers, independent power producers and a number of cooperatives. As part of these new rules, the PUCT established a means for the transmission owners in ERCOT to recover TCOS. TCOS is based on the principle of equal transmission access for all loads and generation in ERCOT. Each load serving entity in ERCOT has been assigned a share of the total cost of transmission in ERCOT based upon the ratio of that load serving entity's load to the entire load in ERCOT. The funds recovered through this mechanism are distributed to transmission owners in ERCOT based upon a ratio of the transmission owner's investment in transmission facilities to the entire transmission investment in ERCOT. Austin Energy's load represents approximately 3.9% of ERCOT and Austin Energy's transmission

cost of service is approximately 4.5% of ERCOT's total transmission cost of service. Under interim rates for 2002, this will result in a net gain of approximately \$1.8 million dollars from TCOS. A continuing investment in Austin Energy's transmission system is expected to result in a continuing positive cash flow from TCOS.

Transmission and Distribution System

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). Eco Gas 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.

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.

Wholesale 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.

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 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 and ancillary 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 and related ancillary 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 ("SB 7"). 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.

However, the date can be delayed if certain conditions are not met. SB 7 allows local authorities to choose when to bring retail competition to their municipal 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, in May, 2000 the TNRCC issued in 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 emits less than such emission rate limitation 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 WATERWORKS 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, 1 month
Perwez Moheet, CPA	Assistant Director, Business Support Services	23 Years, 0 months
Jane Burazer	Assistant Director, Water and Wastewater Treatment	8 Years, 6 months
Reynaldo Cantu, P.E.	Assistant Director, Engineering	11 Years, 10 months
Andrew Covar, P.E.	Assistant Director, Water Resource Planning and Analysis	8 Years, 11 months*
David Juarez, P.E.	Assistant Director, Operations Maintenance	11 Years, 1 month*

* 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, Westlake Hills, 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 Waterworks and Wastewater Utility, the unpaid bonded indebtedness of the other three districts. The Texas Natural Resource Conservation Commission (TNRCC), formerly the Texas Water Commission (TWC), is empowered to grant the City a certificate of convenience and necessity to provide waterworks and wastewater service to retail customers outside the City's boundaries. The City is not required to obtain such a certificate.

Facilities

The City's Waterworks and Wastewater System has three water treatment plants (Green, Davis and Ullrich) which have a rated capacity of 250 million gallons per day ("mgd"). The water treatment plants have a combined clear well storage capacity of 38.8 million gallons on site. The City's Water and Wastewater Utility includes a water distribution system having 3,580 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 113 million gallons, 23,391 fire hydrants and twenty-four 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 35 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 115 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. The design work has begun for the expansion of this plant to 160 mgd. 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 to be completed by 2009. \$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.

WASTEWATER SYSTEM

Service Area

The Waterworks and Wastewater System 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 Waterworks and Wastewater System 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 March and September 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 September 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 extra-territorial 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 extra territorial 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.

COMBINED UTILITY SYSTEMS DEBT AND FINANCIAL INFORMATION

As of April 1, 2002, the City had \$1,762,003,747 of Prior First Lien Bonds outstanding and \$260,684,512 of Prior Subordinate Lien Bonds. In addition, the City has \$101,450,000 Parity Electric Utility Obligations payable from surplus electric utility system revenues and \$420,760,000 of Parity Waterworks and Wastewater Obligations and \$16,276,011 of assumed bonds and/or obligations which are payable from ad valorem taxes and/or surplus Waterworks and Wastewater System revenues. See "Authority to Issue Notes" below.

SELECTED FINANCIAL INFORMATION
Electric System and Waterworks and Wastewater System
Operating Summary (000's)

	Fiscal Year Ended September 30				
	(Unaudited) 12 Months Ended 12-31-01	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Combined Gross Revenues	\$1,071,966	\$1,087,541	\$1,070,558	\$926,692	\$918,508
Combined Maintenance and Operating Expenses	<u>555,211</u>	<u>561,097</u>	<u>516,441</u>	<u>429,926</u>	<u>413,939</u>
Combined Net Revenues	<u>\$ 516,755</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	\$ 227,325	\$ 236,916	\$231,711	\$234,464
Debt Service Coverage on Revenue Bonds (1)	2.19x	2.32x	2.34x	2.14x	2.15x

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

The City is currently in negotiations with Lehman Brothers Special Financing Inc. regarding the execution and delivery of an interest rate swap agreement with respect to the City's proposed issuance of Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2002, and the City's proposed issuance of Electric Utility System Variable Rate Revenue Refunding Bonds, Series 2002B. Should the interest rate swap agreement be executed and delivered, it is anticipated that the City would pay to Lehman Brothers Special Financing Inc. a fixed rate of interest, and Lehman Brothers Special Financing Inc. would pay to the City a floating rate of interest based on a defined index rate. The fixed rate and index rate to be payable by the respective parties under the terms of the interest rate swap agreement are anticipated to be established in the summer of 2002. The anticipated term of the interest rate swap agreement would be for four years. The interest rate swap agreement contains customary termination provisions typical of ISDA Master Agreement. The delivery of the proposed refunding bonds is anticipated to occur in the summer of 2002.

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**COMPARATIVE ANALYSIS OF ELECTRIC LIGHT AND POWER SYSTEM
AND WATERWORKS AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 1998 TO DECEMBER 31, 2001**
(Thousands Rounded)

INCOME	12 Months	Fiscal Year Ended September 30			
	Ended 12-31-01 (Unaudited)	2001	2000	1999	1998
Revenue	\$1,071,966	\$1,087,541	\$1,070,558	\$926,692	\$918,508
Operating Expense	<u>555,211</u>	<u>561,097</u>	<u>516,441</u>	<u>429,926</u>	<u>413,939</u>
Balance Available for Debt Service	516,755	526,444	554,117	496,766	504,569
Depreciation and Amortization Expense	<u>146,643</u>	<u>138,068</u>	<u>133,393</u>	<u>125,279</u>	<u>122,008</u>
Earnings Before Interest Expense	370,112	388,376	420,724	371,487	382,561
Interest Incurred on Debt	(185,266)	(187,296)	(183,653)	(177,327)	(193,081)
Other	<u>(2,750)</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>\$ 182,096</u>	<u>\$ 200,021</u>	<u>\$ 234,897(b)</u>	<u>\$184,499</u>	<u>\$182,910</u>
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>51.79%</u>	<u>51.59%</u>	<u>48.24%</u>	<u>46.39%</u>	<u>45.07%</u>
Balance Available for Debt Service	48.21%	48.41%	51.76%	53.61%	54.93%
Depreciation and Amortization Expense	<u>13.68%</u>	<u>12.70%</u>	<u>12.46%</u>	<u>13.52%</u>	<u>13.28%</u>
Earnings Before Interest Expense	34.53%	35.71%	39.30%	40.09%	41.65%
Interest Incurred on Debt	-17.28%	-17.22%	-17.15%	-19.14%	-21.02%
Other	<u>-0.26%</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>16.99%</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 September 30, 2001, which are as follows:
- | | |
|--------------------------|--------------|
| Transfer to General Fund | \$85,824,446 |
| Transfers to Other Funds | \$ 2,718,692 |
- (b) Excludes Combined Utility Funds' recovered costs of (\$40,719,456) for twelve months ended September 30, 2001.
- (c) There was no extraordinary gain or loss during this twelve-month period.
- (d) Excludes capital contributions of \$34,362,666 for twelve months ended September 30, 2001.

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The City is authorized pursuant to Ordinance No. 980513-A, amending and restating Ordinance No. 930318-A, as amended by Ordinance No. 961121-A, (the “Ordinance”) adopted by the City Council on March 23, 2000 to issue the Commercial Paper Notes Series A (the “Notes”), in an aggregate principal amount not to exceed \$350,000,000 outstanding at any one time; to pay project costs for additions, improvements and extensions to the City’s Waterworks and Wastewater System and the City’s Electric Light and Power System; and to refinance, renew or refund maturing Notes. The Notes will be in denominations of \$100,000 and integral multiples of \$1,000 in excess of \$100,000 and mature not more than 270 days from the date of issuance, but in no event later than November 21, 2016. The Notes shall be payable at the office of U.S. Bank Trust National Association or its successor, the Issuing and Paying Agent and shall be issued in bearer form, in the event the Depository Trust Company’s Book-Entry-Only is no longer used, without coupons, and bearing interest not to exceed the Maximum Interest Rate (as defined in the Ordinance) calculated on the basis of actual days elapsed and on a 365 or 366 day year.

The Notes and any amounts due under the Reimbursement Agreement (the “Agreement”) are payable from and secured by (i) the proceeds from (a) the sale of Bonds issued for such purpose and (b) the sale of Notes issued pursuant to the Ordinance to refund outstanding Notes, (ii) draws under the Letter of Credit, (iii) the amounts held in the Note Payment Fund until the amounts deposited therein are used for authorized purposes, provided however, amounts in the Series A Note Payment Fund attributable to and derived drawings under and pursuant to the Agreement shall be used only to pay, the principal of, and interest on the Notes in full, and (iv) the amounts held in the Note Construction Account that are not necessary for the payment of project costs. Additionally, to provide security for the payment of the Notes and the amounts due under the Agreement, Pledged Revenues of the System are pledged; which pledge is on a parity with the City’s Combined Utility Systems Taxable Commercial Paper Notes (the “Taxable Notes”) currently authorized in an amount not to exceed \$160,000,000. The Taxable Notes are secured by a direct pay letter of credit issued by Landesbank Hessen - Thüringen Girozentrale - New York Branch. Such lien, however, is subordinate to the payment of the System’s Prior First Lien Bonds, Prior Subordinate Lien Bonds and Separate Lien Obligations. Pledged Revenues includes Net Revenues of the System plus any additional revenues, income or other resources which in the future may at the option of the City be pledged to the payment of the Notes. (All terms not otherwise defined are defined in the Ordinance.) A description of the Book-Entry-Only issuance is set forth in Appendix D hereto.

BANK CREDIT ARRANGEMENTS

The Notes will be paid by drawings under the Letter of Credit issued severally by JPMorgan Chase Bank (“JP Morgan”), Bayerische Landesbank (“Landesbank”) and State Street Bank and Trust Company (“State Street”) (collectively, the “Banks”), which permits draws for the payment of principal and interest on the Notes. The Letter of Credit will expire on March 31, 2004, unless extended by the Banks.

The initial several total dollars of commitment for each of the Banks under the Letter of Credit is as follows:

JPMorgan	\$159,375,000
Bayerische Landesbank	\$100,000,000
State Street	\$130,000,000

The initial Stated Amount under the Letter of Credit is \$389,750,000 representing \$350,000,000 in dollars of principal commitment principal and \$39,250,000 in interest, which amount also represents the Total Commitment by the Banks. The interest component is divided among the Banks proportionally to their principal commitment. The Stated Amount can be decreased, and if decreased, later increased in an amount representing not less than \$10,000,000 in principal amount plus the corresponding interest component up to the Total Commitment. The commitment of each Bank expires on the date which is 364 days following the closing date or such later date as is established by the Agreement as the commitment expiration date. JP Morgan is acting as Agent under the Agreement for certain purposes but is under no obligation to advance funds to meet the several obligations of any Bank under the Letter of Credit. Draws made under the Letter of Credit are immediately due and payable by the City from the resources more fully described under “The Commercial Paper Notes”. The City has covenanted in the Ordinance not to terminate or substitute the Letter of Credit while any Notes issued thereunder are outstanding. No term loan feature is provided by the Agreement. Failure to repay advances when due is an event of default under the Agreement.

Attached as Appendices A, B, and C is information supplied separately by each of the Banks.

AVAILABLE INFORMATION

The City's latest Official Statement, dated February 28, 2002 relating to \$74,750,000 Electric Utility System Revenue Refunding Bonds, Series 2002 is currently on file with the Municipal Securities Rulemaking Board and is hereby incorporated by reference. The Official Statement speaks as of its date and such incorporation shall not create any implication that there has been no change in the affairs of the Utility Systems since such date. The City has several outstanding continuing disclosure undertakings with respect to certain series of its Combined Utility Systems Revenue Bonds and its filings are hereby incorporated by reference, including but not limited to the annual filing for the Fiscal Year ended September 30, 2001. The City has not made a disclosure undertaking with respect to the Notes.

RATINGS

Commercial Paper Ratings:

P-1	(Moody's Investors Service)
A-1+	(Standard & Poor's Corporation)
F1+	(Fitch Ratings, Inc.)

Combined Utility Revenue Bonds (Prior Lien):

A2	(Moody's Investors Service)
A	(Standard & Poor's Corporation)
A+	(Fitch Ratings, Inc.)

Subordinate Lien:

A2	(Moody's Investors Service)
A-	(Standard & Poor's Corporation)
A+	(Fitch Ratings, Inc.)

Parity Water/Wastewater Obligations

A2	(Moody's Investors Service)
A-	(Standard & Poor's Corporation)
A+	(Fitch Ratings, Inc.)

Parity Electric Utility Obligations

A3	(Moody's Investors Service)
A-	(Standard & Poor's Corporation)
A	(Fitch Ratings, Inc.)

Signatory Bank Ratings:

JPMorgan Chase Bank:

Aa2/P-1	(Moody's Investors Service)
AA/A-1+	(Standard & Poor's Corporation)
AA-/F1+	(Fitch Ratings, Inc.)

Bayerische Landesbank

Aaa/VMIG-1	(Moody's Investors Service)
AAA/A-1+	(Standard & Poor's Corporation)
AAA/F1+	(Fitch Ratings, Inc.)

State Street Bank and Trust Company:

Aa2/P-1	(Moody's Investors Service)
AA/A-1+	(Standard & Poor's Corporation)
AA+/F1+	(Fitch Ratings, Inc.)

FOR FURTHER INFORMATION - PLEASE CONTACT:

Art Alfaro
City of Austin, Texas
700 Lavaca
Suite 1510
Austin, TX 78701
Telephone: 512/974-7882
Facsimile: 512/370-3838

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APPENDIX A
JPMORGAN CHASE BANK

JPMorgan Chase Bank is a wholly owned bank subsidiary of J.P. Morgan Chase & Co. (“the Corporation”), a Delaware corporation whose principal office is located in New York, New York. JPMorgan Chase Bank is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities. JPMorgan Chase Bank resulted from the merger on November 10, 2001 of The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York. As of March 31, 2002, JPMorgan Chase Bank had total assets of \$541.3 billion, total net loans of \$175.7 billion, total deposits of \$271.9 billion, and total stockholder’s equity of \$33.8 billion. As of December 31, 2001, JPMorgan Chase Bank had total assets of \$537.8 billion, total net loans of \$174.9 billion, total deposits of \$280.5 billion, and total stockholder’s equity of \$33.3 billion.

Additional information, including the most recent Form 10-K for the year ended December 31, 2001 of J.P. Morgan Chase & Co. (formerly known as “The Chase Manhattan Corporation”), the 2001 Annual Report of J.P. Morgan Chase & Co. and additional annual, quarterly and current reports filed with the Securities and Exchange Commission by J.P. Morgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, J.P. Morgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information contained in this Appendix relates to and has been obtained from JPMorgan Chase Bank. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of JPMorgan Chase Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

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APPENDIX B

BAYERISCHE LANDESBANK

Bayerische Landesbank Girozentrale (the "Bank") was incorporated as a public law financial institution (Rechtsfaehige Anstalt des Oeffentlichen Rechts) by the Law Establishing Bayerische Landesbank Girozentrale (Gesetz ueber die Errichtung der Bayerischen Landesbank Girozentrale) of June 27, 1972, as amended, as adopted by the Parliament of the Free State of Bavaria, and is subject to the German Federal Banking Act of July 10, 1961, as amended (Gesetz ueber das Kreditwesen) (the "Federal Banking Act"). Its statutes authorize the Bank to provide universal financial services including both commercial and investment banking as well as brokerage activities. The Free State of Bavaria owns 50% of the Bank's share capital, the other 50% being owned by the Bavarian Savings Bank and Clearing Association (Bayerischer Sparkassen-und Giroverband) (which is the central organization of the Bavarian Savings Banks).

The Bank is equipped to provide a full range of domestic and international banking services; with regard to local banking functions, the Bank also makes use of the Bavarian Savings Bank's network. In the domestic field, the Bank places emphasis on wholesale banking, lending to federal and local authorities and mortgage lending, together with industrial credit. The Bank holds the function of a banker of the Free State of Bavaria and its municipalities, and also finances public and private development projects, administers public funds and performs certain treasury functions for the Free State of Bavaria.

The Free State of Bavaria and the Bavarian Savings Bank and Clearing Association are jointly and severally liable for the obligations of the Bank if the liabilities cannot be satisfied from the Bank's assets (Gewahrtraeger). The owners of the Bank also have an obligation to maintain the Bank in a financial position which enables it to carry out its functions. This liability (Anstaltslast), which is peculiar to German law, obliges the owners to provide funds for the Bank that are necessary to enable it to fulfill its functions, to meet its liabilities and to keep its finances sound. As an additional safeguard, it is noted that as a public law institution the Bank can only be put into liquidation through a specific law to this effect.

The Bank established a Representative Office in New York in October 1979 and obtained a license from the office of the Comptroller of the Currency in October 1981 to operate through a branch located in the City of New York.

The New York Branch engages in a diversified banking business, and is a major wholesale lending participant throughout the United States, offering a full range of domestic and international financial services, including loans, foreign exchange and money market operations.

All banking institutions in the Federal Republic of Germany are subject to governmental supervision and regulation exercised by the Federal Banking Supervisory Authority (Bundesaufsichtsamt fuer das Kreditwesen), an independent federal authority with regulatory powers and by the Deutsche Bundesbank (the "German Federal Central Bank") in accordance with the Federal Banking Act. The Federal Banking Act contains major rules for banking supervision and regulates the Bank's business activities, capital adequacy and liquidity. In addition to the above-mentioned general banking supervision, the group of Landesbanks is subject to special supervision by their respective federal states.

As reported in the Bank's Annual Report for the Fiscal Year ended December 31, 2001, the Bank had total assets of EURO ("EUR") 301.3 billion (\$265.5 billion at \$0.8813 = EUR 1.00 at 12/31/01) on a consolidated basis. Business volume (balance sheet total, own drawings charged to borrowers, endorsement liabilities, and guarantees) expanded by 5.7% to EUR 321.7 billion (\$283.5 billion) from the previous year end. The Bank's consolidated lending volume increased 1.7% to EUR 206.7 billion (\$182.2 billion) from year end 2000. Total equity of the Bank, including, among other items, nominal capital of EUR 1.2 billion (\$1.06 billion), profits

participation rights with a nominal value of EUR 2.83 billion (\$2.49 billion) and capital contributions of silent partners in an amount of EUR 2.89 billion (\$2.55 billion), totaled EUR 11.1 billion (\$9.78 billion) or 3.7 % of the consolidated balance sheet. Net income amounted to EUR 254.0 million (\$223.9 million), a decrease of 53.8% compared to year end 2000. EUR 82.3 million (\$72.5 million) of such amount has been allocated to revenue reserves, raising the bank's published reserve to EUR 4.13 billion (\$3.6 billion). The accounting principles applied in the preparation of the Bank's financial statements comply with generally accepted accounting principles in the Federal Republic of Germany and may not conform to generally accepted accounting principles applied by United States banks. (At 5/7/02, \$0.9155 = EUR 1.00).

The rate of exchange between the EUR and the dollar is determined by the forces of supply and demand in the foreign exchange markets, which, in turn, are affected by changes in the balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The foregoing information relating to the Bank is based upon facts and circumstances present on the dates referenced above. Such facts and circumstances may change from time to time. The Bank shall have no obligation to update the foregoing information to reflect any such change.

Copies of the Bank's Annual Report for the most recent available fiscal year may be obtained at the New York Branch in person during normal business hours or by mail by writing to the New York Branch at: Bayerische Landesbank Girozentrale, 560 Lexington Avenue, New York, New York 10022, Attention: Corporate Finance.

The information contained in this Appendix B relates to and has been obtained Bayerische Landesbank Girozentrale. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs Bayerische Landesbank Girozentrale since the date hereof, or that the information contained or referred to in this Appendix C is correct as of any time subsequent to its date.

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APPENDIX C

STATE STREET BANK AND TRUST COMPANY

State Street Bank and Trust Company (the “Bank”), a wholly-owned subsidiary of State Street Corporation (the “Corporation”), provides banking, securities processing and investment management services to a broad base of customers worldwide. The Bank combines information processing with banking to process and manage virtually all types of financial assets. In addition to financial processing services, the Bank provides a full range of capital market services to businesses and financial institutions in New England and selected national and international markets. At December 31, 2001, the Bank and its consolidated subsidiaries had total assets of \$69.896 billion, total deposits (including deposits in foreign offices) of \$38.559 billion, total loans and lease finance assets net of unearned income, allowance and reserve for possible credit losses of approximately \$5.283 billion and total equity capital of \$3.845 billion.

The Bank’s Consolidated Reports of Condition for Insured Commercial and State Chartered Savings Banks FFIEC 031 for December 31, 2001, as submitted to the Federal Reserve Bank of Boston, are incorporated by reference in this Appendix and shall be deemed to be a part hereof.

In addition, all reports filed by the Bank pursuant to 12 U.S.C. §324 after the date of this Offering Memorandum shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and the Bank is set forth in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2001. Such report and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Offering Memorandum are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Letter of Credit and Reimbursement Agreement is an obligation of the Bank and not of the Corporation.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

The Bank hereby undertakes to provide, without charge to each person to whom a copy of this Offering Memorandum has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Offering Memorandum by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, 225 Franklin Street, Boston, Massachusetts 02110, (617) 786-3000.

Neither the Bank nor its affiliates make any representation as to the contents of this Offering Memorandum (except as to this Appendix), the suitability of the Notes for any investor, the feasibility or performance of any project or compliance with any securities or tax laws and regulations.

The information contained in this Appendix C relates to and has been obtained from State Street Bank and Trust Company. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of State Street Bank and Trust Company since the date hereof, or that the information contained or referred to in this Appendix C is correct as of any time subsequent to its date.

APPENDIX D

DESCRIPTION OF BOOK-ENTRY-ONLY ISSUANCE

1. The Depository Trust Company (“DTC”) New York, NY will act as securities depository for the Notes (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One or more fully-registered Security certificate(s) will be issued for the Securities, in the aggregate principal amount of such issue and will be deposited with DTC.

2. DTC 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 securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

3. 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, but Beneficial Owners are 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 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.

4. To facilitate subsequent transfers, all Securities deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Securities with DTC and their registration in the name of Cede & Co. effect no 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 Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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.

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

7. Principal and interest payment on the Securities will be made to DTC. DTC’s practice is to credit Direct Participants’ accounts on payable date in accordance with their respective holding shown on DTC’s records unless DTC has reason to believe that it will not receive payment on payable date. 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, the Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

9. 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.

10. 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.

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APPENDIX E
OPINIONS

**FULBRIGHT & JAWORSKI
L.L.P.**

A REGISTERED LIMITED LIABILITY PARTNERSHIP
2200 ROSS AVENUE
SUITE 2800
DALLAS, TEXAS 75201

TELEPHONE: 214/855-8000
FACSIMILE: 214/855-8200

WRITER'S DIRECT DIAL NUMBER:
214/855-8013

HOUSTON
WASHINGTON, D.C.
AUSTIN
SAN ANTONIO
DALLAS
NEW YORK
LOS ANGELES
LONDON
ZURICH
HONG KONG

December 12, 1996

We have acted as Bond Counsel to the City of Austin, Texas (the "City") in connection with the issuance of "City of Austin, Texas, Combined Utility Systems Commercial Paper Notes, Series A" in an aggregate principal amount not exceeding \$350,000,000 (the "Notes").

We have served as Bond Counsel to the City solely to pass upon the legality and validity of the issuance of the Notes under the Constitution and laws of the State of Texas and the excludability of the interest on the Notes from gross income for federal income tax purposes. We have not been requested to investigate or verify, and neither expressly or by implication render herein any opinion concerning the financial condition or capabilities of the City, the disclosure of any financial or statistical data pertaining to the City and used in the sale of the Notes or the sufficiency of the security for or the value or marketability of the Notes.

In rendering the opinions herein we have examined and rely upon original or certified copies of the proceedings had in connection with the issuance of the Notes, including the Ordinance adopted by the City Council of the City on November 21, 1996, amending and restating Ordinance No. 930318-A (the "Ordinance") authorizing the issuance of the Notes and approving a Letter of Credit and Reimbursement Agreement, dated as of December 1, 1996, by and between the City and Morgan Guaranty Trust Company of New York (the "Bank") providing for the issuance of an irrevocable transferrable letter of credit in the aggregate amount of \$389,275,000 (the "Letter of Credit") in favor of the First Trust of New York, N.A., as issuing and paying agent (the "Issuing and Paying Agent"). Our examinations included a review of certifications of officers of the City relating to the expected use and investment of the proceeds of sale of the Notes and certain funds of the City and relating to certain other facts within the knowledge and control of the City; such other material and such matters of law as we deem relevant; and the form of the Notes to be executed and delivered from time to time by the City, which we found to be in due form. In the examination of the proceedings relating to the issuance of the Notes, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies and the accuracy of the statements contained in such documents and certifications. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Ordinance.

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

1. The Ordinance has been duly adopted by the City and the Notes, when issued in compliance with the provisions of the Ordinance, will be valid, legally binding and enforceable special obligations of the City payable solely from and secured by a lien on and pledge of (i) the proceeds from (a) the sale of the Bonds hereafter issued and to be used to pay outstanding Notes and (b) the sale of Notes issued pursuant to the Ordinance and to be used to refund outstanding Notes, (ii) Advances (draws on the Letter of Credit), (iii) the amounts held in the Note Payment Fund until such amounts are used for authorized purposes, (iv) the Pledged Revenues of the Systems, such lien on and pledge of the Pledged Revenues, however, being subordinate to the liens and pledges securing the payment of the Priority Lien Obligations and being on a parity with the lien and pledge securing the payment of Advances made under and pursuant to the Letter of Credit and (v) amounts remaining on deposit in the Note Construction Fund after payment of all Project Costs. The sources and security for the payment of the Notes are in all respects subject to the provisions of the Ordinance and the enforceability of the lien and pledge created by the City securing the payment of the Notes may be affected by bankruptcy, insolvency, or other laws affecting creditors' rights generally and matters involving the exercise of equitable or judicial discretion.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Notes will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes.

WE CALL TO YOUR ATTENTION THAT interest on all tax-exempt obligations, such as the Notes, owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit (REMIC), or real estate investment trust (REIT)) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such

corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code and the environmental tax imposed by section 59A of the Code is computed.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Notes. Ownership of tax-exempt obligations such as the Notes 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 tax credit, 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.

EHE:dfc



FULBRIGHT & JAWORSKI L.L.P.

A REGISTERED LIMITED LIABILITY PARTNERSHIP

2200 ROSS AVENUE, SUITE 2800

DALLAS, TEXAS 75201-2784

HOUSTON
WASHINGTON, D.C.
AUSTIN
SAN ANTONIO
DALLAS
NEW YORK
LOS ANGELES
MINNEAPOLIS
LONDON
HONG KONG
MUNICH

TELEPHONE: 214/855-8000
FACSIMILE: 214/855-8200

_____, 2002

U. S. Bank Trust N.A.
100 Wall Street, Suite 1600
New York, New York 10005

Goldman, Sachs & Co.
85 Broad Street, 24th Floor
New York, New York 10004

City of Austin, Texas
124 West 8th Street
Austin, Texas 78701

JPMorgan Chase Bank
270 Park Avenue, 48th Floor
New York, New York 10011

Lehman Brothers
American Express Tower, 20th Floor
New York, New York 10285

State Street Bank and Trust Company
61 Broadway, 15th Floor
New York, New York 10022

Bayerische Landesbank
560 Lexington Avenue
New York, New York 10022

Re: City of Austin, Texas, Combined Utility System Notes, Series A

Ladies and Gentlemen:

In regard to the Letter of Credit Reimbursement Agreement, dated as of April 13, 2000, (the "Agreement") among the City of Austin, Texas (the "City"), Dexia Credit Local de France ("Dexia"), State Street Bank and Trust Company ("State Street"), and JP Morgan Chase Bank, as successor to Morgan Guaranty Trust Company of New York ("Morgan"), as a Bank and as the Agent, executed and delivered in relation to the above-referenced Notes, the City may remove or replace any of the Banks to the Agreement and, subject to the terms stated therein, designate one or more "Replacement Banks". Pursuant to terms of the Agreement, the City elected to replace Dexia and designate Bayerische Landesbank Girozentrale ("BLB") as a Replacement Bank under the Agreement, and an Amendment Number One To the Letter of Credit Reimbursement Agreement, dated as of June 12, 2002, (the "Amendment") among the City, Dexia, State Street, Morgan and BLB has been executed and delivered relating to the designation of Bayerische as Replacement Bank under the Agreement and an irrevocable an irrevocable transferable letter of credit in the aggregate amount of \$389,375,000 (the Letter of Credit) in favor of US Bank Trust N.A., as issuing and paying agent, has been delivered by Morgan, State Street and BLB to provide security with respect to the payment of the principal of and interest on the Notes. Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms in the Agreement and the Amendment (collectively referred to herein as the "Reimbursement Agreement").

In regard to the foregoing we have examined the Agreement, the Amendment, Ordinance No. 020523-22 adopted by the City Council of the City approving and authorizing

execution of the Amendment, and such other official proceedings, documents, certificates and materials as we have deemed necessary for the purposes of rendering the opinions expressed below. In our examinations, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us a certified or photostatic copies, the authenticity of the originals of such latter documents, and the accuracy of the statements contained in such certificates. As to the validity and enforceability of Reimbursement Agreement, as to the BLB, we have relied upon the opinions of counsel to BLB.

Based on the foregoing and subject to the qualifications and exceptions hereinafter noted, we are of the opinion that :

1) Effective June 12, 2002, Dexia Credit Local de France has been removed as a Bank under the Agreement and BLB has been designated as a Replacement Bank under the Agreement in accordance with the terms of the Agreement and pursuant to the Amendment,

2) The Amendment has been duly executed and delivered by the City and assuming the due authorization, execution and delivery of the Amendment by the other parties thereto, the Reimbursement Agreement constitutes a valid and binding obligation of the City enforceable in accordance with its terms.

Our opinion expressed in paragraph 2 above is qualified to the extent that (a) the enforceability of the obligations of the City under the Reimbursement Agreement, may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws or equitable principles of general application from time to time affecting the rights of creditors, and secured parties generally; (b) a particular court may refuse to grant certain equitable remedies, including, without limitation, specific performance with respect to the enforceability of any of the provisions of the Reimbursement Agreement (c) the indemnity provisions of the Reimbursement Agreement may be invalid or contrary to public policy; and (d) the provisions of the Reimbursement Agreement waiving sovereign immunity may be invalid or contrary to public policy.

As to the Notes, we are of the opinion that the execution and delivery of the Amendment will not, in and of itself, adversely affect the tax exempt status of interest on the Notes for federal income tax purposes. In rendering such opinion, we have made no investigation of and consequently express no opinion with respect to, the qualification of the Notes as obligations described in section 103 of the Internal Revenue Code of 1986, as amended (the "Code") or the present status of the interest on the Bonds under section 103 of the Code, or (except as noted) any other federal tax matter. Furthermore, in reference to our opinion, dated April 13, 2000, regarding the Notes and the execution and delivery of the Agreement, BLB may rely upon such opinion to the same extent and manner as if BLB was an addressee of such opinion.

This opinion is limited to the specific opinions expressly stated herein, and no other opinion is to be implied or may be inferred beyond the specific opinions expressly stated herein. Without limiting the foregoing, in rendering the opinions expressed herein, we express no opinion regarding the applicability or effect of or compliance with any federal and state securities laws and regulations or federal and state tax laws and regulations (except as specifically addressed above).

This opinion is intended solely for benefit of the addressees hereof and the benefit of the holders of the Notes. It is not to be quoted in whole or in part, disclosed, made available to, or relied upon by any other person, firm or entity without our express prior written consent.

This opinion is based upon our knowledge of the law and facts as of the date hereof. We assume no duty to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

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