

EXHIBIT A

City of Arlington, Texas

(Tarrant County, Texas)

Annual Report

Updating Financial Information and

Operating Data

For

Fiscal Year Ending

September 30, 2001

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SECTION ONE: THE CITY OF ARLINGTON, TEXAS AND THE CITY'S WATER AND WASTEWATER SYSTEM

INTRODUCTION

The City is located in the eastern part of Tarrant County, equidistant between Dallas and Fort Worth on Interstate Highways 20 and 30, which are limited access highways. The City's location places it at the geographical center of the Dallas-Fort Worth metropolitan area. The land area of the City contained within its corporate boundary is approximately 98.7 square miles and approximately three quarters of a mile are contained within its extra-territorial jurisdiction.

The City was incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the Texas State Constitution. The City operates under a Council-Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services.

General

The City operates under the Council-Manager form of government as established by its Charter. There is a nine member City Council (the "Council") vested with local legislative power. Three council members and the Mayor are elected "at large" and five council members are elected in five single member districts. All members of the Council are elected for terms of two years, with the elections being held in even/odd years for approximately half the seats. The Council elects a Mayor Pro Tem from among its members.

Mayor and City Council

Policy-making and supervisory functions are the responsibility of and are vested in the Council under provisions of the City Charter. Ordinances, resolutions, and zoning decisions are presented at Council meetings at 6:30 p.m. each Tuesday. Council meetings are televised on the local cable public access station. A simple majority of the Council constitutes a quorum. The Mayor is required to vote on all matters considered by the Council, but has limited power to veto Council actions that can be overridden by simple majority action of the Council.

Administration

The City Manager is the administrative head of the municipal government and carries out the policies of the Council. With the assistance of three Deputy City Managers, he coordinates the functions of the various municipal agencies and departments responsible for the delivery of services to residents. The City Manager is appointed by the Council and serves at the pleasure of the Council.

Excluding the positions and offices of the City Attorney and certain others whose appointments are reserved for Council action, the City Manager appoints and removes all City employees. The City Manager exercises control over all City departments and divisions and supervises their personnel; recommends Council legislative actions; advises Council on the City's financial conditions and needs; prepares and submits to Council the annual budget; and performs such duties required by Council.

Certain City Council Appointees

The Council appoints the City Attorney who has management, charge, and control of all legal business of the City. He is chief legal advisor to the Council, the City Manager, and all City departments and agencies. It is his duty to advise Council concerning the legality of actions by the City and to represent the City in all matters affecting its interest.

The City's Municipal Court Judiciary provides for the adjudication of Class "C" misdemeanor cases, issuance of warrants, and the arraignment of prisoners.

The Council also appoints members to certain boards, commissions, and authorities, as it deems necessary to the operation of the City.

Principal Executive Officers

City Manager - Mr. Charles R. Kiefer - with the City since June 1978, he received his B.S. degree from Northern Kentucky University and his M.P.A. degree from Southern Methodist University and has completed the Harvard Program for Senior Government Executives. He was previously employed with the Kentucky Department for Local Government, and the City of University Park, Texas.

Deputy City Manager - Mr. William F. Studer, Jr. - with the City since June 1983, he received his B.A. from the University of Texas at El Paso and completed the course work for an M.P.A. from the University of North Texas and has completed the Harvard Program for Senior Government Executives. Prior to joining the City of Arlington, he was Assistant Director of Budget and Research for the City of Dallas.

Deputy City Manager - Mr. David M. Kunkle - with the City since January 1985, he received his B.S. and his M.P.A. from the University of Texas-Arlington and has completed the Harvard Program for Senior Government Executives. Prior to joining the City, he served as Police Chief in Grand Prairie, Texas, and as a police Captain in Dallas, Texas.

Deputy City Manager - Ms. Gayle Lacerda - with the City since February 2000, she received her B.A. from Dallas Baptist University and has completed the Harvard Program for Senior Government Executives. Prior to rejoining the City, she served as Director of Human Resources for the City of Irving, Texas and for the Dallas-Fort Worth International Airport. She also served the City of Arlington as a Human Resources Manager from 1986 to 1995.

Chief Financial Officer – Ms. Janice Larned – with the City since March 2002, she received her B.B.A. from Wichita State University and her E.M.B.A. from the University of Missouri and has completed the Government Finance Officers Association Advanced Program at the University of Wisconsin. Prior to joining the City, she served as a Vice President for Faultless Starch/Bon Ami Company and as the CFO for the City of Kansas City, Missouri.

Director of Water Utilities - Mr. Charles F. Anderson - with the City since 1972, he received his B.A. in Chemistry from Texas Wesleyan University and has completed the Virginia Polytechnic Institute and State University Institute for Water and Wastewater Utility Management. Prior to joining the City of Arlington he worked for General Dynamics and served in the U.S. Army.

City Attorney - Mr. Jay Doegey - with the City since March 1986, a graduate of Southern Illinois University, he received his law degree from the University of Texas. Prior to joining the City, he was Senior Assistant City Attorney for Corpus Christi, Texas.

City Secretary - Ms. Cindy Kemp - with the City since June 1965. She is a graduate of the Texas Municipal Clerks Certification program from the University of North Texas.

Governmental Services and Facilities

The City provides a full range of municipal services including police and fire, health, parks and recreation, public works, planning, and general administrative services. Water and wastewater services and landfill operations are accounted for in the City's Enterprise Fund.

The City's main municipal facilities include a general administrative building, a public safety building, and a municipal court complex. There are 16 fire stations, two police stations and two substations, a police training center, a fire training center, one main and four branch libraries, 76 city parks, and four municipal golf courses.

Some of the other major facilities provided by the City include a convention center, five recreation centers, and a municipal airport.

The City of Arlington provides a comprehensive range of public services characteristic of its position as the most populous city in the mid-cities area of the Dallas-Fort Worth metroplex. Presented in the following pages is a description of selected City agencies and departments contained within each of the three functional groups.

FUNCTIONAL GROUPS

Community Resources Group

The Deputy City Manager for Community Resources is responsible for oversight and management of five development related departments. The City functions covered by the Community Resources Group include Engineering Services, Transportation, Water Utilities, Planning and Development Services, and Parks and Recreation.

The Engineering Services Department consists of six areas: capital street program engineering, development program engineering, storm water utility support, real estate services, inspection, and survey. The department is responsible for all street construction, subdivision construction monitoring, and floodplain management in the City.

The Department of Transportation provides for traffic safety and street and airport operations. The Traffic Safety Division provides for the safe and efficient movement of people and goods within and across the City. The Street Division is responsible for the proper maintenance of the City's streets and drainage facilities. The Aviation Division is responsible for providing a safe flying environment for the general aviation flying public, operation of the municipal airport, and economic development activities at the municipal airport.

The Water Utilities Department is responsible for assuring a continuous supply of high quality water and a safe and adequate wastewater service. Arlington's water operations are nationally known and are recognized for their use of advanced technology. Transmission capacity has been designed to stay ahead of peak demands well into the 21st century. The Department has received awards from the United States Environmental Protection Agency, Texas Municipal Utilities Association, and the American Water Works Association.

The Planning and Development Services Department is responsible for maintaining a long-range Comprehensive Plan, which optimizes the physical, fiscal, and natural resources of the City in its development. The Building Inspection Division enforces City ordinances regarding general construction, zoning, mechanical, electrical, and plumbing activities. The planning staff provides coordination services in an effort to effectively facilitate program development and implementation. Additional responsibilities include developing the capital budget, and providing City staff and the general public with current zoning and inventory maps and a wide range of demographic statistics.

The Parks and Recreation Department is responsible for the operation and maintenance of the City's 4,226 acres of parks, including four municipal golf courses and five recreational centers and for the management of the Arlington Community Center. It conducts a wide range of high quality, year-round leisure time programs that are responsive to the physical and cultural needs of the citizens of Arlington.

Administrative Group

The Deputy City Manager for Administration is responsible for the oversight and management of four City departments, which include Finance, Human Resources, Technology Services, Support Services, as well as the Internal Audit Division, and the Public Information Office.

The Department of Finance oversees the financial affairs of the City and ensures the financial integrity of City operations. Departmental services include accounts payable, accounting, budgeting, purchasing, cash and debt management, risk management, and maintenance of the City's fixed assets inventory. It also oversees the Tax Division, the Municipal Court Operations, and the City Secretary's Office. The Tax Division is responsible for collecting the property taxes levied and the maintenance of all property tax related records. The Municipal Court Operations collects court fines, sets trial dockets, and maintains the Municipal Court records. The City Secretary's Office transcribes and maintains official City records, minutes and ordinances, and conducts City elections.

The Department of Human Resources is responsible for planning, developing, and administering the functions of employment, testing, training, and employee relations. It also administers the salary and benefit program and processes the payroll.

The Department of Technology Services has the responsibility for the processing and electronic storage of information used in the daily business of the City. The Geoprocessing Division is responsible for meeting the automated geographic information and mapping needs of the City.

The Department of Support Services is responsible for fleet operations, citywide telecommunication services, building construction management, and general services. It also has responsibility for 9•1•1 dispatch services and building maintenance operations.

The Internal Audit Division monitors internal accounting controls of City assets, monitors security of electronic data, and responds to management requests for analyses, appraisals, and recommendations.

The Public Information Office works with news media, issues publications, and implements programs to educate and inform citizens about City policies and programs.

Citizen Services Group

The Deputy City Manager for Citizen Services is responsible for the oversight and management of the Police, Fire, Library, Neighborhood Services, and Convention and Event Services Departments.

The Police Department is composed of three major units: Operations, Management Services, and Community Services. The six hundred and fifty nine members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. The Police Department responded to 157,291 calls for service in fiscal year 2001. In 1989, the Police Department joined an elite number of police agencies nationwide in achieving the certification standards required by the Commission on Accreditation for Law Enforcement Agencies, Inc. The Department was recertified in 1999.

The City's Fire Department, which is responsible for fire prevention, fire suppression, and first response emergency medical services, responded to approximately 28,800 calls for service in fiscal year 2001. The 301 employees of the Fire Department provide emergency responses from the City's 16 fire stations. The Emergency Management Office is responsible for coordinating major emergency disaster responses for the City.

The Library Department is responsible for the management and operation of the City's central library and four branch libraries. Circulation exceeds 1.4 million items annually.

The Neighborhood Services Department is responsible for enhancing the livability of neighborhoods through three divisions and the Office of Neighborhood Initiatives. The Code Enforcement Division is responsible for enforcing city regulations related to the maintenance, sanitation, rehabilitation, and conservation of existing housing. The Health Division is responsible for the inspection of food services establishments, public swimming pools, and new septic system installations. In conjunction with Tarrant County, it operates the Public Health Center, which is responsible for administering immunizations to children and supplying preventive health screening for the elderly. The Health Division is also responsible for Animal Control Services and operations of the City's Landfill. The Housing Division is responsible for administering federal and state grant funds and providing housing assistance to qualified citizens.

The Convention and Event Services Department is responsible for the management of the Arlington Convention Center. The City contracts with the Arlington Convention and Visitors Bureau for the tourism marketing of the City of Arlington.

WATER FACILITIES

Water Treatment Facilities

Arlington currently utilizes two plants to treat and purify raw water prior to distribution for use. The Pierce-Burch Water Treatment Plant (PBWTP), located in west Arlington, treats raw water pumped into the plant from Lake Arlington. The PBWTP has a present treatment capacity of 105 million gallons per day (MGD). At this time, there are no plans to expand the plant. However, land is available at the site to accommodate an additional 100 MGD capacity treatment facility in the future, if needed.

The rapid population growth and development in the southern part of the City necessitated the construction of the John F. Kubala Water Treatment Plant (JFKWTP), located on US Highway 287 at Eden Road. The JFKWTP began serving Arlington's citizens in May 1989. The plant receives its raw water directly from the Tarrant Regional Water District's Richland Chambers and Cedar Creek pipelines. The JFKWTP currently has a rated treatment capacity of 65 MGD. It will be expanded as demand necessitates to an ultimate treatment capacity of 130 MGD.

The Distribution System

The City's water distribution system is divided into two pressure planes, referred to as the upper and lower. The upper-pressure plane is supplied by JFKWTP, which is a newer, more energy efficient plant and is operated at maximum capacity whenever possible. The Pierce-Burch Plant supplies the remaining volume necessary to meet citywide demand in the lower pressure plane. With this arrangement, the JFKWTP supplies all of the water to the upper pressure plane and a portion of the water that is needed in the lower pressure plane whenever possible throughout the year. A combination of electrically driven and natural gas pumps transfer water from the plants into the distribution system. There are nine elevated storage tanks and eight ground storage tanks with a combined capacity of 41.4 million gallons.

The City's water distribution system is fully metered and consists of 1,392 miles of concrete cylinder, cast iron, poly-vinyl chloride (PVC), and ductile iron pipes with a minimum diameter of six inches. The entire system meets the minimum standards prescribed by the Texas Fire Insurance Commission, the United States Environmental Protection Agency, and the Texas Natural Resource Conservation Commission.

The City's water system has adequately met the demand for treating and distributing water during the past ten fiscal years as follows:

<u>Fiscal</u> <u>Year</u>	<u>Average Daily</u> <u>Production</u> <u>(MGD)</u>	<u>Maximum Daily</u> <u>Production</u> <u>(MGD)</u>
91-92	41.11	77.88
92-93	47.85	99.37
93-94	45.92	84.68
94-95	46.71	95.50
95-96	52.08	92.57
96-97	49.53	99.48
97-98	58.47	121.97
98-99	56.20	108.31
99-00	63.89	128.23
00-01	57.96	113.14

Source: City Water Utilities Department.

Water Supply

The Tarrant Regional Water District (the "District") is the primary supplier of raw water used by a total of 65 municipal and non-municipal entities located both within and outside Tarrant County. Among the major municipal customers of the District are the Cities of Fort Worth, Arlington, and Mansfield and the Trinity River Authority (the "TRA").

The City receives water from the District's Cedar Creek and Richland Chambers Reservoirs through transmission facilities to Lake Arlington and the John F. Kubala Water Treatment Plant. Beginning in August 1998, the District also began delivering water from the U.S. Army Corps of Engineers-owned reservoir Lake Benbrook. This service was initially provided under the terms and provisions of a water supply contract dated July 13, 1971. Under that contract, the District agreed to supply all of the City's municipal water requirements during its term.

On September 1, 1982, the District entered into a revised water supply contract ("Amendatory Contract") with the City, and the Cities of Fort Worth and Mansfield, and the TRA. The revised contract shall continue in effect until all bonds of the District relating to the District's System have been paid, and thereafter during the useful life of the District's System. Under the Amendatory Contract, the City is required to purchase all of its raw water needs from the District. The District is obligated to meet those needs by developing additional water supply sources; subject to force majeure, the ability of the District to obtain suitable financing, and a determination of feasibility. If the District is unable to supply all of the City's raw water requirements or if it should become apparent that the District will become unable to supply such requirements, the Amendatory Contract provides a procedure by which the City would be permitted to develop or obtain a supplemental water supply to meet its needs. The City is depending upon the District to meet its full raw water needs under the Amendatory Contract and, at present, the City has no assurance of the availability of a supplemental water supply if the District should fail to meet such needs. The District's current sources are projected to provide adequate water supply through 2016.

In January 1992, the District issued \$400,750,000 of Water Revenue Refunding and Improvement Bonds, Series 1992 and \$30,910,000 of Water Revenue Refunding Bonds, Series 1992-A. Additionally, the District issued Water Revenue Refunding Bonds for \$328,495,000 in September 1993 and Water Revenue Refunding and Improvement Bonds for \$22,725,000 in May 1999. As of October 1, 2001, the District had \$348,220,000 of water revenue bonds outstanding with a final maturity of March 1, 2013. Construction of the Richland Chambers Dam and Reservoir Project was funded with proceeds derived from the sale of \$342,750,000 of the District's Water Revenue Bonds, Series 1979-A and the District's Water Revenue Bonds, Series 1986, in the amount of \$57,600,000.

The Richland Chambers Dam and Reservoir is located in Freestone and Navarro Counties, southeast of the City of Arlington. The dam was completed in November 1987. Freese and Nichols, Inc., the District's consulting engineers, estimate that the District's existing water supply system has adequate water to meet its customers' projected water requirements through the year 2016. The District has participated in the statewide regional water planning effort authorized by the 1997 passage of Senate Bill 1. The regional plan for the Dallas-Ft. Worth region includes plans for the District to develop an additional 253 MGD through the year 2050 at an estimated cost of 1.16 billion dollars.

Under the terms of the Amendatory Contract, the City pays the District an amount equal to the City's proportionate share of the District's "Annual Requirement." Said annual requirement includes the costs of operation and maintenance of the District's raw water supply facilities, debt service on the District's bonds and any future bonds it might issue, including deposits to any special or reserve fund established in the District's bond resolutions. Based upon the projected water usage of the City for the 2001-02 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is \$1,164,218 which results in a rate of approximately 62.092 cents per one thousand gallons. Such amount is subject to adjustment as provided in the Amendatory Contract. The City is obligated to pay the District for all water used by it, and under the Amendatory Contract, the minimum amount of water the City shall be deemed to have used shall be calculated at an amount equal to the greater of 30 MGD or the average MGD actually used by the City during the period of the immediately preceding five consecutive annual periods (57.971 MGD as of September 30, 2001).

The Amendatory Contract provides that all payments to be made under said Contract shall constitute reasonable and necessary operating expenses of the System, and thus the City's requirements to make such payments from the revenues of the System shall have priority over any obligation to make payments from such revenues, including payment of principal and interest on the City's Outstanding Bonds, the Bonds and any Additional Bonds. In 1992, \$50,000,000 of revenue bonds were sold by the District. These funds were used to construct the Benbrook Connection Project consisting of approximately 35,000 feet of 90 inch diameter pipeline, approximately 20,000 feet of 108 inch diameter tunnel, a pump station at Lake Benbrook with a capacity of approximately 200 million gallons per day, an outlet structure at Lake Benbrook, and improvements to the existing balancing reservoirs. The project was completed in the fall of 1998. It now benefits all District customers by allowing the District to reduce electrical cost by using Benbrook for off peak pumping and storage. The construction cost was \$62,387,000, and was funded with proceeds of the Series 1992 Bonds and existing and unappropriated funds on hand.

Drought Contingency Plan

The City has historically worked closely with the District to plan for the implementation of drought contingency measures should drought conditions arise. The District updated its Water Conservation and Emergency Demand Management Plan in 1998. The District's customers had extensive input in defining drought conditions and prescribing conservation measures related to each drought condition. In addition, customers agreed to specify measures related to emergency conditions should drought-induced demands or components of the District's system fail. In conjunction with the District, the City adopted Emergency Water Management and Water Conservation Plans in October 1999.

The District's Drought Contingency Plan defines four drought conditions. For the two minimal drought conditions to occur would require peak demands to be applied with minimal reservoir inflow conditions for a period exceeding 18 months. These two minimal conditions would not have any significant effect on the City due to its ongoing educational program that promotes voluntary water conservation regardless of weather conditions.

The more serious drought conditions would have peak demands and weather conditions similar to those experienced in 1996 and 1998-2000 continuing unabated for an approximate 36-month period. These more serious drought conditions would result in restricted outside water use.

Due to this proactive approach to addressing drought conditions combined with historical planning and system development initiatives, the City does not anticipate any system supply problems. However, steps will be taken in the event of a prolonged drought to insure that the financial condition of the System remains strong.

Contract with Trinity River Authority

Simultaneous with the City's execution of a contract with TRA on October 10, 1973, for the treatment of sewage, it entered into an additional contract with TRA for the transmission of raw water. The City pumped water belonging to TRA and purchased from the District drawn from Lake Arlington and transported the water through one of its raw water transmission lines to TRA's receiving facilities on Lakewood Drive. This was strictly a service contract and did not involve the purchase or sale of water by the City. In 1986, the City entered into a revised agreement whereby TRA would lease/purchase the City's north raw water pump station. This pump station is not needed or used by the City's Wastewater System. The first payment per this agreement was made on December 1, 1986. The final payment was made in November 2001.

Consumer Analysis Data

The following data provides information as to the average daily water consumption, excluding sales to municipalities, by user category for the fiscal years ended September 30, 1997, through 2001.

Average Daily Consumption (MGD)

Category	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Residential	29.43	30.45	26.71	28.99	23.04
Commercial	15.46	15.27	13.69	13.76	12.36
Apartment Units	10.08	10.26	10.10	9.70	9.83
Mobile Homes, Condominiums, Townhouses	<u>.67</u>	<u>.68</u>	<u>.66</u>	<u>.72</u>	<u>.67</u>
Total	<u>55.64</u>	<u>56.66</u>	<u>51.16</u>	<u>53.17</u>	<u>45.90</u>

Source: City Water Utilities Department.

The following table shows the number of units served, excluding sales to municipalities, by user category for the fiscal years ended September 30, 1997, through 2001.

Number of Units Served

Category	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Residential	84,926	82,673	80,548	78,650	77,016
Commercial	7,258	7,112	6,828	6,585	6,325
Apartment Units	46,057	45,206	44,355	43,979	43,818
Mobile Homes, Condominiums, Townhouses	<u>4,043</u>	<u>4,016</u>	<u>4,026</u>	<u>4,024</u>	<u>4,061</u>
Total	<u>142,284</u>	<u>139,007</u>	<u>135,757</u>	<u>133,238</u>	<u>131,220</u>

Source: City Water Utilities Department.

The following is a listing of the top ten water customers of the City, ranked by consumption during the fiscal year ended September 30, 2001. During this period, their total annual water billings, which represented 9.1 percent of the System's water sales were as follows:

	<u>Consumption in 1,000 Gallons</u>	<u>Billing</u>
Arlington Independent School District.....	345,109	\$ 837,375
City of Arlington	282,840	726,629
General Motors	339,032	707,556
National Semiconductor	326,251	676,646
University of Texas at Arlington	168,374	418,965
Six Flags Park	126,978	274,112
Arlington Memorial Hospital	97,203	208,334
Hurricane Harbor.....	58,525	125,484
Park Lane Apartments.....	54,808	113,366
Atrium on the Creek Apartments	<u>49,186</u>	<u>104,655</u>
Total	1,848,306	\$4,193,122

Source: City Water Utilities Department.

The following table lists certain data on historical water consumption during the last five fiscal years.

**Historical Water Consumption Data
(Inside City Limits)**

Fiscal Year Ended 9/30	Total Accounts In Service	Total Water Pumped MGD	Average Water Pumped MGD	Maximum Day Pumpage MGD	GPD Per Account	Ratio Maximum Day to Average Day
1997	85,643	18,129	49.53	99.48	578	2.01
1998	87,629	21,343	58.47	121.97	667	2.09
1999	89,905	20,511	56.20	108.31	625	1.93
2000	92,378	23,389	63.90	128.23	692	2.00
2001	94,867	21,157	57.96	113.14	611	1.95

Source: City Water Utilities Department.

WASTEWATER FACILITIES

The wastewater collection system that serves all developed areas within the City limits is comprised of approximately 1,145 miles of sanitary sewer mains ranging in size from six to seventy-two inches. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own wastewater. Wastewater produced in the City is treated under contract by TRA’s Central Regional Wastewater System (the “CRWS”). The City’s annual volume of contributing flow amounts to approximately 30 percent of the total wastewater flow into the CRWS Plant. As the City with the largest population in the CRWS service area, Arlington contributes the highest daily flow of all TRA regional plant customers. The CRWS Plant meets the effluent permit conditions to treat 162 MGD as set by the Texas Natural Resource Conservation Commission (the “TNRCC”) and the Environmental Protection Agency (the “EPA”).

The following is a list of Arlington’s wastewater flows treated by the TRA and Fort Worth plants during the last five fiscal years.

**Wastewater Treated
(Millions of Gallons)**

	2001	2000	1999	1998	1997
TRA CRWS Plant	16,374	10,502	8,856	8,630	8,455
Fort Worth Village Creek Regional Plant	0	4,297	4,864	4,769	4,689
Total	<u>16.374</u>	<u>14.799</u>	<u>13.720</u>	<u>13.399</u>	<u>13.144</u>

Source: City Water Utilities Department.

Treatment Contract with Trinity River Authority

The City's wastewater is treated under the terms of a 50-year contract with TRA dated October 10, 1973. TRA is the owner and operator of the CRWS Plant and the interceptor pipeline system, which serves part of Dallas, Dallas-Fort Worth International Airport, and 19 other Dallas County and Tarrant County municipalities. Under the terms of the contract, each contracting party contributes to the TRA's "Annual Requirements" in proportion to its contributing flow of wastewater into the CRWS Plant. The "Annual Requirements" include cost of operation and maintenance of the system and debt service on TRA's bonds issued to construct the system, including deposits to special funds established by the bond resolution. Based upon actions approved in 1996, TRA began treating all of Arlington’s wastewater when facilities constructed by Arlington were completed in September 2000. These pipeline facilities convey

west Arlington wastewater to TRA System facilities, and on to the TRA treatment plant for final treatment. This pipeline project cost from Arlington to TRA was \$11,000,000. The transfer of Arlington's wastewater flows from the Fort Worth Village Creek Regional Plant to this pipeline began in September 2000. Cash balances of the Water Utilities Department funded this project.

In 1989, TRA sold \$134.75 million in System Revenue Bonds to fund an expansion of the system's treatment plant from 100 to 135 MGD, which was placed into operation in early 1994. Subsequently in 1992, an additional \$33.0 million in System Revenue Bonds were issued to fund improvements required primarily in the system's 200 mile network of large diameter pipelines over the first half of a five-year planning period. These latter improvements will increase capacity in the pipelines, rehabilitate pipelines, and initiate several engineering evaluations to define required improvements to the plant and pipelines in the future. In 1995, TRA issued \$43.515 million in System Revenue bonds to fund the remaining portions of the 1992-1996 capital plan. A new five-year plan for 1997-2001 has been initiated to rehabilitate interceptors and accomplish plant improvements. Initial funds of \$49 million were obtained from the 1998A bond issue. The balance of the \$64 million 1998A bond issue was utilized in 2001. Also in 1998, \$67 million in bonds were refunded through TRA's issuance of the 1998B Revenue Refunding Bonds. In 2001 TRA issued an additional \$88.2 million in System Revenue Bonds through the Texas Water Development Board for plant improvements and relief pipeline construction.

At present, the 162 MGD CRWS Plant is situated on a 500 acre site in Grand Prairie. The CRWS Plant uses a conventional activated sludge process enhanced for nitrification followed by filtration. Effluent quality discharged to the West Fork of the Trinity River has been excellent and meets all regulatory requirements. The plant was selected by the state and federal regulatory agencies as the best large treatment plant in EPA's Region 6 five-state area during 1996 and has received AMSA's Gold Award for the past six years in a row. A portion of the treated effluent is delivered for beneficial reuse to lakes in the Las Colinas area of Irving where it is used for irrigation and lake and canal level control. Revenue from this sale is credited to the parties of the System.

Plant solids removed by this treatment plant are now being beneficially reused by a land application program, which exports all biosolids from the plant site. An onsite sludge monofil exists with a 20-year remaining life, as a backup to the land application program, and to provide an alternative disposal method in the event contractor failure or other unanticipated failure occurs.

For TRA's fiscal year ended November 30, 2001, the volume of contributing flow by the City is estimated to average 44.86 MGD, which amounts to 29.8 percent of total volume of wastewater flow into the CRWS plant. This percentage of wastewater flow is used to determine the City's annual requirements under this contract. Arlington has the largest service area population and contributes the highest average daily flow of all TRA CRWS plant customers. The City's current cost of wastewater treatment under this contract budgeted for 2002 is \$14,234,030. Annual payments made to TRA under this contract are made prior to any payments on the Outstanding Bonds.

In addition, the City is a party to a contract (the "Arlington Project Contract") dated October 10, 1973, under which TRA constructed certain improvements to the City's System with the proceeds of its revenue bonds, which the City, by the terms of the contract, was to pay, together with certain fees and administrative overhead. The payment of these bonds was completed in August 2000, as was the final administrative overhead payment.

The facilities constructed by TRA related to the Arlington Project Contract are integral parts of the System and are maintained and operated by the City. Ownership of such facilities was vested in the City when all of the TRA bonds were paid. The improvements to the System financed by TRA consist of the raw water pumping station on Lake Arlington and certain major wastewater collection lines.

Treatment Contract with City of Fort Worth

Until September 2000, approximately 35 percent of the City's wastewater was treated at the City of Fort Worth's Village Creek Regional Plant. Under the terms of a five-year contract, dated July 11, 1996, the City completed the pipeline and other facilities to divert its wastewater and sludge to the Trinity River Authority's CRWS Plant. The City has negotiated a contract with Fort Worth for the transportation charges associated with the right to divert excess wastewater from their Village Creek Interceptor to the Arlington Rush Creek Interceptor until improvements can be constructed by Fort Worth to carry this flow or until the treatment capacity allotted to the City is maximized.

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

The 2001 estimated population for the City of Arlington is 339,215. The following table presents population figures for selected years.

**Population and Rates of Change
Arlington and the United States
Selected Years**

<u>Year</u>	<u>Arlington</u>	<u>Annual Rate of Change</u>	<u>United States</u>	<u>Annual Rate of Change</u>
1950	7,692	-- %	150,697,361	-- %
1960	44,775	19.3	178,464,236	1.71
1970	90,229	7.3	203,211,926	1.31
1980	160,113	5.9	226,545,805	1.09
1990	261,721	5.0	248,765,170	.94
2000	332,969 ⁽¹⁾	2.4	281,421,906	1.40
2001	339,215	1.9	284,796,887	1.20

⁽¹⁾ Actual 2000 Census population.

Source: U.S. Dept. of Commerce, U.S. Census, and the City Planning and Development Services Department Estimates.

Per Capita Personal Income

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Tarrant County	\$28,835	27,792	\$26,163
Texas	26,266	25,426	23,998
United States	27,859	26,909	25,924

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Educational Facilities

Public education is provided principally by the Arlington Independent School District (the "AISD") which overlaps all but a small portion of the City. The AISD has five senior high schools, twelve junior high schools, forty-nine elementary schools, and five alternative schools. Currently, a professional staff of approximately 4,170 serves a peak enrollment of 60,760 students.

The University of Texas at Arlington, founded in 1895, features a current enrollment of 21,180 and offers 183 degree programs at the baccalaureate, master and doctoral levels. The physical plant, located on a 395 acre campus, includes 100 University academic and dormitory buildings.

Tarrant County College opened its Southeast Campus in Arlington during 1996. Enrollment at the 160-acre site features a current enrollment of approximately 7,800 students. The college has 272 full-time employees. The college offers Associate degrees in Arts, and Applied Sciences and various technical certificates.

Summarized below is information concerning the Arlington Independent School District's annual peak enrollment and the percentage changes for the last ten fiscal years.

**Public School Enrollment
Arlington Independent School District**

<u>Fiscal Year</u>	<u>Peak Enrollment</u>	<u>Percentage Change</u>
1993	48,411	3.66%
1994	49,156	1.54
1995	50,492	2.72
1996	52,328	3.64
1997	53,757	2.67
1998	54,961	2.24
1999	56,234	2.32
2000	57,433	2.13
2001	59,342	3.32
2002	60,760	2.39

Source: Arlington Independent School District.

Employment

Arlington Major Employers

<u>Name</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Arlington Independent School District	Public Education	7,276
University of Texas at Arlington	Higher Education	4,417
Six Flags Over Texas	Amusement Park	3,250
General Motors	Automobile Assembly	3,000
City of Arlington	Municipality	2,367
Arlington Memorial Hospital	Medical Center	1,900
Americredit	Finance	1,550
Southwest Sports Group	Major League Baseball and Hockey	1,526 ⁽¹⁾
Providian Financial	Financial Services	1,219
National Semiconductor	Semiconductor Manufacturer	1,150
Chase Bank Call Center	Banking Services	1,100
Bell Helicopter Textron Inc.	Manufacturer	1,086
Doskocil Manufacturing	Manufacturer	1,000
Siemens Electrocom LLC.	Mail Sorting Equipment	1,000
Aetna US Healthcare	Insurer	950

⁽¹⁾ Includes part-time and peak seasonal employees.

Source: Arlington Chamber of Commerce, and City of Arlington Finance Department. This information will continue to be disclosed as long as it is available from the Chamber of Commerce or other reliable sources.

As illustrated in the table below, Arlington has managed to maintain lower unemployment rates than the United States and the State of Texas. For 2001, the City's unemployment rate averaged 3.9 percent as compared to the U.S. rate of 4.8 percent and the Texas rate, which was 4.9 percent.

**Unemployment Rate
Annual Average Rates
1997 to 2001**

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Arlington	3.5%	2.8%	2.7%	2.9%	3.2%
Texas.....	4.9	4.3	4.6	4.8	5.4
United States	4.8	4.0	4.2	4.5	4.9

Source: U.S. Bureau of Labor Statistics.

Financial Institutions

There are twenty-eight commercial banks and savings and loan associations operating a total of 56 free standing and 6 in-store branches in the City.

Building Permits

During the calendar year 2001, the City issued 7,927 building permits with a total value of \$452,441,533. Presented below is a table covering building permit activity for the last three calendar years:

	<u>2001</u>		<u>2000</u>		<u>1999</u>	
	<u>Number</u>	<u>Value (000's)</u>	<u>Number</u>	<u>Value (000's)</u>	<u>Number</u>	<u>Value (000's)</u>
Residence	2,490	\$260,026	2,191	\$227,695	2,024	\$202,602
Duplex	9	874	8	847	13	887
(No. of Units)	(18)	-	(16)	-	(26)	-
Apartments	22	14,886	13	5,122	49	46,116
(No. of Units)	(285)	-	(0)	-	(824)	-
Commercial	445	119,092	525	200,493	553	198,852
Institutional	35	10,005	69	70,000	87	55,778
Alterations and						
Additions	224	11,054	229	39,622	216	13,260
Signs	1,168	2,338	1,193	2,392	1,438	2,683
Miscellaneous	<u>3,534</u>	<u>34,166</u>	<u>3,602</u>	<u>30,696</u>	<u>3,053</u>	<u>21,827</u>
Total	<u>7,927</u>	<u>\$452,441</u>	<u>7,830</u>	<u>\$576,867</u>	<u>7,433</u>	<u>\$542,005</u>

Source: City Building Inspections Division.

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit issued by a state or national bank, a savings bank or a state or federal credit union, in each case domiciled in the State of Texas, that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor or (ii) secured by obligations that are described in clauses (1) through (6) above, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates or (iii) in any other manner and amount provided by law for deposits of the City, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) above and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank, (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; provided, however, that the City is not authorized to invest in the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in such no-load mutual funds, and (13) for bond proceeds, guaranteed investment contracts that have a defined termination date, are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount invested under the contract, and are pledged to the City and deposited with the City or with a third party selected and approved by the City.

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all City funds must be invested in investments that protect principal, and consistent with the operating requirements of the City, and yield the highest possible rate of return. Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest City funds without express written authority from the City Council or chief executive officer of the City.

The City's primary investment objective is to provide for the protection of principal with an emphasis on safety and liquidity. The City maintains a comprehensive cash management program that includes prudent investment of its available funds. Investment maturities are targeted to provide available cash for the operating requirements of the City.

Current Investments

As of September 30, 2001, the following percentages of the City's operating funds were invested in the following categories of investments:

<u>Type of Investment</u>	<u>% Invested</u>
U.S. Treasury Notes & Bills	51.2%
Federal Agencies	35.3
Statewide Pool	9.3
Money Market Account	<u>4.2</u>
Totals	100.0%

As of September 30, 2001, the weighted average maturity of the City's operating portfolio was 199 days and the market value of the operating portfolio was 100.62 percent of its book value.

SECTION TWO: DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM

TAX-SUPPORTED DEBT

DEBT STATEMENT

Pursuant to the Constitution and laws of the State of Texas and the Charter of the City, the City is authorized to issue general obligation bonds secured by an ad valorem tax on all property within its boundaries subject to local taxation. A tax rate limitation is imposed by the Home Rule Section of the Texas Constitution, Article XI, Section 5, that allows a maximum tax rate of \$2.50 per \$100.00 assessed valuation.

The following table details the ad valorem tax-supported debt of the City as of September 30, 2001:

Total Outstanding Tax-Supported Debt	\$302,590,000
Less Self-Supporting Debt ⁽¹⁾	<u>16,191,399</u>
Net Tax-Supported Debt	<u>\$286,398,601</u>

⁽¹⁾ See "Debt Service Requirements -- Net Tax-Supported Debt."

Source: City Finance Department.

DEBT INFORMATION

Information on the City's indebtedness is presented in the following tables. Included is information on key debt ratios, rapidity of principal retirement and selected debt service schedules.

In addition to the currently outstanding ad valorem tax-supported debt previously issued by the City, the City has also issued certain combination ad valorem tax and revenue supported debt and has incurred contractual and other indebtedness and liabilities payable from ad valorem taxation. Additionally, the City has issued revenue bonds and other indebtedness payable from specific pledged revenues. Various other political subdivisions, which overlap all or a portion of the area of the City are also empowered to incur debt to be paid from revenues raised or to be raised through taxation.

**Key Debt Ratios
Fiscal Years 1992-2001**

Fiscal Year	Estimated Population⁽¹⁾	Taxable Assessed Valuation Calendar Year⁽²⁾	Net Tax- Supported Debt Year Ended September 30⁽³⁾	Ratio of Net Tax- Supported Debt	
				Per Capita	Assessed Valuation
1992	266,212	\$ 8,546,682,084	\$ 199,585,000	\$ 750	2.34%
1993	271,325	8,380,499,546	209,638,000	773	2.50
1994	276,614	8,462,723,535	215,865,000	780	2.55
1995	281,180	9,121,092,236	225,751,000	803	2.48
1996	286,293	9,703,921,853	234,180,000	818	2.41
1997	289,315	10,180,990,795	248,949,000	860	2.45
1998	293,991	10,868,585,827	251,622,000	856	2.32
1999	309,859	11,415,146,297	268,633,000	867	2.35
2000	332,969 ⁽⁴⁾	12,435,152,758	276,879,000	832	2.23
2001	339,215	13,513,378,507	286,398,601	844	2.12

⁽¹⁾ Population estimates are based on percent of occupancy in available residences and census data. The method for estimating occupancy rates was revised beginning in 1999.

⁽²⁾ Taxable assessed valuation is obtained from the certified value as of September of each tax year including minimum estimated value of property under protest.

⁽³⁾ These figures do not include self-supporting debt.

⁽⁴⁾ Actual 2000 Census population.

Source: City Finance Department.

**Rapidity of Principal Retirement⁽¹⁾
All General Obligation Debt**

<u>Maturing Within</u>	<u>Amount Maturing</u>	<u>Percent of Total Debt Outstanding</u>
5 years	\$ 125,190,000	41.4%
10 years	210,125,000	69.4
15 years	274,775,000	90.8
20 years	302,590,000	100.0

⁽¹⁾ As of September 30, 2001.

Source: City Finance Department.

DEBT SERVICE REQUIREMENTS

The following schedule sets forth the principal and interest requirements on the City's outstanding debt payable from ad valorem taxation pledged thereto.

**General Obligation Bonds
Tax-Supported Debt Service Requirements⁽¹⁾**

Fiscal Year Ending 9/30	Outstanding General Obligation Debt		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 27,860,000	\$ 15,646,588	\$ 43,506,588
2003	26,065,000	14,177,755	40,242,755
2004	26,625,000	12,820,109	39,445,109
2005	23,120,000	11,447,052	34,567,052
2006	21,520,000	10,253,503	31,773,503
2007	19,385,000	9,140,157	28,525,157
2008	18,405,000	8,149,869	26,554,869
2009	16,530,000	7,198,896	23,728,896
2010	15,290,000	6,359,230	21,649,230
2011	15,325,000	5,569,414	20,894,414
2012	14,800,000	4,777,164	19,577,164
2013	14,130,000	4,014,909	18,144,909
2014	13,165,000	3,286,398	16,451,398
2015	11,890,000	2,602,249	14,492,249
2016	10,665,000	1,994,976	12,659,976
2017	9,425,000	1,450,908	10,875,908
2018	7,315,000	966,920	8,281,920
2019	6,065,000	585,265	6,650,265
2020	3,325,000	266,110	3,591,110
2021	<u>1,685,000</u>	<u>87,955</u>	<u>1,772,955</u>
	<u>\$302,590,000</u>	<u>\$120,795,427</u>	<u>\$423,385,427</u>

⁽¹⁾ As of September 30, 2001.

Source: City Finance Department.

NET TAX-SUPPORTED DEBT

Fiscal Year Ending 9/30	Outstanding General Obligation Debt⁽¹⁾		Self Supporting Debt⁽²⁾		Net Tax- Supported Debt
	Principal	Interest	Principal	Interest	Total
2002	\$ 27,860,000	\$ 15,646,588	\$ 1,081,161	\$ 928,368	\$ 41,497,059
2003	26,065,000	14,177,755	1,082,778	859,173	38,300,804
2004	26,625,000	12,820,109	1,089,006	794,872	37,561,231
2005	23,120,000	11,447,052	1,103,454	732,625	32,730,973
2006	21,520,000	10,253,503	610,000	568,121	30,595,382
2007	19,385,000	9,140,157	640,000	541,281	27,343,876
2008	18,405,000	8,149,869	670,000	512,481	25,372,388
2009	16,530,000	7,198,896	700,000	482,331	22,546,565
2010	15,290,000	6,359,230	735,000	450,831	20,463,399
2011	15,325,000	5,569,414	770,000	416,838	19,707,576
2012	14,800,000	4,777,164	805,000	380,262	18,391,902
2013	14,130,000	4,014,909	845,000	342,025	16,957,884
2014	13,165,000	3,286,398	890,000	301,888	15,259,510
2015	11,890,000	2,602,249	935,000	258,500	13,298,749
2016	10,665,000	1,994,976	980,000	211,750	11,468,226
2017	9,425,000	1,450,908	1,030,000	162,750	9,683,158
2018	7,315,000	966,920	1,085,000	111,250	7,085,670
2019	6,065,000	585,265	1,140,000	57,000	5,453,265
2020	3,325,000	266,110	-	-	3,591,110
2021	<u>1,685,000</u>	<u>87,955</u>	<u>-</u>	<u>-</u>	<u>1,772,955</u>
	<u>\$302,590,000</u>	<u>\$120,795,427</u>	<u>\$16,191,399</u>	<u>\$8,112,346</u>	<u>\$399,081,682</u>

⁽¹⁾ As of September 30, 2001.

⁽²⁾ Includes \$2,161,399 of the Permanent Improvement Refunding Bonds, Series 1993 (the “Series 1993 Refunding Bonds”) which has historically been paid with hotel occupancy tax revenues and \$14,030,000 Combination Tax and Revenue Certificates of Obligation, Series 1998, payable from a combination of hotel occupancy tax revenues and ad valorem taxes as described under “Hotel Occupancy Tax Certificates of Obligation” below. To the extent the such revenues are insufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax.

Source: City Finance Department.

Hotel Occupancy Tax Certificates of Obligation

The Combination Tax and Revenue Certificates of Obligation, Series 1998, are currently outstanding in the aggregate principal amount of \$14,030,000 and payable from (1) the proceeds of a continuing direct ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City, and (2) a portion of the revenues derived by the City from the hotel occupancy tax. The hotel occupancy tax presently is levied and collected under authority of V.T.C.A., Government Code, Chapter 1504, as amended, and V.T.C.A., Tax Code, Chapter 351.

The Combination Tax and Revenue Certificates of Obligation, Series 1998, pledge the “Surplus Revenues” of the City’s hotel occupancy tax levied and collected under authority of V.T.C.A., Government Code, Chapter 1504, and V.T.C.A., Tax Code, Chapter 351, remaining after payment of all current and future debt obligations payable in whole or in part from the City’s hotel occupancy tax receipts. The following excerpt from the ordinance authorizing the Combination Tax and Revenue Certificates of Obligation, Series 1998, describes the method of payment:

"The amount of taxes to be provided annually for the payment of principal of and interest on the Certificates shall be determined and accomplished in the following manner:

(a) the City's annual budget shall reflect (i) the amount of debt service requirements to become due on the Certificates in the next succeeding Fiscal Year of the City, (ii) the amount on deposit in the Interest and Sinking Fund, as of the date such budget is prepared (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) and (iii) the amount of Surplus Revenues estimated and budgeted to be available for the payment of such debt service requirements on the Certificates during the next succeeding Fiscal Year of the City.

(b) The amount required to be provided in the succeeding Fiscal Year of the City from ad valorem taxes shall be the amount, if any, the debt service requirements to be paid on the Certificates in the next succeeding Fiscal Year of the City exceeds the sum of (i) the amount shown to be on deposit in the Interest and Sinking Fund (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) at the time the annual budget is prepared, and (ii) the Surplus Revenues shown to be budgeted and available for payment of said debt service requirements.

(c) Following the final approval of the annual budget of the City, the governing body of the City shall, by ordinance, levy an ad valorem tax at a rate sufficient to produce taxes in the amount determined in paragraph (b) above, to be utilized for purposes of paying the principal of and interest on the Certificates in the next succeeding Fiscal Year of the City."

The City also will use hotel occupancy taxes to pay a portion of the debt service on the Series 1993 Refunding Bonds. Based on a calculation of the pro rata share of debt service on the Series 1993 Refunding Bonds, the hotel occupancy tax will provide \$2,923,756 of the total debt service on the Series 1993 Refunding Bonds from October 1, 2002 through fiscal year 2005.

In the fiscal year 2001-02 Budget, the City estimated that \$4,672,000 of Hotel Occupancy Tax will be received by the City during fiscal year 2001-02 which amount exceeds the \$2,009,529 of debt service requirements on Combination Tax and Revenue Certificates of Obligation, Series 1998, and the allocable portion of Series 1993 Refunding Bonds for fiscal year 1998. As shown in the section hereof entitled "Tax Data - Hotel Occupancy Tax Receipts," Hotel Occupancy Tax Revenues in the fiscal years 1996 through 2001 have been more than adequate to pay debt service requirements on the Hotel Occupancy Tax Certificates and Bonds.

Contractual Indebtedness

The contract between the City and TRA has been completed and all payments have been made. The City has no contractual indebtedness payable from ad valorem taxation.

Tax Adequacy

The following analysis as of September 30, 2001, assumes 98 percent collection of ad valorem taxes levied against the City's 2001 Net Assessed Valuation, and future Hotel Occupancy Tax collections at a level sufficient to pay debt service on the Combination Tax and Revenue Certificates of Certificates of Obligation, Series 1998, and the allocable portion of the Series 1993 Refunding Bonds.

Average Annual Requirement (2002/2021)	\$19,954,084
A tax rate of \$.1638 per \$100 assessed valuation produces	19,961,405
Average Annual Requirement (2002/2011)	29,611,925
A tax rate of \$.2430 per \$100 assessed valuation produces	29,613,073
Maximum Annual Requirement (2002)	41,497,059
A tax rate of \$.3406 per \$100 assessed valuation produces	41,507,048

SHORT-TERM BORROWING

The City does not borrow on a short-term basis for working capital purposes. The City's policy is to maintain its fund balances at levels that provide sufficient cash flow for working capital purposes.

ESTIMATED OVERLAPPING DEBT

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes, of governmental entities within which the City is located or with which taxable property is jointly levied against, and the estimated percentages and amounts of such indebtedness attributable to taxable property within the City. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance purposes. Furthermore, certain of the entities listed may have issued additional Bonds since the date stated in the table, and such entities may have programs requiring the issuance of substantial additional amounts of indebtedness, the amount of which cannot be determined.

Overlapping Debt				
(amounts in thousands)				
<u>Taxing Jurisdiction</u>	<u>Amount</u> ⁽¹⁾	<u>As of</u>	<u>Percent</u> ⁽²⁾	<u>Amount</u>
City of Arlington ⁽³⁾	\$300,850	9-30-01	100.00 %	\$ 276,879
Arlington Independent School District	595,481	8-31-01	78.16	458,923
Tarrant County	115,240	9-30-01	18.81	23,946
Tarrant County Junior College District	83,094	8-31-01	18.81	17,882
Tarrant County Hospital District	7,660	9-30-01	18.81	2,855
Kennedale Independent School District	16,090	8-31-01	20.91	3,446
Mansfield Independent School District		8-31-01	11.66	13,882
Hurst-Euless-Bedford I.S.D.....	247,129	8-31-01	3.90	<u>9,872</u>
Total Direct and				
Overlapping Debt ⁽⁴⁾				<u>\$ 807,685</u>
Overlapping debt as a percent of 2002 assessed value		6.5%		
Overlapping debt per capita		\$2,426		
Per capita overlapping debt as a percent				
of 1998 County per capita personal income		9.2%		

⁽¹⁾ Source: Net debt outstanding per representative of each jurisdiction.

⁽²⁾ Source: Texas Municipal Reports, compiled and published by Municipal Advisory Council of Texas.

⁽³⁾ See "Debt Statement."

⁽⁴⁾ Substantially all of the City's residents are located within the Arlington I.S.D. Although Fort Worth I.S.D. also has taxing jurisdiction within a portion of the City, reference to this district has been intentionally omitted because less than 1 percent of its total debt is paid by residents of the City.

WATER AND WASTEWATER SYSTEM REVENUE BONDS

The following table sets forth the debt service requirements on the Outstanding Bonds of the Water and Wastewater System, formerly known as the Waterworks and Sewer System, excluding the Trinity River Authority debt.

**DEBT SERVICE REQUIREMENTS
WATER & WASTEWATER SYSTEM REVENUE BONDS⁽¹⁾**

Fiscal Year Ending 9/30	<u>Outstanding Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$11,380,000	\$4,854,046	\$16,234,046
2003	11,185,000	4,004,512	15,189,512
2004	9,750,000	3,387,353	13,137,353
2005	8,395,000	2,909,323	11,304,323
2006	7,650,000	2,501,053	10,151,053
2007	6,895,000	2,126,563	9,021,563
2008	4,435,000	1,796,133	6,231,133
2009	4,415,000	1,581,533	5,996,533
2010	4,390,000	1,364,589	5,754,589
2011	3,770,000	1,145,597	4,915,597
2012	3,455,000	955,680	4,410,680
2013	3,035,000	774,387	3,809,387
2014	2,615,000	615,375	3,230,375
2015	2,610,000	481,062	3,091,062
2016	2,035,000	346,500	2,381,500
2017	1,435,000	245,000	1,680,000
2018	1,435,000	174,250	1,609,250
2019	1,035,000	103,500	1,138,500
2020	<u>1,035,000</u>	<u>51,750</u>	<u>1,086,750</u>
	<u>\$90,955,000</u>	<u>\$29,418,206</u>	<u>\$120,373,206</u>

⁽¹⁾ As of September 30, 2001.

Source: City Finance Department.

TAX-SUPPORTED CAPITAL IMPROVEMENT PROGRAM

The City's Capital Improvement Program ("CIP") provides for multi-year improvements to the City's public facilities along with the means of financing these improvements. The City's Capital Improvement Program, prepared annually, is primarily driven by recent bond election results. The City's most recent permanent improvement bond election was held on January 16, 1999. Four propositions on the ballot totaling \$101,100,000 were approved by the voters. The four approved propositions were streets and traffic mobility (\$85,520,000), police (\$4,250,000), fire (\$7,605,000), and libraries (\$3,725,000). Combined with the authorized but unissued bonds from prior elections, the City has \$69,455,000 in unissued permanent improvement bonding authority.

The approved CIP is the result of a process that balances the need for public facilities against the fiscal capability of the City to provide for those needs. The City's tax-supported CIP for fiscal year 2001-02 is budgeted at \$26,920,000.

The general obligation projects include \$18,945,000 for Streets and Transportation projects, \$4,480,000 for Park projects, \$470,000 for Police projects, \$525,000 for Fire projects, and \$2,500,000 for Technology projects. The City is planning a \$23,820,000 permanent improvement bond sale and a \$3,100,000 certificate of obligation to finance the tax-supported CIP.

**Capital Improvement Program
Bond Elections (1993, 1997 and 1999)
and Planned 2002 Certificate Sale
(amounts in thousands)**

<u>Sources</u>	<u>Estimated Total Costs</u>	<u>Total Financing To Date</u>	<u>Planned Issuance</u>	<u>Total Amount Remaining</u>	<u>Percent of Total Amount Remaining</u>
General Obligation Bonds	\$143,875	\$ 74,420	\$23,820	\$45,635	100.0%
2002 Certificates of Obligation	<u>3,100</u>	<u>-</u>	<u>3,100</u>	<u>-</u>	<u>-</u>
Total	<u>\$146,975</u>	<u>\$ 74,420</u>	<u>\$ 26,920</u>	<u>\$45,635</u>	<u>100.0%</u>

**Capital Improvement Program
Bond Elections (1993, 1997 and 1999)
and Planned 2002 Certificate Sale
(amounts in thousands)**

<u>Uses</u>	<u>Estimated Total Costs</u>	<u>Financing To Date</u>	<u>Planned Issuance</u>	<u>Total Amount Remaining</u>	<u>Percent of Total Amount Remaining</u>
Library	\$ 8,640	\$ 6,075	\$ -	\$ 2,565	5.6 %
Parks and Recreation	37,860	23,665	3,880	10,315	22.6
Streets, Storm Drainage and Transportation	85,520	35,405	18,945	31,170	68.3
Police	4,250	3,780	470	-	-
Fire	7,605	5,495	525	1,585	3.5
Park CO's	600	-	600	-	-
Technology Projects	<u>2,500</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>-</u>
Total	<u>\$146,975</u>	<u>\$ 74,420</u>	<u>\$ 26,920</u>	<u>\$ 45,635</u>	<u>100.0%</u>

WATER AND WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

The City's Water Utilities Department maintains a program of annually updating its estimate of foreseeable System capital improvements. This is accomplished through the joint efforts of the Engineering Division of the Water Utilities Department and independent-consulting engineers. The Water Utilities Department annually reviews its proposed Capital Improvement Program with the City Council.

The following table represents the estimated amount of financing needed to meet the proposed Capital Improvement Program for the five fiscal years shown but does not include any improvements for Trinity River Authority, City of Fort Worth, or Tarrant Regional Water District. The City's Water Utilities Department estimates that 65 percent of the capital funds needed will be used for improvements to the Water System and the remaining 35 percent for improvements to the Wastewater System.

Proposed Capital Improvement Program

<u>Fiscal Year</u>	<u>Planned Capital Expenditures</u>	<u>Planned Bond Sale</u>	<u>Other Capital Financing Sources</u> ⁽¹⁾
2001-2002	\$27,338,000	\$15,000,000	\$12,338,000
2002-2003	24,938,000	15,000,000	9,938,000
2003-2004	25,000,000	15,000,000	10,000,000
2004-2005	25,000,000	15,000,000	10,000,000
2005-2006	25,000,000	15,000,000	10,000,000

⁽¹⁾ These include annual budgeted amounts for the water and wastewater main replacement program, cash contributions from the operating fund to the capital fund, and remaining bond proceeds.

SECTION THREE: FINANCIAL INFORMATION

BASIS OF ACCOUNTING AND ACCOUNTING STRUCTURE

The accounting records of the City are maintained on the modified accrual basis of accounting for the General Fund, Special Revenue Funds, Capital Projects Funds and Trust and Agency Funds and on the accrual basis of accounting for the Enterprise Funds, and the Internal Service Funds. In general, under the modified accrual basis of accounting, revenues are recorded as received in cash except for material revenues considered to be both measurable and available to finance current year appropriations, which are recognized as revenue when earned. Expenditures are recorded in the period in which liabilities are incurred. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when liabilities are incurred without regard to receipts or disbursements of cash. See "Notes to Financial Statements" in Appendix B for a more detailed discussion for the City's accounting policies.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Arlington for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2000. During 1986, GFOA renamed the Certificate Program to better reflect its purpose. Under the former name, GFOA first awarded a Certificate of Conformance to the City for its CAFR for the year ended April 30, 1966 and then annually from 1977 to 1999. The City has also received GFOA's Award for Distinguished Budget Presentation for fiscal years 1986 through 2001.

FUND ACCOUNTING

The accounts of the City are organized on the basis of funds, each of which constitutes a separate entity for accounting purposes. For the City's Comprehensive Annual Financial Report, the various City's funds are organized into the following major groups:

General Fund

The General Fund is the principal fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the General Fund are paid the general operating expenditures and the capital improvement costs that are not paid through other funds.

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds include Community Development Block Grants, Home Investment Partnership, Federal Transit Administration, Street Maintenance, U. S. Army Corps of Engineers – Johnson Creek, Texas Department of Transportation, U.S. Department of Justice, Texas Parks and Wildlife, Texas Criminal Justice Division, Park Performance, Convention and Event Services, and other miscellaneous special revenue funds.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for and the payment of, principal and interest on the general long-term debt not being financed by proprietary funds. The fund's primary source of revenue is ad valorem taxes, which are levied by the City.

Capital Projects Funds

The Capital Projects Funds are used to account for the acquisition or construction of capital facilities being financed from bond proceeds, contributed capital, assessments levied or transfers from other funds, other than those recorded in Proprietary Funds. The Capital Projects Funds include Convention and Event Services, Municipal Office

Building, Police, Fire, Library, Health, Stormwater Utility, Park, Street, Traffic, Neighborhood Services, Airport, and Cooper House Project.

Enterprise Funds

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Enterprise Funds include the Water and Sewer Fund and the Sanitary Landfill Fund.

Internal Service Funds

The Internal Service Funds are used to account for the financing of materials and services provided by one department of the City to other departments of the City on a cost-reimbursement basis. The Internal Service Funds include General Services operations, Fleet Services, and the City's insurance activities consisting of the Arlington Property Finance Authority, Workers' Compensation, and Group Health Funds.

Pension Trust and Agency Funds

The Pension Trust Funds are used to account for assets held by the City's trustees in a fiduciary capacity for the City's retirement and disability programs. The Pension Trust Funds include the Part-Time Deferred Income Trust, Thrift Savings Plan and the Disability Income Plan.

The Agency Funds are used to account for assets held by the City in a fiduciary capacity as custodian or agent for individuals, other funds within the City, other governmental units and private organizations. The Agency Funds include the Payroll, Escrow, and Escheat Funds.

General Fixed Assets Account Group

The General Fixed Assets Account Group represents a summary of the fixed assets of the City, other than fixed assets of the Proprietary Funds. Capital outlays in funds, other than Proprietary Funds, are recorded as expenditures of those funds at the time of purchase and, excluding infrastructure, are recorded, for control purposes, in the General Fixed Assets Account Group.

General Long-Term Debt Account Group

The General Long-Term Debt Account Group represents a summary of the long-term obligations of the City, including general obligation bonds, certificates of obligation, and compensated absences. This account group does not include liabilities accounted for in the Proprietary Funds.

Component Units

Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading. Component Units discretely presented include the Arlington Sports Facilities Development Authority, Inc., the Arlington Housing Authority, the Arlington Housing Finance Corporation, the Arlington Convention & Visitors Bureau, Inc., and the Arlington Industrial Development Corporation.

CERTAIN OPERATIONS OF THE GENERAL FUND

The General Fund of the City is that accounting entity which is used to account for all transactions which are not accounted for in another fund and which, specifically, receives all revenues and records all expenditures relating to the ordinary operations of general government. Other major funds of the City are the Special Revenue Funds, Capital Project Funds, the Enterprise Funds, and the Debt Service Funds.

Summaries for fiscal years 1997 to 2001 have been compiled from the Comprehensive Annual Financial Reports of the City, which were examined by the City's independent auditors. These summaries should be read in conjunction with their related financial statements and notes.

**Consolidated Financial Statements-General Fund
Fiscal Year Ended September 30
(amounts in thousands)**

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Beginning Fund Balance	\$18,221	\$19,095	\$15,264	\$11,461	\$10,252
Revenues					
Ad Valorem Taxes	40,593	36,522	34,840	31,573	28,998
Sales Tax	44,436	43,384	39,130	37,573	36,976
Other Taxes	3,487	3,247	3,039	2,918	2,796
Franchise Fees	31,201	26,639	23,187	21,422	19,799
Service Charges	4,822	3,551	4,352	4,866	4,550
Interest	1,241	1,222	1,023	678	751
All Other	<u>10,283</u>	<u>9,036</u>	<u>9,010</u>	<u>7,694</u>	<u>6,616</u>
Total Revenues	<u>136,063</u>	<u>123,601</u>	<u>114,581</u>	<u>106,724</u>	<u>100,486</u>
Expenditures					
Total Expenditures	<u>133,496</u>	<u>127,280</u>	<u>113,833</u>	<u>105,840</u>	<u>101,480</u>
Net Revenues Over (Under)					
Expenditures	2,567	(3,679)	748	884	(994)
Operating Transfers	<u>(1,129)</u>	<u>2,805</u>	<u>3,083</u>	<u>2,919</u>	<u>2,203</u>
Ending Fund Balance	<u>\$19,659</u>	<u>\$18,221</u>	<u>\$19,095</u>	<u>\$15,264</u>	<u>\$11,461</u>

For the fiscal year ended September 30, 2001, the General Fund had revenues and transfers greater than expenditures by \$1,438,000, or 1.1 percent of General Fund revenues, leaving a General Fund balance at September 30, 2001, of \$19,659,000. The following table presents a comparison of the City's General Fund balance for fiscal years 1997 to 2001.

General Fund Balance
Fiscal Year Ended September 30
(amounts in thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
General Fund Balance:					
Reserved for					
Encumbrances	\$ 1,379	\$ 1,129	\$ 1,432	\$ 2,381	\$ 2,187
Inventory	336	489	508	549	629
Prepays	24	39	32	69	20
Infrastructure Maintenance	-	350	1,930	-	-
Park Acquisition	-	-	500	-	-
Working Capital	11,389	11,335	10,835	8,189	5,119
Notes Receivable	-	-	-	-	-
Utility Rate Case	500	500	477	502	401
Special Transportation	-	-	816	902	-
Net Increase in Fair Value	-	-	-	2	-
Unreserved					
Designated for Telecommunications	357	195	194	299	416
Designated for Subsequent					
Years' Expenditures	2,633	2,633	2,371	2,371	2,689
Undesignated	<u>3,041</u>	<u>1,551</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total General Fund Balance	<u>\$19,659</u>	<u>\$18,221</u>	<u>\$19,095</u>	<u>\$15,264</u>	<u>\$11,461</u>
General Fund Balance as a					
Percent of General Fund					
Expenditures	14.73%	14.32%	16.77%	14.42%	11.29%

Source: Fiscal Year 1997 to 2001 Comprehensive Annual Financial Reports.

DEBT SERVICE FUND BUDGET

Fiscal Year 2001-2002
(amounts in thousands)

Beginning Fund Balance	\$ 1,740
Property Tax Revenue.....	39,198
Interest Revenue.....	925
Transfers In ⁽¹⁾	3,461
Debt Service Expenditures	<u>(43,539)</u>
Estimated Ending Fund Balance.....	<u>\$ 1,785</u>

⁽¹⁾ Includes transfers to the Debt Service Fund from the Convention and Event Services Fund, Park Performance Fund, Landfill Fund, and Water and Wastewater Fund.

Source: Fiscal Year 2002 Budget and Fiscal Year 2001 CAFR.

CURRENT OPERATING BUDGET

On September 29, 2001, the City Council adopted a total Budget for fiscal year 2001-02 with expenditures of \$302,407,345. The adopted General Fund Budget reflects a property tax rate of \$0.6340/\$100.

The adopted Budget for fiscal year 2002 maintains core services levels with significant enhancements to public safety. These enhancements include 48 new patrol officers, four new Vice Unit officers, additional 9-1-1 calltake operators and replacement of two fire apparatus. A compensation package was also adopted for market and merit adjustments in the range of 5.00% - 8.51%.

Total General Fund revenues for fiscal year 2002 are projected to increase by 7.0 percent above fiscal year 2001 budgeted revenues. The overall value of taxable property in the City increased by 8.7 percent, from \$12.435 billion in calendar year 2000 to \$13.513 billion in calendar year 2001. The adopted Budget authorizes City government personnel of 2,367 full-time positions.

The following table shows the City's estimated revenues and budgeted expenditures for fiscal year 2002, as reported in the adopted Budget.

Estimated Revenues and Budgeted Expenditures
Fiscal Year 2002 Budget ⁽¹⁾
(amounts in thousands)

	Fiscal Year 2002 Budget	Percent of Fiscal Year 2002 Budget
REVENUES		
Property Taxes	\$ 85,086	27.5%
Sales Tax	45,283	14.7
Other Taxes	1,431	0.5
Licenses and Permits	3,841	1.2
Utility Franchise Fees	29,517	9.5
Fines and Forfeitures	6,296	2.0
Leases and Rents	3,491	1.1
Services Charges	15,538	5.0
Miscellaneous Revenues	1,970	0.7
Water and Sewer Fund Revenues	88,982	28.7
Convention & Event Services Fund Revenues	7,625	2.5
Sanitary Landfill Fund	6,962	2.2
Street Maintenance Fund	6,000	1.9
Park Performance Fund	7,617	2.5
Total Revenues	<u>\$309,639</u>	<u>100.0%</u>
EXPENDITURES		
General Government	\$ 8,136	2.7%
Police	56,794	17.9
Fire	30,610	9.7
Neighborhood Services	4,779	1.5
Planning and Development Services	4,154	1.3
Parks and Recreation	13,781	4.4
Transportation/Engineering Services	14,071	4.4
Library	5,092	1.6
Administrative and Support Services	18,095	5.7
Water and Sewer Fund	76,030	24.0
Convention & Event Services Fund	5,791	1.8
Sanitary Landfill Fund	4,586	1.4
Park Performance Fund	7,603	2.4
Street Maintenance Fund	9,346	3.0
Debt Service	43,539	13.8
Transfers (Net) ⁽²⁾	<u>14,035</u>	<u>4.4</u>
Total Expenditures	<u>\$316,442</u>	<u>100.0%</u>

⁽¹⁾ All funds combined.

⁽²⁾ \$12,338 of Transfers (Net) is a contribution from the Water and Wastewater Operating Fund for Water and Wastewater capital improvements.

Source: Fiscal Year 2002 Budget.

GENERAL FUND REVENUES AND EXPENDITURES

The General Fund is the primary operating Fund maintained by the City to account for revenue derived from City-wide ad valorem taxes, other local taxes, licenses, fees, permits, and certain other miscellaneous revenues. General Fund expenditures are the cost of general City government. The following is a discussion of the General Fund revenue structure and major classifications of General Fund expenditures.

TAX DATA

General

A major source of operational revenue and funds for tax-supported debt service payments is the receipts from ad valorem taxation. The following is a recapitulation of (1) the authority for taxation, including methodology, limitations, remedies and procedures; (2) historical analysis of collection and trends of tax receipts and provisions for delinquencies; and (3) an analysis of (a) the base, (b) the principal taxpayers, and (c) other ad valorem taxation that may compete with the City's tax collections. Additionally, sales tax and hotel occupancy tax authority and collections are described.

Authority for Ad Valorem Taxation

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population, limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation for all city purposes and makes no allocation of such tax rate between debt service requirements and expenses of general city government. The City operates under a Home Rule Charter that adopts these provisions of the Constitution. For fiscal year 2002, the Council levied a tax rate equal to \$0.6340 per \$100 assessed valuation of which \$0.2911 was allocated to pay debt service on outstanding tax-supported Bonds and notes. See "Tax Rate Distribution."

Truth-in-Taxation Limitation

The effective tax rate is the rate that will produce the same amount of operating revenue that the City levied the prior year on the same property. If the tax rate adopted for the next succeeding fiscal year exceeds the effective tax rate by more than eight percent, the qualified voters of the City may petition for an election to determine whether to limit the increase of the tax rate to no more than eight percent. The City is required to hold public hearings to permit voter discussion should the proposed tax rate levy taxes in excess of the amount levied the prior fiscal year.

Property Subject to Taxation

All real property and tangible personal property in the City is subject to taxation except for certain mandated and discretionary exemptions granted pursuant to State law and the Property Tax Code. The Property Tax Code mandates exemption of public property, property exempt by federal law from ad valorem taxes, household goods, personal effects of an individual, and certain property of religious and charitable organizations, schools, and disabled veterans. The Property Tax Code authorizes cities to exempt the residential homestead of those over 65 years of age and the disabled. The Council currently exempts up to \$55,000 of the appraised value of such residential homesteads. The 2001 tax rolls reflect the Council granting persons 65 years of age and older, disabled persons and disabled veterans exemptions totaling \$546,524,880.

Article VIII, Section 1-b of the Texas Constitution provides the City with the authority to exempt a percentage of the market value of residential homesteads. The percentage may not exceed 20 percent in 2001 and each subsequent year. Where an ad valorem tax has previously been pledged for the payment of debt, the Council may continue to levy and collect the tax against the value of the exempt homesteads until the debt is discharged if the cessation of the levy would impair the obligation. The Council granted 20 percent residential homestead exemptions on the 2001 tax roll, which totaled \$1,317,623,911, or 9.8 percent of the 2001 assessed valuation. In addition, \$75,418,680 of value was reduced from the 2001 tax rolls in accordance with State law to reflect value of agricultural land based upon production rather than market value.

Section 23.83 of the Property Tax Code allows taxes to be deferred on property that is restricted to scenic use. Deferrals were first claimed under this section in 1990. The 2001 Tax Roll reveals a value loss of \$2,878,152 due to scenic deferrals.

Chapter 312 of the Property Tax Code allows the Council to designate reinvestment zones and to enter into tax abatement agreements with property owners within these zones. The abatement value loss on the 2001 Tax Roll is \$561,859,024. A schedule of abated values for the 2001 Tax Roll by property owners is as follows:

<u>Property Owner</u>	<u>2001 Abatement Value</u>
General Motors	\$ 359,512,001
National Semiconductor	81,949,699
Doskocil Manufacturing	37,819,276
Americredit	20,888,482
Mackie Automotive	17,103,481
Aetna	8,067,518
Providian	6,886,703
Lear Operations	6,014,880
Pepsico Food	5,965,076
Office Depot	4,493,134
Americredit (Lease)	4,377,310
Primera	3,369,823
Proline	2,525,250
Lamar Ltd.	1,948,976
Trader Publishing	777,427
Primeco	159,988
Totals	<u>\$561,859,024</u>

With the passage of Proposition 5 on November 7, 1989, the State Constitution was amended to allow for the taxation of temporarily located inventory on a local option basis. To continue taxation of this so called "freeport" property, the governing body of a taxing entity, such as the Council, was required to take action prior to January 1, 1990. The Council adopted an ordinance, which allowed for the continued taxation of "freeport" property for 1990 and subsequent years. On January 13, 1998, the Council repealed the aforementioned ordinance, which has the effect of exempting "freeport" property from taxation effective January 1, 1999. This exemption is irrevocable under current State law. The amount of "freeport" assessed value subject to exemption for the 2001 tax roll was \$145,180,608.

Tax Increment Financing District

The City Council adopted an ordinance on November 3, 1998, establishing a tax increment financing district (the "TIF District") encompassing approximately 533 acres in the City's downtown area. The TIF District took effect on January 1, 1999 and will terminate on December 31, 2018. The City Council can terminate the TIF District at an earlier date by subsequent ordinance. The tax increment base will be the total net appraised value of all taxable property located in the reinvestment zone on January 1, 1998. The TIF District has a nine-member board of directors, five appointed by the City of Arlington and four members appointed by the other taxing jurisdictions. The board of directors shall prepare and adopt a project plan and reinvestment zone financing plan for the TIF District and submit such plans to the City for its approval. All eligible tax jurisdictions are participating for the full amount of their maintenance and operations portion of their respective tax rates. The tax increment payments for FY 2001 were \$262,365.

Appraisal of Taxable Property

The Property Tax Code established a county-wide appraisal district in each county of the State. Each appraisal district assumed the responsibility of appraising all taxable property and preparing and certifying the tax rolls for each unit of government that levies ad valorem tax in that county. Under the 1981 amendment to the Property Tax Code, the City is now entitled to vote, in the proportion to its taxes levied in Tarrant County, in selecting the governing board of the appraisal district. A city, or other taxing unit, may challenge the appraisals assigned to property within its

jurisdiction under certain limited circumstances. These entities can also sue the appraisal district to compel it to comply with the Property Tax Code.

The City's 2001 appraisal roll was prepared and certified by the Tarrant County Appraisal District's Chief Appraiser and Appraisal Review Board. Such appraisal rolls are used by the City in establishing its tax rate. The City Council is responsible for setting the rate, levying and collecting the taxes. All taxable property in the City is presently valued on the City's tax roll at 100 percent of its estimated market value as of January 1, 2001. The rate of taxation was determined and set by the Council based upon the January 1, 2001 valuation. Taxes are due October 1 of the subject year and become delinquent after January 31 of the following year. No discounts for early payment or early partial payment are offered.

City's Rights in the Event of Tax Delinquencies

In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Tax Revenue

The following table shows the City's principal tax revenues by source for each of the last five fiscal years. Growth in total tax revenues has averaged 7.6 percent per year over the last five years.

**Principal Tax Revenue by Source
Fiscal Years 1997 to 2001
(amounts in thousands)**

<u>Fiscal Year</u>	<u>General Fund Ad Valorem Taxes</u>	<u>General Sales Tax</u>	<u>Franchise Fees</u>	<u>Hotel Occupancy Tax</u>	<u>Other Taxes</u>	<u>Total</u>
1997	\$ 28,998	\$ 36,976	\$ 19,799	\$ 4,227	\$ 2,796	\$ 92,796
1998	31,573	37,573	21,422	4,519	2,918	98,005
1999	34,840	39,130	23,187	4,525	3,039	104,721
2000	36,522	43,384	26,639	4,590	3,247	114,382
2001	40,593	44,436	31,201	4,676	3,487	124,393

Source: City Finance Department.

The following table sets forth the assessed value of all taxable property less exemptions in the City for each of its five most recent fiscal years. Tax-exempt properties owned by Federal and State governments, churches, and schools, totaling \$1,625,621,294 for tax year 2001, are not included in the table. The Tarrant County Appraisal District certified appraisal of taxable property less exemptions as of January 1, 2001, is \$13,513,378,507. This value is obtained from the certified taxable value as of September of each year including minimum estimated value of property under protest.

**Historical Taxable Assessed Value⁽¹⁾
Tax Years 1997 to 2001**

<u>Tax Year</u>	<u>Real Property Taxable Assessed Value</u>	<u>Percentage Change From Prior Year</u>	<u>Personal Property Taxable Assessed Value</u>	<u>Percentage Change From Prior Year</u>	<u>Total Taxable Assessed Value</u>	<u>Percentage Change From Prior Year</u>
1997	\$ 8,260,015,483	5.49%	\$ 1,920,975,312	2.53%	\$10,180,990,795	4.92%
1998	8,905,619,207	7.82	1,962,966,620	2.19	10,868,585,827	6.75
1999	9,466,395,471	6.30	1,948,750,826	(0.72)	11,415,146,297	5.03
2000	10,344,385,656	9.27	2,090,767,102	7.29	12,435,152,758	8.94
2001	11,304,546,333	9.28	2,208,805,174	5.65	13,513,378,507	8.67

⁽¹⁾ Real and personal property is assessed at 100 percent of fair market value. The Tarrant County Appraisal District reappraises all property annually. Total taxable assessed value excludes abated value.

Source: City Tax Office.

**Tax Rate Distribution
Tax Years 1997 to 2001**

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
General Fund	\$.3429	\$.3276	\$.3200	\$.3200	\$.3103
Debt Service Fund	<u>.2911</u>	<u>.3064</u>	<u>.3180</u>	<u>.3180</u>	<u>.3277</u>
Total	<u><u>\$.6340</u></u>	<u><u>\$.6340</u></u>	<u><u>\$.6380</u></u>	<u><u>\$.6380</u></u>	<u><u>\$.6380</u></u>

Source: City Tax Office.

**Collection Ratios
Tax Years 1996 to 2000**

<u>Tax Year</u>	<u>Net Assessed Valuation⁽¹⁾</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>% Collections⁽²⁾</u>		
				<u>Current Year</u>	<u>Prior Years</u>	<u>Year Ending</u>
1996.....	\$ 9,703,921,853	\$0.6400	\$62,105,100	98.93%	100.40%	9-30-97
1997.....	10,180,990,795	0.6380	64,954,721	98.72	100.11	9-30-98
1998.....	10,868,585,827	0.6380	69,341,578	98.95	100.18	9-30-99
1999.....	11,415,146,297	0.6380	72,828,633	98.48	100.48	9-30-00
2000.....	12,435,152,758	0.6340	78,838,868	98.56	100.82	9-30-01

⁽¹⁾ Net Assessed Valuation is the certified roll as of September of each year including minimum estimated value of property under protest.

⁽²⁾ Prior year's collections include current year collections, prior year delinquent collections and all penalty and interest collections.

Source: City Tax Office.

**Analysis of Delinquent Taxes
as of September 30, 2001**

<u>Tax Year</u>	<u>Tax Levy</u>	<u>Uncollected</u>	<u>Percentage of Levy</u>
2000.....	\$ 78,838,868	\$ 1,040,981	1.32%
1999.....	72,828,633	433,485	.60
1998.....	69,341,578	303,292	.44
1997.....	64,954,721	256,091	.39
1996.....	62,105,100	244,712	.39
1995.....	58,374,990	142,629	.24
1994.....	54,305,297	160,997	.30
1993.....	53,777,666	178,954	.33
1992.....	53,433,856	183,855	.34
1991.....	53,404,759	224,682	.42
1990.....	53,519,258	172,200	.32
Prior to 1990.....	N/A	790,076	N/A
		<u>\$4,131,954</u>	

Source: City Tax Office

Tax Base Distribution

	<u>2001 Tax Year</u>	<u>2000 Tax Year</u>	<u>1999 Tax Year</u>	<u>1998 Tax Year</u>	<u>1997 Tax Year</u>
Residential	57.1%	56.6%	57.0%	56.0%	56.0%
Commercial, Industrial, Retail	39.8	39.9	39.3	40.4	40.5
Undeveloped	3.1	3.5	3.7	3.6	3.5

Source: City Tax Office.

Top Ten Taxpayers

<u>Name</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>		
		<u>2001</u>	<u>2000</u>	<u>1999</u>
General Motors ⁽¹⁾ Corporation	Auto Assembly	\$216,054,181	\$141,891,278	\$140,329,902
Texas Utilities Electric Co.	Public Utility	147,999,596	136,355,384	114,719,240
Southwestern Bell Telephone Co.	Public Utility	92,386,330	92,600,768	92,523,389
Texas Flags/Six Flags Over Texas	Amusement Park	82,346,291	81,471,191	84,535,329
Parks at Arlington LP	Real Estate Holdings	67,609,232	66,931,868	63,004,468
Don Davis	Auto Dealership & Real Estate Holdings	56,411,757	56,498,741	43,123,511
National Semiconductor ⁽¹⁾	Computer Chip Mfg.	54,149,357	46,453,506	46,841,918
EQR - Limited Partnership	Real Estate Holdings	49,727,579	47,694,549	-
Chase Bank of Texas	Banking	42,082,813	-	-
Dillard Department Stores	Retail Stores	34,885,799	36,488,411	37,450,215
Brookhollow Acquisition	Real Estate Holdings	-	-	39,224,948
ERP Operation Ltd. Partnership	Real Estate Holdings	-	-	33,192,890
Doskocil Manufacturing	Pet, Hunting & Fishing Products	-	31,416,286	-
Total		<u>\$843,652,935</u>	<u>\$737,801,982</u>	<u>\$694,945,810</u>
Percentage of the above ten taxpayers of total tax rolls.		6.24%	5.93%	6.09%

⁽¹⁾ See Tax Data: Property Subject to Taxation and Assessed Value of Tax Abatement Agreements for 2001 abatement values.

Source: City Tax Office.

Tax Abatements

Assessed Value of Tax Abatement Agreements

<u>Tax Year</u>	<u>Total Assessed Valuation Abated</u>
1992	\$ 25,734,228
1993	82,097,282
1994	106,939,169
1995	132,913,633
1996	191,058,280
1997	257,260,096
1998	369,707,519
1999	377,017,981
2000	359,001,468
2001	561,859,024

Source: City Tax Office.

Municipal Sales Tax

The City has adopted the provisions of Sections 321.101 and 321.103 of the Texas Tax Code, which grants the City the power to impose and levy a one percent sales tax for general purposes of the City. The collection of an additional one-half cent sales tax levied for the purpose of paying obligations issued in connection with the construction of The Ballpark in Arlington has been terminated effective December 1, 2001, because such obligations have been paid in full. The Comptroller of Public Accounts of the State of Texas, after the deduction of a two percent service fee, currently remits monthly the City's portion of sales tax collections to the City. The statute provides the Comptroller must remit at least twice annually. Revenue from sales tax levied for general purposes of the City may not be pledged, under the applicable statutes, to the payment of debt service of the City's debt obligations.

<u>Fiscal Year Ended</u>	<u>Sales Tax Receipts</u> ⁽¹⁾	<u>Tax Year</u>	<u>Ad Valorem Tax Levy</u>	<u>Sales Tax as a % of Ad Valorem Tax Levy</u>	<u>Population Estimate</u>	<u>Per Capita Sales Tax Collection</u>
9-30-97	\$36,975,373	1996	\$62,105,100	60%	289,315	\$127.80
9-30-98	37,572,823	1997	64,954,721	58	293,991	127.80
9-30-99	39,130,327	1998	69,341,578	56	309,859 ⁽²⁾	126.28
9-30-00	43,383,927	1999	72,828,633	60	332,969 ⁽³⁾	130.29
9-30-01	44,436,164	2000	78,838,868	56	339,215	131.00

⁽¹⁾ Does not include one-half cent sales tax collected for the Arlington Sports Facilities Development Authority.

⁽²⁾ The method for estimating population was revised by the City Planning and Development Services Department in 1999.

⁽³⁾ Actual 2000 Census population.

Source: City Finance Department.

Hotel Occupancy Tax Receipts

Under the provisions of Section 351.002 and 351.003 of the Texas Tax Code, the City is authorized to levy and collect a hotel occupancy tax not to exceed seven percent of the price paid for a room in a hotel in the City which costs \$2 or more per day and is ordinarily used for sleeping (the "Hotel Occupancy Tax") to pay for or finance a variety of public improvements, including, specifically, convention center facilities. Section 351.103(b) of the Texas Tax Code states that the Hotel Occupancy Tax revenue allocated by the municipality for the purposes of the acquisition of sites for and the construction, improvement, enlarging, equipping, repairing, operation, and maintenance of convention center facilities or visitor information centers, or both, may not exceed 75 percent. The City has levied a Hotel Occupancy Tax of seven percent since 1983.

The Series 1993 Refunding Bonds and the Combination Tax and Revenue Certificates of Obligation, Series 1998 are payable in part from the Hotel Occupancy Tax. Set forth below are the revenues received by the City from the Hotel Occupancy Tax for the last five years.

<u>Fiscal Year Ended</u>	<u>Hotel Occupancy Tax Receipts</u>
9-30-97.....	\$4,227,215
9-30-98.....	4,519,249
9-30-99.....	4,525,015
9-30-00.....	4,590,234
9-30-01.....	4,675,990

Source: City Finance Department.

FINANCIAL INFORMATION CONCERNING THE WATER AND WASTEWATER SYSTEM

WATER AND WASTEWATER RATES

The Council is authorized by its home rule charter and by laws of the State of Texas to establish and to amend rates charged for water and wastewater service. Rates so fixed by the Council for domestic application are not subject to review by any other regulatory agency.

The Council adopted an ordinance amending water rates effective October 1, 2001. This ordinance amended water rates for the third consecutive year. Following is a listing of current monthly rates:

Water Rates Effective 10/1/01

<u>Meter Size</u>	<u>Monthly Charge</u>	<u>Consumption Charge</u>
3/4"	\$ 7.60	\$2.10/1,000 gallons
1"	11.90	2.10/1,000 gallons
1 1/2"	24.95	2.10/1,000 gallons
2"	42.25	2.10/1,000 gallons
3"	94.30	2.10/1,000 gallons
4"	163.65	2.10/1,000 gallons
6"	371.70	2.10/1,000 gallons
8"	579.75	2.10/1,000 gallons
10"	868.75	2.10/1,000 gallons

The first 2,000 gallons consumption is included in the fixed monthly charge.

**Wastewater Rates Effective 10/1/01
(based on water consumption)**

<u>Meter Size</u>	<u>Monthly Charge</u>	<u>Flow Charge</u>
3/4"	\$ 3.05	\$2.40/1,000 gallons
1"	5.30	2.40/1,000 gallons
1 1/2"	11.95	2.40/1,000 gallons
2"	20.90	2.40/1,000 gallons
3"	47.60	2.40/1,000 gallons
4"	83.30	2.40/1,000 gallons
6"	190.25	2.40/1,000 gallons
8"	297.25	2.40/1,000 gallons
10"	445.85	2.40/1,000 gallons

The first 2,000 gallons of flow is included in the fixed monthly charge. The wastewater flows billed for residential customers is the lesser of the current month's water consumption or the prior winter months' average of the three lowest month's consumption using the period December through March.

Historical Rate Adjustments

Changes in revenue requirements during the past ten years have resulted in the following changes in rates for the average residential customer. An average residential customer uses 10,000 gallons of water. Until December of 1988, they were also billed for up to 12,000 gallons of wastewater flows. At that time, the wastewater maximum for residential customers was reduced to 9,000 gallons. Since March 1990, wastewater flows have been based on average winter water consumption. Each residential customer's maximum wastewater flows are calculated based on their water use during the period of December through March. The overall system average for a residential customer is approximately 6,000 gallons.

In fiscal year 2002, the water and wastewater rates increased by five cents per 1,000 gallons. Water rates rose from \$2.05 in fiscal year 2001 to \$2.10 and wastewater rates increased from \$2.35 to \$2.40. Because the City continues to focus staff efforts on increasing efficiencies and reducing costs. This is the first increase in wastewater rates since October 1995 and water rates were increased to what they were in fiscal year 2000. The rate changes were necessitated primarily due to the significant increase in the electrical costs of the Department's raw water and wastewater treatment service suppliers being passed to the City. The fixed monthly charge remains unchanged since its inception in 1989.

**Rate Changes by Percent
Last Ten Fiscal Years
Per 10,000 Gallon Residential Usage**

<u>Fiscal Year</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
1993	3.4	9.8	5.6
1994	1.6	0.0	1.1
1995	0.0	0.0	0.0
1996	0.0	5.1	1.6
1997	1.6	0.0	1.1
1998	0.0	0.0	0.0
1999	0.0	0.0	0.0
2000	(3.2)	0.0	(2.1)
2001	(1.6)	0.0	(1.1)
2002	1.7	1.6	1.7

Source: City Water Utilities Department.

Customer Refund

Arlington Water Utilities refunded \$7,000,000 to customers in December 2000. This was completed through a credit on customers bills based on their portion of overall consumption. The refund was based on excess net revenue collections due to the record water sales realized from consecutive hot, dry summers in fiscal years 1999 and 2000.

Customer Service Billing System

In January 2001, the Mayor and City Council approved a contract for the purchase of a replacement billing system. The new system provides the opportunity for enhanced customer service through procedural and policy changes that are not possible with the existing system. Implementation of the new system will occur in several phases with final acceptance scheduled for May 2002.

Operating Reserve

The current policy authorized by the City Council on August 17, 1999, requires the operating reserve to equal 60 days of the proposed operating and maintenance budget expenses, excluding debt service. The reserve fund balance as of September 30, 2001, was \$9,608,905. The reserve requirement for fiscal year 2001-02 is \$10,215,928.

HISTORICAL FINANCIAL INFORMATION

The following three tables present five-year historical information and selected financial ratios for the System. Unless otherwise noted, all information is from the City's Comprehensive Annual Financial Report. Selected amounts and ratios in the tables are unaudited as noted. The tables are titled Water and Wastewater Balance Sheet, Historical Net Revenues Available for Debt Service, and Historical Net Revenues of the System and Financial Ratios.

WATER AND WASTEWATER SYSTEM BALANCE SHEET
Fiscal Year Ended September 30,
(amounts in thousands)

<u>Assets</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Cash and cash equivalents	\$ 13,235	\$ 15,413	\$ 15,886	\$ 19,201	\$ 14,189
Receivable (net of allowances for uncollectibles)	11,236	14,713	12,889	12,957	11,975
Due from other funds	-	-	-	-	2,187
Inventory of supplies, at cost	469	469	411	464	496
Restricted assets:					
Bond contingency	11,891	10,966	11,840	11,307	13,599
Bond construction	24,697	22,250	20,652	21,155	46,418
Meter deposits	3,264	3,227	3,137	2,985	2,950
Contingent liability	-	-	-	-	-
Property, plant and equipment less accumulated depreciation	<u>362,488</u>	<u>335,470</u>	<u>320,036</u>	<u>286,410</u>	<u>262,165</u>
 Total Assets	 <u>\$427,280</u>	 <u>\$402,508</u>	 <u>\$384,851</u>	 <u>\$354,479</u>	 <u>\$353,979</u>
 <u>Liabilities and Equity</u>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 4,071	\$ 2,250	2,534	\$ 2,510	\$ 3,011
Retainage payable	-	-	-	10	129
Payable from restricted assets	10,342	11,450	10,867	12,881	9,710
Contingent liabilities	-	-	-	-	-
Accrued compensated absences					
Current	92	79	74	70	83
Long term	1,352	1,272	1,206	987	879
Revenue bonds, net of discount, payable from unrestricted assets	87,048	79,259	89,608	82,572	109,080
Trinity River Authority bonds payable from unrestricted assets	<u>-</u>	<u>-</u>	<u>146</u>	<u>322</u>	<u>496</u>
 Total Liabilities	 <u>102,905</u>	 <u>94,310</u>	 <u>104,435</u>	 <u>99,352</u>	 <u>123,388</u>
Equity:					
Contributed capital -					
From other municipalities or governmental units	9,097	9,097	9,097	9,097	9,097
In aid of construction	110,031	104,061	98,551	94,208	90,484
Retained earnings -					
Reserved for revenue bond contingency	6,335	5,959	6,465	6,357	8,233
Reserved for fair value of investments	-	-	-	58	-
Unreserved	<u>198,912</u>	<u>189,081</u>	<u>166,303</u>	<u>145,407</u>	<u>122,777</u>
 Total Equity	 <u>324,375</u>	 <u>308,198</u>	 <u>280,416</u>	 <u>255,127</u>	 <u>230,591</u>

Total Liabilities and Equity	<u>\$427,280</u>	<u>\$402,508</u>	<u>384,851</u>	<u>\$354,479</u>	<u>\$353,979</u>
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HISTORICAL NET REVENUES AVAILABLE FOR DEBT SERVICE
Fiscal Year Ended September 30,
(amounts in thousands)

<u>Revenues</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Water Sales	\$39,901 ⁽¹⁾	\$50,818	46,924	\$48,477	\$42,132
Wastewater Service	29,366	29,546	28,408	27,763	27,039
Interest Income ⁽²⁾	3,462	3,461	2,719	4,473	4,294
Other Income	<u>5,214</u>	<u>5,420</u>	<u>5,723</u>	<u>5,045</u>	<u>4,360</u>
Total Revenues	\$77,943	\$89,245	83,774	\$85,758	\$77,825
 <u>Expenses</u>					
Labor Costs	\$ 11,591	10,850	\$ 9,864	\$ 9,311	\$ 8,917
Supplies	2,352	1,949	1,646	2,052	1,959
Maintenance	1,945	1,911	1,457	1,842	2,184
Water Supply (The District)	12,394	13,698	12,214	12,593	11,254
Wastewater Treatment Contracts	14,601	14,140	13,358	12,029	13,126
Utilities	2,482	2,150	1,964	1,881	1,393
Other Expenses	<u>10,197</u>	<u>10,825</u>	<u>10,154</u>	<u>10,008</u>	<u>9,338</u>
Total Operating Expenses Before Depreciation	<u>\$55,562</u>	<u>\$55,523</u>	<u>\$50,657</u>	<u>\$49,716</u>	<u>\$48,171</u>
Net Revenues of the System	\$22,381	\$33,722	\$33,117	\$36,042	\$29,654
Interest During Construction Included Above	<u>(641)</u>	<u>(111)</u>	<u>(284)</u>	<u>(588)</u>	<u>(0)</u>
Net Revenues Available for Debt Service	<u>\$21,740</u>	<u>\$33,611</u>	<u>\$32,833</u>	<u>\$35,454</u>	<u>\$29,654</u>
Debt Service Paid ⁽³⁾	\$15,021	\$15,567	\$14,753	\$16,252	\$15,518
Debt Service Coverage (times) ⁽⁴⁾	1.45x	2.16x	2.23x	2.18x	1.91x
Debt Service Requirements Paid From Surplus Net Revenues ⁽⁵⁾	-	\$185	\$195	\$205	\$215

(1) Water sales in fiscal year 2001 reflect a refund of \$7.0 million.

(2) Includes net increase/decrease in fair value of investments beginning in fiscal year 1997-98.

(3) Excludes TRA Revenue Bonds, accrued interest from bond sales, and refundings or cash defeasances.

(4) Unaudited.

(5) TRA (Arlington Project) Revenue Bonds.

HISTORICAL NET REVENUES OF THE SYSTEM AND FINANCIAL RATIOS
Fiscal Year Ended September 30,
(amounts in thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Gross Operating Revenues	\$74,481 ⁽¹⁾	\$85,784	\$81,055	\$81,285	\$73,531
Interest Revenues (Excluding Interest During Construction) ⁽²⁾	2,821	3,350	2,435	3,885	4,294
Operating Expenses Before Depreciation	<u>55,562</u>	<u>55,523</u>	<u>50,657</u>	<u>49,716</u>	<u>48,171</u>
Net Revenues Available for Debt Service	<u>\$21,740</u>	<u>\$33,611</u>	<u>\$32,833</u>	<u>\$35,454</u>	<u>\$29,654</u>
Average Annual Debt Service ⁽³⁾	\$6,335	\$5,959	\$6,465	\$6,356	\$8,232
Average Annual Debt Service Coverage (times) ⁽³⁾	3.43x	5.64x	5.08x	5.58x	3.60x
Accounts Receivable to Gross Operating Revenues (%)	15.08%	17.15%	15.90%	15.94%	16.29%
Unrestricted Cash to Unrestricted Current Liabilities (times)	3.18x	6.62x	6.09x	7.41x	4.40x
Unrestricted Current Assets to Unrestricted Current Liabilities (times)	5.88x	12.94x	11.03x	12.42x	8.12x
Long-term Debt to Net Plant (%)	22%	22%	26%	27%	39%

⁽¹⁾ Water sales in fiscal year 2001 reflect a refund of \$7.0 million.

⁽²⁾ Includes net increase/decrease in fair value of investments beginning in fiscal year 1997-98.

⁽³⁾ Unaudited.

PENSION FUND

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of over 745 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas, 78714 or by calling 512-476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%,

or 200%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 20 years of service regardless of age. A member is vested after 10 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 7 percent, and the City matching percent is currently 200 percent, both as adopted by the City Council. Under the state law governing TMRS, the City contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year open amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began in January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

For 2001, the City's annual pension cost of \$12,884,047 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2000, actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included an (a) 8 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

The following table discloses three-year historical trend information relating to the TMRS plan.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
9/30/01	\$12,884,047	100%	\$0
9/30/00	12,733,270	100	0
9/30/99	11,861,763	100	0

The following table discloses certain three-year historical trend information presenting the City's progress in accumulating sufficient assets to pay benefits when due (amounts in thousands, except for percentages):

<u>For Year Ended December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percentage Funded</u>	<u>Unfunded AAL (UAAL)</u>	<u>Annual Covered Payroll⁽¹⁾</u>	<u>UAAL As a Percentage of Covered Payroll</u>
1998	\$225,979	\$281,087	80%	\$55,108	\$ 85,830	64%
1999	252,879	312,412	81	59,534	92,137	65
2000	267,933	333,403	80	65,469	100,657	65

(1) Annual covered payroll is for fiscal years rather than calendar years.

Source: Comprehensive Annual Financial Report.

SELF INSURANCE

As of November 1, 1986, the City of Arlington became fully self-insured for General, Auto, Public Officials, and Law Enforcement Liability coverages. The self-insurance plan provides for \$1 million per occurrence coverage with a \$3 million annual aggregate loss limit. In the absence of commercial liability insurance at reasonable cost, alternative measures for funding liability claims expense had to be developed. Arlington officials created a fully funded self-insurance program by issuing taxable municipal obligations. An actuarial study performed by the Wyatt Company, Dallas, Texas, determined that the City of Arlington would need \$9.9 million to cover statistically predictable liability losses incurred between November 1, 1986, and November 1, 1996. Obligations were issued in the principal amount of \$9,000,000 and the City contributed \$1,000,000 from its General Fund. In May 1992, \$5,000,000 principal amount of the Risk Management Notes were paid, leaving \$4,000,000 principal amount outstanding. On August 28, 1996 the City of Arlington Property Finance Authority passed a resolution calling the Notes for early redemption on November 1, 1996. The Notes were redeemed at par on November 1, 1996.

On January 12, 1999, the City issued \$7,000,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 1999. The proceeds of this issue have been used to recapitalize the City's self-insurance program. An actuarial study estimated that the \$7,000,000 of proceeds would adequately fund the self-insurance program through September 30, 2004.

On September 11, 2001, Ordinance 01-109 was passed by the Mayor and City Council, which extended the City's self-insurance and risk management program through September 30, 2005.

As of September 30, 2001, the total current assets less total current liabilities were \$8,033,000. The long-term claims liability at September 30, 2001 was \$827,000. Claims occurring prior to November 1, 1986 are covered under the City's previous commercial insurance program. Property, Fidelity and Crime coverages remain commercially insured.