City of Arlington, Texas

(Tarrant County, Texas)

Annual Report

Updating Financial Information and

Operating Data

For

Fiscal Year Ending

September 30, 2004

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SECTION ONE: THE CITY OF ARLINGTON, TEXAS

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. on the second and fourth Tuesday of each month. Council meetings are broadcast 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

Interim City Manager - Mr. Fred Greene - who is a municipal government consultant, was interim deputy city manager in Arlington from June to November of 2004. He previously worked for the City of Arlington from 1985 to 1995, first as the Information Services Director and then as the Management Services Director. Prior to that, Mr. Greene was the City Manager in Garland.

Deputy City Manager – Mr. Ron Olson – with the City since November 2004, he received his B.S. and his M.P.A. from Brigham Young University. He is a member of the International City/County Management Association. Prior to joining the City, he served as the City Manager of Middletown, OH, Belding, MI and West Jordan, UT.

Interim Deputy City Manager – Mr. Trey Yelverton – with the City since 1993, most recently as the Director of the Neighborhood Services Department since 2000. He received an undergraduate degree in Political Science-Public Administration from the University of Texas at Arlington, and a M.P.A. from University of North Texas.

Interim Deputy City Manager - Ms. Fiona Allen – with the City since December 1990, most recently as the Director of Water Utilities Department since 2003. She received her B.S. in Civil Engineering from Texas A&M University and is a Professional Engineer and Registered Sanitarian.

Chief Financial Officer - Ms. Donna Swarb - with the City since November 1998, she received her B.S. from Oklahoma Christian University and is a Certified Public Accountant. Prior to joining the City, she served as Director of Accounting for the University of Texas at Arlington.

Acting Director of Water Utilities – Mr. Rick McCleery – with the City since February 1974, he received his B.A. from the University of Texas at Arlington. Prior to his current appointment, he served as Assistant Director of Utilities for fifteen years.

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.

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 five branch libraries, 84 city parks, and four municipal golf courses.

Some of the other major facilities provided by the City include a convention center, five recreational centers, two senior citizen 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 departments. The City functions covered by the Community Resources Group include Public Works, Water Utilities, Planning and Development Services, Parks and Recreation and Convention and Event Services.

The Department of Public Works plans, designs, operates, acquires, constructs and maintains public facilities to ensure the safe and efficient movement of people, goods and storm water. The department is structured in divisions focusing on transportation planning, engineering operations, traffic, signal engineering, geographic information systems, streets and storm water drainage.

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 treatment 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 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 4,529 acres of parks, including four municipal golf courses and five recreational centers, two senior citizen centers, and for the management of the Bob Duncan 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.

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.

Administration Group

The Deputy City Manager for Administration is responsible for the oversight and management of five City departments which include Finance, Human Resources, Information Technology, Support Services, and Administrative Services.

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, payroll, purchasing, treasury management, risk management, and maintenance of the City's fixed assets inventory.

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.

The Department of Information Technology 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, building construction management, and real estate services. It also has responsibility for 9-1-1 dispatch services and building maintenance operations. It also oversees the Municipal Court Operations which collects court fines, sets trial dockets, and maintains the Municipal Court records.

The Administrative Services Department works with news media, issues publications, and implements programs to educate and inform citizens about City policies and programs. It also oversees the City Secretary's Office which transcribes and maintains official City records, minutes and ordinances, and conducts City elections. The department also includes General Services which provides printing, copying, records management, and mailroom services to the organization.

Citizen Services Group

The Deputy City Manager for Citizen Services is responsible for the oversight and management of the Police, Fire, Library and Neighborhood Services Departments, as well as the Internal Audit Division.

The Police Department is composed of three major units: Operations, Management Services, and Community Services. More than 745 members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. The Police Department responded to 142,154 calls for service in fiscal year 2004. 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 28,734 calls for service in fiscal year 2004. The 302 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 five branch libraries. Circulation exceeds 1.5 million items annually.

The Neighborhood Services Department is responsible for providing a communication and service link between the residents and business owners of Arlington and all City Departments. 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 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.

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 109 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. Lake Benbrook, which is owned by the U.S. Army Corps of Engineers, is used by the TRWD system to supply water to both water treatment plants. 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 the 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 nine ground storage tanks with a combined capacity of 47.7 million gallons.

The City's water distribution system is fully metered and consists of 1,350 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 Commission on Environmental Quality.

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

Fiscal Year	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)
1995..................................	46.71	95.50
1996..................................	52.08	92.57
1997.................................	49.53	99.48
1998..................................	58.47	121.97
1999..................................	56.20	108.31
2000..................................	63.89	128.23
2001..................................	57.96	113.14
2002..................................	57.76	112.88
2003..................................	57.13	120.02
2004..................................	54.68	91.19

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 60 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 Reservoir, completed in 1964 and Richland Chambers Reservoir completed in November 1987. Water from these reservoirs is transported 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 water supply service was initially provided under the terms and provisions of a contract dated July 13, 1971. Under that contract, the District agrees 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 as well as additional supplies that are actively under development are projected to provide an adequate water supply through 2035.

The District’s most recent system enhancement was the Benbrook Connection Project completed in the fall of 1998. It consists 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. It now benefits all District customers by allowing the District to reduce electrical costs by using Benbrook for off peak pumping and storage.

In May 1999, the District issued $22,725,000 (Series 1999) in Water Revenue Refunding and Improvement Bonds, which were issued to refund the Benbrook Lake Water Surplus Contract with the U.S. Army Corp of Engineers in the amount of $1,848,750, and to fund a Wetland Water Treatment System for Richland Chambers, and for construction, improvements and repairs to the District’s Water system. In March 2001, $15,890,000 in Water Revenue Refunding Bonds (Series 2001) were issued to refund the Series 1992-A bonds. Additionally in March 2002, the District issued $331,430,000 in Water Revenue Refunding and Improvement Bonds (Series 2002) to refund the Series 1993 Series Bonds and to fund the acquisition and expansion of the Wetland Water Treatment System for Richland Chambers, for design/engineering of the pipeline connection to Eagle Mountain Lake and other construction, improvements and repairs to the District’s Water System. Construction of the Richland Chambers Dam and Reservoir Project was funded with proceeds derived from the sale of Water Revenue Bonds, which were originally issued in 1979 (Series 1979-A), and have since been refunded with the Series 2002 Bonds.

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.

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 usage of the City for the 2005 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is $1,138,724, which results in a rate of approximately 61.277 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.

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.

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.

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, 2000, through September 30, 2004.

	Average Daily Consumption (MGD)				
Category	**2004**	**2003**	**2002**	**2001**	**2000**
Residential	25.50	27.47	26.07	29.43	30.45
Commercial	11.63	11.09	11.61	15.46	15.27
Fire lines, Sprinklers*...................................	4.60	4.76	3.98	-	-
Apartment Units	9.03	9.14	9.64	10.08	10.26
Mobile Homes, Condominiums, Townhouses	.79	.84	.87	.67	.68
Total	51.55	53.30	52.17	55.64	56.66

*Fire lines and Sprinklers data included with other categories prior to fiscal year 2002.
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, 2000, through September 30, 2004.

Number of Units Served

Category	**2004**	**2003**	**2002**	**2001**	**2000**
Residential	88,289	86,444	84,774	84,926	82,673
Commercial	3,821	5,338	5,507	7,258	7,112
Fire lines, Sprinklers*	1,997	952	925	-	-
Apartment Units	41,059	45,838	45,397	46,057	45,206
Mobile Homes, Condominiums, Townhouses	4,166	4,252	4,252	4,043	4,016
Total	139,332	142,824	140,855	142,284	139,007

*Fire lines and Sprinklers data included with other categories prior to fiscal year 2002.

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, 2004. Billing will vary based on the number of meters, increased minimum charges for larger meters, and higher commodity charges for sprinkler usage. During this period, the top ten customers' total annual water billings, which represented 9.95 percent of the System's water sales were as follows:

	Consumption in 1,000 Gallons	**Billing**
National Semiconductor	366,584	$ 747,091
Arlington Independent School District	323,444	898,830
General Motors	273,852	562,884
University of Texas at Arlington	271,859	670,415
City of Arlington	265,076	822,187
Six Flags Park	106,399	240,047
Arlington Memorial Hospital	87,637	189,593
Six Flags Hurricane Harbor	62,967	131,851
Indian Creek Apartments	58,463	124,513
Park Lane Apartments	55,378	112,117
Total	1,871,659	$4,499,528

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 MG**	**Average Water Pumped MGD**	**Maximum Day Pumpage MGD**	**GPD Per Account**	**Ratio Maximum Day to Average Day**
2000	92,378	23,389	63.90	128.23	692	2.00
2001	94,867	21,157	57.96	113.14	611	1.95
2002	96,974	21,083	57.76	112.47	596	1.95
2003	99,144	20,853	57.13	120.02	583	2.10
2004	101,057	20,013	54.68	91.19	543	1.67

Source: City Water Utilities Department.

WASTEWATER FACILITIES

The wastewater collection system that serves all developed areas within the City limits is comprised of approximately 1,181 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 28 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 Commission on Environmental Quality (TCEQ) 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)

	2004	2003	2002	2001	2000
TRA CRWS Plant	15,522	15,102	16,020	16,374	10,502
Fort Worth Village Creek Regional Plant	0	0	0	4,297	4,297
Total	15,522	15,102	16,020	16,374	14,799

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 plans. A new five-year plan for 1997-2001 resulted in relief and rehabilitation of interceptors and 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 as identified in the 2001 Capital Improvement Plan update. In early fiscal year 2003, TRA issued $136 million in refunding bonds to pay off the Series 1993 bonds. This results in a debt service savings to the City.

TRA’s updated five-year capital improvement plan for 2004-2009 has been completed recommending treatment process improvements and interceptor rehabilitation. Initial funds of $106 million were obtained from a 2004 bond issue. Additional bonds in the amount of $9.5 million will be issued in 2005 for land acquisition. The current plan calls for another bond issue in 2007 to complete the objectives of the updated capital improvement plan.

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 Platinum Award for the second time in a row, signifying ten continuous years of 100% permit compliance. 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 beginning December 1, 2004, the volume of contributing flow by the City is estimated to average 42.64 MGD, which amounts to approximately 28 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 2005 is $15,711,720. 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 2004 estimated population for the City of Arlington is 355,634. The following table presents population figures for selected years.

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

Year	Arlington	Annual Rate of Change	United States	Annual Rate of Change
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	0.94
2000	332,969 (1)	2.4	281,421,906	1.40
2003	351,719	1.9	290,809,777	1.11
2004	355,634	1.1	293,655,404	1.01

(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

	2002	2001	2000
Tarrant County	$31,307	$31,412	$30,299
Texas	29,039	28,943	28,313
United States	30,906	30,527	29,847

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 six senior high schools, twelve junior high schools, fifty elementary schools, a pre-kindergarten campus, and five alternative schools. Currently, a professional staff of approximately 4,081 serves a peak enrollment of 62,531 students.

The University of Texas at Arlington, founded in 1895, features a current enrollment of 25,297 and offers 202 degree programs at the baccalaureate, master and doctoral levels. The physical plant, located on a 396 acre campus, includes 105 University academic and dormitory buildings.

Tarrant County College opened its Southeast Campus in Arlington during 1996. Enrollment at the 123-acre site features a current enrollment of approximately 9,231 students. The college has 430 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

Fiscal Year	**Peak Enrollment**	**Percentage Change**
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
2003	62,104	2.21
2004	62,345	0.39
2005	62,531	0.30

Source: Arlington Independent School District.

Employment

Arlington Major Employers

Name	**Type of Business**	**Number of Employees**
Arlington Independent School District	Public Education	7,905
University of Texas at Arlington	Higher Education	6,161
Six Flags Over Texas	Amusement Park	3,200[(1)]
General Motors	Automobile Assembly	3,000
City of Arlington	Municipality	2,342
Arlington Memorial Hospital	Medical Center	2,100
Texas Rangers Baseball Club	Sports Entertainment	1,800[(1)]
Americredit	Finance	1,300
Providian Financial	Financial Services	1,200
National Semiconductor	Semiconductor Manufacturer	1,100
Chase Bank Call Center	Banking Services	1,000
Doskocil Manufacturing	Manufacturer	1,000

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

Source: Arlington Chamber of Commerce. 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 2004, the City's unemployment rate averaged 4.9 percent compared to the U.S. rate of 5.6 percent and the Texas rate, which was 5.9 percent.

Unemployment Rate
Annual Average Rates
2000 to 2004

	2004	2003	2002	2001	2000
Arlington	4.9%	5.5%	5.4%	3.6%	2.8%
Texas	5.9	6.8	6.3	4.9	4.3
United States	5.6	6.0	5.8	4.8	4.0

Source: U.S. Bureau of Labor Statistics.

Financial Institutions

There are fifty-five commercial banks, state banks and savings and loan associations in the City.

Building Permits

During the FY 2004 the City issued 6,818 building permits with a total value of $443,696,832. Presented below is a table covering building permit activity for the last three fiscal years:

	2004		2003		2002	
	Number	Value (000's)	Number	Value (000's)	Number	Value (000's)
Residence	1,707	$251,102	1,719	$242,753	2,242	$288,065
Duplex	21	2,568	22	2,802	18	1,884
(No. of Units)	(42)	-	(44)	-	(36)	-
Apartments	60	36,303	16	18,170	12	13,240
(No. of Units)	(912)	-	(250)	-	(192)	-
Commercial	474	60,439	431	95,549	181	124,820
Institutional	47	49,089	73	51,926	47	109,007
Alterations and Additions	188	18,812	158	28,323	529	22,834
Signs	1,431	2,737	1,168	2,227	1,359	2,613
Miscellaneous	2,890	22,647	3,314	38,664	3,612	37,092
Total	6,818	$443,697	6,901	$480,414	8,000	$599,555

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 financial officer of the City.

Current Investments

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.

As of September 30, 2004, the following percentages of the City's operating funds were invested in the following categories of investments:

Type of Investment	% Invested
U.S. Treasury Notes & Bills	55.9%
Federal Agencies	36.2
Statewide Pool	6.3
Money Market Account	1.6
Totals	100.0%

As of September 30, 2004, the weighted average maturity of the City's operating portfolio was 228 days and the market value of the operating portfolio was 99.83 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, 2004:

Total Outstanding Tax-Supported Debt	$293,705,000
Less Self-Supporting Debt [1]	12,938,454
Net Tax-Supported Debt	$280,766,546

[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 1995-2004

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	Ratio of Net Tax-Supported Debt Assessed Valuation
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
2002	346,197	14,344,001,305	284,539,762	822	1.98
2003	351,719	15,018,724,599	283,792,540	807	1.89
2004	355,634	15,599,320,395	280,766,546	789	1.80

(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 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

Maturing Within	Amount Maturing	Percent of Total Debt Outstanding
5 years	$119,230,000	40.6%
10 years	210,240,000	71.6
15 years	273,940,000	93.3
20 years	293,705,000	100.0

(1) As of September 30, 2004.

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 Principal	Interest	Total
2005	$ 28,030,000	$ 14,332,182	$ 42,362,182
2006	25,455,000	12,979,683	38,434,683
2007	23,220,000	11,836,691	35,056,691
2008	22,205,000	10,752,871	32,957,871
2009	20,320,000	9,649,904	29,969,904
2010	18,980,000	8,660,897	27,640,897
2011	19,015,000	7,723,482	26,738,482
2012	18,490,000	6,783,631	25,273,631
2013	17,750,000	5,855,802	23,605,802
2014	16,775,000	4,979,615	21,754,615
2015	15,490,000	4,144,837	19,634,837
2016	14,350,000	3,384,356	17,734,356
2017	13,110,000	2,672,591	15,782,591
2018	11,000,000	2,019,715	13,019,715
2019	9,750,000	1,466,477	11,216,477
2020	7,010,000	973,041	7,983,041
2021	5,370,000	619,825	5,989,825
2022	3,685,000	355,319	4,040,319
2023	2,495,000	175,776	2,670,776
2024	1,205,000	55,731	1,260,731
	$293,705,000	$109,422,426	$403,127,426

[1] As of September 30, 2004.

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
2005	$ 28,030,000	$ 14,332,182	$ 1,103,454	$ 732,625	$ 40,526,103
2006	25,455,000	12,979,683	610,000	568,121	37,256,562
2007	23,220,000	11,836,691	640,000	541,281	33,875,410
2008	22,205,000	10,752,871	670,000	512,481	31,775,390
2009	20,320,000	9,649,904	700,000	482,331	28,787,573
2010	18,980,000	8,660,897	735,000	450,831	26,455,066
2011	19,015,000	7,723,482	770,000	416,838	25,551,644
2012	18,490,000	6,783,631	805,000	380,262	24,088,369
2013	17,750,000	5,855,802	845,000	342,025	22,418,777
2014	16,775,000	4,979,615	890,000	301,888	20,562,727
2015	15,490,000	4,144,837	935,000	258,500	18,441,337
2016	14,350,000	3,384,356	980,000	211,750	16,542,606
2017	13,110,000	2,672,591	1,030,000	162,750	14,589,841
2018	11,000,000	2,019,715	1,085,000	111,250	11,823,465
2019	9,750,000	1,466,477	1,140,000	57,000	10,019,477
2020	7,010,000	973,041	-	-	7,983,041
2021	5,370,000	619,825	-	-	5,989,825
2022	3,685,000	355,319	-	-	4,040,319
2023	2,495,000	175,776	-	-	2,670,776
2024	1,205,000	55,731	-	-	1,260,731
	$293,705,000	$109,422,426	$12,938,454	$5,529,933	$384,659,039

(1) As of September 30, 2004.

(2) Includes $518,454 of the Permanent Improvement Refunding Bonds, Series 1993 (the "Series 1993 Refunding Bonds") which has historically been paid with hotel occupancy tax revenues and $12,420,000 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 that 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 $12,420,000 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 $518,454 of the total debt service on the Series 1993 Refunding Bonds from October 1, 2004 through fiscal year 2005.

In the fiscal year 2005 Budget, the City estimates that $3,900,000 of Hotel Occupancy Tax will be received by the City which exceeds the $1,836,079 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 2000 through 2004 have been more than adequate to pay debt service requirements on the Hotel Occupancy Tax Certificates and Bonds.

Tax Adequacy

The following analysis as of September 30, 2004, assumes 98 percent collection of ad valorem taxes levied against the City's fiscal year 2005 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 (2005/2024)	$19,232,952
A tax rate of $.1259 per $100 assessed valuation produces	19,246,753
Average Annual Requirement (2005/2014)	29,129,762
A tax rate of $.1906 per $100 assessed valuation produces	29,137,659
Maximum Annual Requirement (2005)	40,526,103
A tax rate of $.2652 per $100 assessed valuation produces	40,542,010

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)

Taxing Jurisdiction	Amount[1]	As of	Percent[2]	Amount
City of Arlington [3]	$280,767	9-30-04	100.00 %	$ 280,767
Arlington Independent School District	554,519	8-31-04	78.16	433,412
Tarrant County	173,989	9-30-04	18.08	31,457
Tarrant County Junior College District	69,066	8-31-04	18.08	12,487
Tarrant County Hospital District	39,403	9-30-04	18.08	7,124
Kennedale Independent School District	39,400	8-31-04	20.91	8,239
Mansfield Independent School District	411,837	8-31-04	11.66	48,020
Hurst-Euless-Bedford I.S.D.	231,739	8-31-04	3.90	9,038
Total Direct and Overlapping Debt [4]				$830,544
Overlapping debt as a percent of 2005 assessed value...........		5.3%		
Overlapping debt per capita		$2,335		
Per capita overlapping debt as a percent of 2002 County per capita personal income		7.5%		

(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.

Debt Service Requirements
Water & Wastewater System Revenue Bonds [1]

Fiscal Year Ending 9/30	Outstanding Bonds Principal	Interest	Total
2005	$ 10,145,000	$ 3,970,264	$ 14,115,264
2006	9,385,000	3,381,816	12,766,816
2007	8,615,000	2,978,800	11,593,800
2008	6,135,000	2,615,976	8,750,976
2009	6,095,000	2,368,610	8,463,610
2010	6,050,000	2,113,352	8,163,352
2011	5,400,000	1,867,531	7,267,531
2012	5,060,000	1,639,513	6,699,513
2013	4,610,000	1,422,211	6,032,211
2014	4,170,000	1,219,333	5,389,333
2015	4,155,000	1,031,161	5,186,161
2016	3,630,000	841,543	4,471,543
2017	3,030,000	671,367	3,701,367
2018	3,030,000	530,348	3,560,348
2019	2,630,000	388,537	3,018,537
2020	2,630,000	264,938	2,894,938
2021	1,595,000	140,547	1,735,547
2022	785,000	67,118	852,118
2023	785,000	33,755	818,755
	$87,935,000	$27,546,720	$115,481,720

[1] As of September 30, 2004.

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 November 4, 2003. Two propositions were on the ballot totaling $84,035,000 were approved by the voters. The two approved propositions were street and transportation improvements ($83,635,000) and traffic management cameras ($400,000). Combined with the authorized but unissued bonds from prior elections, the City has $102,645,000 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 2005 is budgeted at $33,940,000. The projects include $17,700,000 for Streets and Transportation improvements, $3,915,000 for Park and Recreation improvements, $2,525,000 for Technology System improvements, $2,850,000 for Municipal office improvements, $250,000 for Library improvements, and $6,700,000 for Police facilities. The Park and Recreation total includes $2,770,000 that is part of a planned May 2005 bond election. The sale of this portion of the bonds is contingent on voter approval. The City is planning a $28,565,000 permanent improvement bond sale and a $5,375,000 certificate of obligation to finance the tax-supported CIP.

Capital Improvement Program*
Bond Elections (1993, 1997, 1999, 2003, and Planned 2005)
and Planned 2005 Certificate Sale
(amounts in thousands)

Sources	Estimated Total Costs	Total Financing To Date	Planned Issuance	Total Amount Remaining	Percent of Total Amount Remaining
General Obligation Bonds	$ 154,675	$ 52,030	$ 25,795	$ 76,850	100.00%
2005 Certificates of Obligation	5,375	-	5,375	-	-
Park Bonds Pending Authorization	2,770	-	2,770	-	-
Total	$ 162,820	$ 52,030	$ 33,940	$ 76,850	100.00%

Capital Improvement Program*
Bond Elections (1993, 1997, 1999, 2003, and Planned 2005)
and Planned 2005 Certificate Sale
(amounts in thousands)

Uses	Estimated Total Costs	Total Financing To Date	Planned Issuance	Total Amount Remaining	Percent of Total Amount Remaining
Library	$ 3,005	$ 1,185	$ 250	$ 1,570	2.0%
Parks and Recreation	37,860	35,400	1,145	1,315	1.7
Streets, Storm Drainage and Transportation	95,640	10,925	17,300	67,415	87.7
Police	10,935	2,270	6,700	1,965	2.6
Fire	4,935	2,250	-	2,685	3.5
Erosion Control	1,900	-	-	1,900	2.5
Traffic Mgmt. Cameras	400	-	400	-	-
Parks Pending Authorization	2,770	-	2,770	-	-
Police Cert. of Obligation	2,850	-	2,850	-	-
Support Serv Cert. of Obligation	2,525	-	2,525	-	-
Total	$ 162,820	$ 52,030	$ 33,940	$ 76,850	100.0%

* Includes $2,770,000 for Parks from planned May 2005 bond election.

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 section 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 fiscal years shown.

Proposed Capital Improvement Program

Fiscal Year	Planned Capital Expenditures	Planned Bond Sale	Other Capital Financing Sources[1]
2005	$25,500,000	$17,000,000	$ 8,500,000
2006	24,000,000	15,000,000	9,000,000
2007	24,750,000	15,000,000	9,750,000
2008	24,750,000	15,000,000	9,750,000
2009	24,750,000	15,000,000	9,750,000

(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.

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, 2003. The City has been awarded a Certificate of Excellence for its CAFR for the year ended April 30, 1966 and then annually from 1977 to 2003. The City has also received GFOA's Award for Distinguished Budget Presentation for fiscal years 1986 through 2004.

ACCOUNTING STANDARDS

The basic financial statements are prepared in conformity with GASB Statement No. 34 (Statement No. 34) which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. The accrual basis of accounting and the economic resources measurement focus is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Accordingly, the accounting and financial reporting of the City's General Fund, Capital Projects Funds and Debt Service Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34. The following major funds are used by the City:

Governmental Funds

The following is a description of the Governmental Funds of the City:

General Fund accounts for several of the City's primary services (Public Safety, Public Works, Public Health, Public Welfare, Parks and Recreation, etc.) and is the primary operating unit of the City. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. Street capital project fund accounts for the financing and acquisition of right of way and construction of streets and related facilities. Funds are provided primarily through bond sales, and interest earnings. Other Governmental Funds is a summarization of all of the nonmajor governmental funds.

Proprietary Funds

The following is a description of the major Proprietary Funds of the City:

Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund. Sanitary Landfill Fund accounts for the operations of the City's landfill. Customers are billed monthly at a rate sufficient to cover the cost of providing such service.

Other Fund Types

The City additionally reports for the following Fund types:

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, generally on a cost reimbursement basis. Agency Funds are used to account for assets held by the City in an agency capacity for individuals, local law enforcement agencies or developers. Pension Trust Fund is used to account for the accumulation of resources to be used for the retirement benefit payments to employees of the City.

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 reporting entity's financial statements to be misleading or incomplete. 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. The following component units have been blended with those of the City because (i) their governing bodies are substantially the same as the governing body of the City or (ii) the component unit provides services entirely to the City. These are the Arlington Property Finance Authority, Inc., Thrift Savings Plan, Disability Income Plan and Part-Time Deferred Income Trust.

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 2000 to 2004 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)

	2004	2003	2002	2001	2000
Beginning Fund Balance	$ 20,806	$ 20,707	$ 21,661[1]	$ 18,221	$ 19,095
Revenues					
Ad Valorem Taxes	58,972	51,958	46,026	40,593	36,522
Sales Tax	39,664	38,695	41,173	44,436	43,384
Other Taxes	4,021	3,718	3,649	3,487	3,247
Franchise Fees	29,371	29,163	29,635	31,201	26,639
Service Charges	4,696	5,388	5,648	4,822	3,551
Interest	380	499	803	1,241	1,222
All Other	15,004	14,716	15,522	10,283	9,036
Total Revenues	152,108	144,137	142,456	136,063	123,601
Expenditures					
Total Expenditures	152,923	146,946	144,316	133,496	127,280
Net Revenues Over (Under) Expenditures	(815)	(2,809)	(1,860)	2,567	(3,679)
Operating Transfers	5,326	2,908	906	(1,129)	2,805
Ending Fund Balance	$ 25,317	$ 20,806	$ 20,707	$ 19,659	$ 18,221

For the fiscal year ended September 30, 2004, the General Fund had revenues and transfers greater than expenditures by $4,511,000, or 2.97 percent of General Fund revenues, leaving a General Fund balance at September 30, 2004, of $25,317,000. The following table presents a comparison of the City's General Fund balance for fiscal years 2000 to 2004.

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

	2004	2003	2002	2001	2000
General Fund Balance:					
Reserved for					
Encumbrances	$ 1,786	$ 656	$ 1,526	$ 1,379	$ 1,129
Inventory	113	112	279	336	489
Prepaids	46	67	48	24	39
Infrastructure Maintenance	-	-	-	-	350
Park Acquisition	-	-	-	-	-
Utility Rate Case	500	500	500	500	500
Special Transportation	-	-	-	-	-
Net Increase in Fair Value	-	-	-	-	-
Unreserved – Designated for					
Telecommunications	329	102	754	357	195
Working Capital	13,585	12,981	12,195	11,389	11,335
Subsequent Years' Expenditures	5,018	4,821	3,429	2,633	2,633
Arbitrage	38	320	824	-	-
Compensated absences	1,411	1,247	1,152	-	-
Other Post Employment Balances	1,718				
Undesignated	773	-	-	3,041	1,551
Total General Fund Balance	$ 25,317	$ 20,806	$ 20,707	$ 19,659	$ 18,221
General Fund Balance as a Percent of General Fund Expenditures	16.56%	14.16%	14.35%	14.73%	14.32%

Source: Fiscal Year 2000 to 2004 Comprehensive Annual Financial Reports.

DEBT SERVICE FUND BUDGET
Fiscal Year 2005
(amounts in thousands)

Beginning Fund Balance	$ 2,993
Property Tax Revenue	38,321
Interest Revenue	383
Transfers In [1]	2,980
Debt Service Expenditures	(42,201)
Estimated Ending Fund Balance	$ 2,476

[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 2005 Budget and Fiscal Year 2004 CAFR.

CURRENT OPERATING BUDGET

On September 27, 2004, the City Council adopted a total Budget for fiscal year 2005 with expenditures of $326,517,847. The adopted General Fund Budget reflects a property tax rate of $0.6480/$100.

The adopted Budget for fiscal year 2005 maintains core services levels and programs within tight financial constraints. An across-the-board compensation increase of 1.38 percent and a one time 5 percent payment were included in the adopted budget. The overall value of taxable property in the City increased by 3.9 percent, from $15.019 billion in fiscal year 2004 to $15.599 billion in fiscal year 2005. The adopted Budget authorizes City government personnel of 2,342 full-time positions, an increase of 14 positions from the fiscal year 2004 adopted budget.

The following table shows the City's estimated revenues and budgeted expenditures for fiscal year 2005, as reported in the adopted Budget.

Estimated Revenues and Budgeted Expenditures
Fiscal Year 2005 Budget [1]
(amounts in thousands)

	Fiscal Year 2005 Budget	**Percent of Fiscal Year 2005 Budget**
REVENUES		
Property Taxes	$ 100,447	30.8%
Sales Tax	39,080	12.0
Other Taxes	1,410	0.4
Licenses and Permits	4,749	1.5
Utility Franchise Fees	29,469	9.1
Fines and Forfeitures	10,615	3.3
Leases and Rents	3,026	0.9
Services Charges	11,718	3.6
Miscellaneous Revenues	1,878	0.6
Water and Sewer Fund Revenues	91,886	28.2
Convention & Event Services Fund Revenues	6,256	1.9
Sanitary Landfill Fund	7,959	2.4
Street Maintenance Fund	9,796	3.0
Park Performance Fund	7,342	2.3
Total Revenues	$ 325,631	100.0%
EXPENDITURES		
General Government	$ 9,557	2.9%
Police	66,010	20.2
Fire	34,996	10.7
Neighborhood Services	5,016	1.5
Planning and Development Services	4,445	1.4
Parks and Recreation	15,306	4.7
Public Works	12,774	3.9
Library	5,831	1.8
Administrative and Support Services	19,920	6.1
Water and Sewer Fund	80,672	24.7
Convention & Event Services Fund	5,391	1.7
Sanitary Landfill Fund	4,512	1.4
Park Performance Fund	7,293	2.2
Street Maintenance Fund	12,594	3.9
Debt Service	42,201	12.9
Total Expenditures	$ 326,518	100.0%

[1] All funds combined, excludes interfund transfers.

Source: Fiscal Year 2005 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 in 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 2005, the Council levied a tax rate equal to $0.6480 per $100 assessed valuation of which $0.2457 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 $60,000 of the appraised value of such residential homesteads. The FY 2005 tax rolls reflect the Council granting persons 65 years of age and older, disabled persons and disabled veterans exemptions totaling $704,261,621.

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 FY 2005 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 FY 2005 tax roll, which totaled $1,734,182,843, or 11.1 percent of the FY 2005 assessed valuation. In addition, $67,741,299 of value was reduced from the FY 2005 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 FY 2005 tax roll reveals a value loss of $2,593,148 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 FY 2005 tax roll is $331,596,017. A schedule of abated values for the FY 2005 tax roll by property owners is as follows:

Property Owner	FY 2005 Abatement Value
General Motors	$194,850,109
Doskocil Manufacturing	25,471,556
ACF Investments 3939 Embarcadero	17,345,071
National Semiconductor	14,951,268
ACF Investments 4001 Embarcadero	14,675,372
J P Morgan Chase Bank	14,293,935
Crow-Westway Associates	8,838,831
Prologis/Mackie	7,713,724
Providian Financial/Collins Walton Buckner	7,367,370
Verizon Wireless/Dallas MTA	6,263,530
Americredit Leases	3,736,812
Raz Property Company	2,724,743
Office Depot	2,692,977
Primera	2,687,746
For 1031 Arlington LLC etal	2,267,402
McLane Food Service	1,991,469
Lear Operations	1,974,817
TDS	1,749,285
Totals	$331,596,017

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 FY 2005 tax roll was $237,437,549.

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 FY04 were $574,070.

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 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 FY 2005 appraisal roll was prepared and certified by the Tarrant 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, 2004. The rate of taxation was determined and set by the Council based upon the January 1, 2004 valuation. Taxes are due October 1 of the subject year and become delinquent after January 31 of the following year, except for a split payment option. Under the split payment option, adopted by the City beginning with fiscal year 2003, taxpayers can make one-half payment prior to December 1, and the final one-half payment prior to July 1 of the following year without penalty or interest. Since October 1, 2002 ad valorem taxes for the City have been collected by the Tarrant County Tax Assessor-Collector.

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 Limitation Election

A City election was approved on February 5, 2005, which adopted a homestead property tax limitation for disabled individuals and individuals 65 years of age or older. This limitation on the residential homesteads of qualifying property owners is defined under the Texas Property Tax Code, section 11.621. The limitation can not be repealed by any action of the City or through an election of the City under current state law. The homestead property tax ceiling limits the amount of taxes paid to the City based on the taxes paid in the first year that the property qualifies for the disabled exemption or the 65 years of age or older exemption. The limitation is a dollar amount and does not increase unless improvements are made to the residential homestead. For those property owners who currently qualify or will qualify in 2005 for either exemption, the tax ceiling will be set based on the taxes levied in September 2005 by the City. The tax ceiling carries forward to a surviving spouse age 55 or older of an individual who is 65 years of age or older.

The City has 67,471 residential homestead properties in FY 2005 and 12,475 (18.5%) of these properties received an exemption for a disabled individual or individual 65 years of age or older.

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 4.5 percent per year over the last five years.

Principal Tax Revenue by Source
Fiscal Years 2000 to 2004
(amounts in thousands)

Fiscal Year	General Fund Ad Valorem Taxes	General Fund Sales Tax	Franchise Fees	Hotel Occupancy Tax	Other Taxes	Total
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
2002	46,026	41,173	29,635	4,118	3,649	124,601
2003	51,958	38,695	29,163	3,910	3,718	127,444
2004	58,972	39,664	29,371	3,981	4,021	136,009

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 $1,849,784,559 for fiscal year 2005, are not included in the table. The Tarrant Appraisal District certified appraisal of taxable property less exemptions for fiscal year 2005 is $15,599,320,395. 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]
Fiscal Years 2001 to 2005

Fiscal Year	Real Property Taxable Assessed Value	Percentage Change From Prior Year	Personal Property Taxable Assessed Value	Percentage Change From Prior Year	Total Taxable Assessed Value	Percentage Change From Prior Year
2001	$10,344,385,656	9.27%	$2,090,767,102	7.29%	$12,435,152,758	8.94%
2002	11,304,546,333	9.28	2,208,805,174	5.65	13,513,378,507	8.67
2003	12,099,808,133	7.03	2,244,193,172	1.60	14,344,001,305	6.15
2004	12,899,757,009	6.61	2,118,967,590	(0.56)	15,018,724,599	4.70
2005	13,349,818,463	3.49	2,249,501,932	6.16	15,599,320,395	3.86

(1) Real and personal property is assessed at 100 percent of fair market value. Total taxable assessed value excludes abated value.

Source: City Finance Department.

Tax Rate Distribution
Fiscal Years 2001 to 2005

	2005	2004	2003	2002	2001
General Fund	$.4023	$.3879	$.3879	$.3620	$.3429
Debt Service Fund	.2457	.2601	.2601	.2720	.2911
Total	$.6480	$.6480	$.6340	$.6340	$.6340

Source: City Finance Department.

Collection Ratios
Fiscal Years 2000 to 2004

Fiscal Year	Net Assessed Valuation[1]	Tax Rate	Tax Levy	% Collections[2] Current Year	% Collections[2] Prior Years	% Collections[2] Year Ending
2000	$11,415,146,297	0.6380	$72,828,633	98.48%	100.48%	9-30-00
2001	12,435,152,758	0.6340	78,838,868	98.56	100.82	9-30-01
2002	13,513,378,507	0.6340	85,674,820	98.30	99.92	9-30-02
2003	14,344,001,305	0.6480	90,940,968	98.15	99.89	9-30-03
2004	15,018,724,599	0.6480	97,321,335	99.60	101.26	9-30-04

(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 Finance Department.

Analysis of Delinquent Taxes
as of September 30, 2004

Fiscal Year	Tax Levy	Uncollected	Percentage of Levy
2004	$97,321,335	$1,487,252	1.53%
2003	90,940,968	674,544	.74
2002	85,674,820	446,317	.52
2001	78,838,868	285,918	.36
2000	72,828,633	249,102	.34
1999	69,341,578	195,615	.28
1998	64,954,721	206,419	.32
1997	62,105,100	198,093	.32
1996	58,374,990	121,337	.21
1995	54,305,297	141,023	.26
1994	53,777,666	158,240	.29
Prior to 1994	N/A	925,913	N/A
		$5,089,773	

Source: City Finance Department

Tax Base Distribution
Fiscal Years 2001 to 2005

	2005	2004	2003	2002	2001
Residential	62.2%	61.8%	59.5%	57.1%	56.6%
Commercial, Industrial, Retail	35.7	35.9	37.8	39.8	39.9
Undeveloped	2.1	2.3	2.7	3.1	3.5

Source: City Finance Department.

Top Ten Taxpayers

Name	Type of Business	2005	2004	2003
General Motors Corporation[1]	Auto Assembly	$ 188,003,133	$ 202,560,640	$ 204,781,888
Oncor Electric Delivery Co.	Public Utility	141,840,575	147,290,009	151,139,100
Parks at Arlington LP	Real Estate Holdings	126,550,000	122,381,889	75,736,199
McKesson Drug Co.	Pharmaceutical	107,250,236	181,900,322	-
Southwestern Bell Telephone Co.	Public Utility	78,646,166	92,064,327	101,792,723
Texas Flags/Six Flags Over Texas	Amusement Park	70,400,254	80,676,418	75,956,198
National Semiconductor[1]	Computer Chip Mfg.	64,188,696	33,626,030	63,607,152
HCA – Arlington Inc.	Healthcare	63,434,113	35,300,000	-
USMD Surgical Hospital	Healthcare	35,561,251	-	-
Lincoln Square, Ltd	Real Estate Holdings	33,633,400	-	-
Don Davis	Auto Dealership & Real Estate Holdings	-	50,112,393	49,508,130
EQR - Limited Partnership	Real Estate Holdings	-	32,265,000	44,446,796
Chase Bank of Texas	Banking	-	-	43,987,200
TCI Public Utility	Public Utility	-	-	37,597,754
Total		$ 909,507,824	$ 978,177,028	$ 848,553,140
Percentage of the above ten taxpayers of total tax rolls.		5.83%	6.51%	5.91%

[1] See Tax Data: Property Subject to Taxation and Assessed Value of Tax Abatement Agreement for 2005 abatement values.

Source: City Finance Department.

Tax Abatements

Assessed Value of Tax Abatement Agreements

Fiscal Year	Total Assessed Valuation Abated
1996	$132,913,633
1997	191,058,280
1998	257,260,096
1999	369,707,519
2000	377,017,981
2001	359,001,468
2002	561,859,024
2003	509,488,606
2004	381,607,734
2005	331,596,017

Source: City Finance Department.

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. On September 14, 2002, an election to adopt an additional one-quarter cent city sales and use tax for municipal street maintenance as permitted under Chapter 327 of the Texas Tax Code was held and the additional one-quarter cent sales and use tax was approved. The additional one-quarter cent sales and use tax became effective on January 1, 2003. On November 2, 2004, an election to adopt an additional one-half cent sales and use tax for the Dallas Cowboys Complex Development Project as permitted by Chapter 334 of the Texas Local Government Code was held and the additional one-half cent sales and use tax was approved. The additional one-half cent sales and use tax will become effective on April 1, 2005. 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.

Fiscal Year	Sales Tax Receipts	Ad Valorem Tax Levy	Sales Tax as a % of Ad Valorem Tax Levy	Population Estimate	Per Capita Sales Tax Collection
2000	$43,383,927	$72,828,633	60%	332,969 (1)	$130.29
2001	44,436,164	78,838,868	56	339,215	131.00
2002	41,172,479	85,674,820	48	346,197	118.93
2003	38,695,033	90,940,968	43	351,719	110.02
2004	39,663,609	97,321,335	41	355,634	111.53

(1) 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 cannot exceed 15 percent for the encouragement, promotions and application of the arts and cannot exceed 15 percent for historical preservation project or activities. The City has levied a Hotel Occupancy Tax of seven percent since 1983. On November 2, 2004 an election was approved under Chapter 334 of the Texas Local Government Code to increase the Hotel Occupancy Tax by two percent for the Dallas Cowboys Complex Development Project. The additional two percent can only be used for this purpose and is effective on April 1, 2005.

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.

Fiscal Year	Hotel Occupancy Tax Receipts
2000	4,590,234
2001	4,675,990
2002	4,118,312
2003	3,909,501
2004	3,980,814

Source: City Finance Department.

Dallas Cowboys Complex Development Project

On November 2, 2004, a majority of the voters of the City voted in favor of a proposition authorizing the City to provide for the planning, acquisition, establishment, development, construction and financing of the Dallas Cowboys Complex Development Project (the "Project") within the City and (i) to impose a sales and use tax within the City at a rate of one-half of one percent (0.5%), (ii) to impose a tax at a maximum rate of five percent (5%) on the gross rental receipts from the short-term rental in the City of a motor vehicle, (iii) to impose a tax on the occupancy of a room in a hotel located within the city, at a maximum rate of two percent (2%) of the price paid for such room, (iv) to impose an admissions tax on each ticket sold as admission to an event held at the Project at a maximum rate not to exceed ten percent (10%) of the price of the ticket, and (v) to impose a tax on each parked motor vehicle parking in a parking facility of the Project at a maximum rate not to exceed three dollars ($3.00) per vehicle.

On February 8, 2005, the City Council approved the Cowboys Complex Funding and Closing Agreement (the "Agreement"). The Agreement anticipates the issuance of bonds, notes or other obligations by the City and the Cowboys by September 1, 2005, while reserving the right of either the City or the Cowboys to terminate the Agreement up to July 1, 2005. The issuance of the City's bonds, notes or other obligations are limited to a pledge of the revenue sources identified in the proposition in the paragraph listed above. The City's contribution to the Project is the lesser of $325 million or fifty percent (50%) of the Project's cost.

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.

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In August 2003, the City Council approved transitioning to a phased cost of service rate methodology and the introduction of conservation rate blocks. In order to minimize the impact to rate payers of implementing a full cost of service rate structure, cost of service rates will be phased in over a five-year period which began with fiscal year 2004. The two components of the rate structure are a fixed monthly charge based upon meter size and a commodity charge per 1,000 gallons used.

A separate fixed monthly fee scale has been established for residential class customers with ¾ inch meters whose water and wastewater use is less than 2,000 gallons per month. The fixed charge for meter sizes other than ¾- inch increases with meter size to recognize the additional demands that large meter installations place on the system.

The water commodity charge, is designed to encourage customers to efficiently use water. The commodity charge increases with higher volumes of water usage for both residential and commercial class customers. Unlike the variable water commodity rate, the wastewater commodity rate per 1,000 gallons is a flat rate for all account classifications that will not change based on usage. Beginning in fiscal year 2004, the 2,000 gallon volume credit was removed from the wastewater fixed monthly charge.

CITY OF ARLINGTON WATER UTILITIES
FIXED MONTHLY FEE

Meter Size	Water	Wastewater
3/4" (<2,000 gal)	$ 3.90	$3.10
3/4" (>2,000 gal)	5.60	5.00
1"	9.80	8.75
1 1/2"	22.40	20.00
2"	39.20	35.00
3"	92.80	50.50
4"	169.16	88.37
6"	389.88	201.84
8"	610.60	315.35
10"	917.20	473.00

CITY OF ARLINGTON WATER UTILITIES
CONSERVATION RATES BLOCK STRUCTURE

RESIDENTIAL

Usage (1,000 gal)	Water	Wastewater
0 - 2	$1.50	$2.42
3 - 10	1.79	2.42
11 - 15	2.29	2.42
> 16	2.79	2.42

COMMERCIAL

Usage (1,000 gal)	Water	Wastewater
0-15	$1.62	$2.42
> 15	1.98	2.42

SPRINKLER

Usage (1,000 gal)	Rate
All Usage	$2.79

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 winter average for a residential customer is approximately 6,000 gallons.

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

Fiscal Year	Water	Wastewater	Total
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
2003	0.0	0.0	0.0
2004	(8.4)	46.9	10.7
2005	2.6	3.4	2.9

Source: City Water Utilities Department.

Operating Reserve

The current policy, authorized by the City Council in May 2003, requires the operating reserve to equal a minimum of 45 days of the proposed operating and maintenance expense budget, excluding debt service. Additionally, the reserve can be increased to a 60 day level using excess unbudgeted revenues, if available. The reserve fund balance as of September 30, 2004, was increased to $10,781,809, which equals 60 days of operating and maintenance expense.

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 Statement of Net Assets, Historical Net Revenues Available for Debt Service, and Historical Net Revenues of the System and Financial Ratios.

WATER AND WASTEWATER SYSTEM STATEMENT OF NET ASSETS
Fiscal Year Ended September 30
(amounts in thousands)

Assets	2004	2003	2002	2001	2000
Cash and cash equivalents	$11,777	$9,986	$6,748	$13,235	$15,413
Receivable (net of allowances for uncollectibles)	11,560	11,867	12,500	11,236	14,713
Inventory of supplies, at cost	482	359	406	469	469
Restricted assets:					
Bond contingency	10,844	10,907	12,282	11,891	10,966
Capital/Bond construction	32,491	22,509	35,295	24,697	22,250
Meter deposits	3,635	3,597	3,522	3,264	3,227
Property, plant and equipment less accumulated depreciation	414,073	394,598	378,747	362,488	335,470
Total Assets	$484,902	$453,823	$449,500	$427,280	$402,508
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued liabilities	$3,627	$2,564	$3,766	4,071	$2,250
Payable from restricted assets	10,712	10,215	10,871	10,342	11,450
Accrued compensated absences					
Current	85	64	55	92	79
Non Current/Long Term	1,593	1,600	1,575	1,352	1,272
Revenue bonds, net of discount, payable from unrestricted assets	83,927	79,411	90,720	87,048	79,259
Trinity River Authority bonds payable from unrestricted assets	-	-	-	-	-
Total Liabilities	99,944	93,854	106,987	102,905	94,310
Net Assets/Equity:					
Contributed capital -					
From other municipalities or governmental units	-	-	-	9,097	9,097
In aid of construction	-	-	-	110,031	104,061
Retained earnings -					
Reserved	-	-	-	6,335	5,959
Unreserved	-	-	-	198,912	189,081
Invested in Capital Assets	342,561	317,563	299,616	-	-
Restricted	9,460	9,638	-	-	-
Unrestricted	32,937	32,768	42,897	-	-
Total Assets/Equity	384,958	359,969	342,513	324,375	308,198
Total Liabilities and Net Assets/Equity	$484,902	$453,823	$449,500	$427,280	$402,508

HISTORICAL NET REVENUES AVAILABLE FOR DEBT SERVICE
Fiscal Year Ended September 30
(amounts in thousands)

Revenues	**2004**	**2003**	**2002**	**2001**	**2000**
Water Sales	$44,857	$47,206	$45,855	$39,901[1]	$50,818
Wastewater Service	37,615	30,058	29,733	29,366	29,546
Interest Income	1,112	1,209	1,893	3,462	3,461
Other Income	6,002	4,626	5,159	5,214	5,420
Total Revenues	$89,586	$83,099	$82,640	$77,943	$89,245
Expenses					
Labor Costs	$13,017	$12,646	$12,366	$11,591	$10,850
Supplies	1,924	1,739	1,898	2,352	1,949
Maintenance	1,964	2,030	2,361	1,945	1,911
Water Supply (The District)	12,697	12,423	13,059	12,394	13,698
Wastewater Treatment Contracts	16,070	15,959	16,091	14,601	14,140
Utilities	1,907	2,528	1,392	2,482	2,150
Other Expenses	9,977	9,984	10,315	10,197	10,825
Total Operating Expenses Before Depreciation	$57,556	$57,309	$57,482	$55,562	$55,523
Net Revenues of the System	$32,030	$25,790	$25,158	$22,381	$33,722
Interest During Construction Included Above	(317)	(208)	(474)	(641)	(111)
Net Revenues Available for Debt Service	$31,713	$25,582	$24,684	$21,740	$33,611
Debt Service Paid[2]	$14,522	$16,188	$16,234	$15,021	$15,567
Debt Service Coverage (times)[3]	2.18x	1.58x	1.52x	1.45x	2.16x
Debt Service Requirements Paid From Surplus Net Revenues[4]	-	-	-	-	$185

(1) Gross operating revenues in fiscal year 2001 reflect a refund of $7.0 million.
(2) Excludes TRA Revenue Bonds, accrued interest from bond sales, and refundings or cash defeasances.
(3) Unaudited.
(4) TRA (Arlington Project) Revenue Bonds.

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

	2004	2003	2002	2001	2000
Gross Operating Revenues	$88,474	$81,890	$80,747	$74,481[1]	$85,784
Interest Revenues (Excluding Interest During Construction)	795	1,001	1,419	2,821	3,350
Operating Expenses Before Depreciation	57,556	57,309	57,482	55,562	55,523
Net Revenues Available for Debt Service	$31,713	$25,582	$24,684	$21,740	$33,611
Average Annual Debt Service [2]	$6,078	$6,066	$6,664	$6,335	$5,959
Average Annual Debt Service Coverage (times) [2]	5.22x	4.22x	3.70x	3.43x	5.64x
Accounts Receivable to Gross Operating Revenues (%)	13.07%	14.49%	15.48%	15.08%	17.15%
Unrestricted Cash to Unrestricted Current Liabilities (times) [3]	3.19x	3.80x	1.77x	3.18x	6.62x
Unrestricted Current Assets to Unrestricted Current Liabilities (times) [3]	6.44x	8.45x	5.04x	5.88x	12.94
Long-term Debt to Net Plant (%)	19%	18%	22%	22%	22%

(1) Gross Operating Revenues in fiscal year 2001 reflect a refund of $7.0 million.
(2) Unaudited.
(3) Revenue Bonds payable excluded from unrestricted current liabilities.

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 794 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 percent, 150 percent, or 200 percent) 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 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 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.

Plan provisions for the City were as follows (as of 4/1/04):

Deposit Rate:	7%
Matching Ratio: (City to Employee)	2 to 1
A member is vested after:	5 years

Under the state law governing TMRS, the actuary annually determines the City contribution rate. 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 the 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/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) 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 2004, the City’s annual pension cost of $13,955,035 was equal to the City’s required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included an 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.

Fiscal Year Ending	**Annual Pension Cost (APC)**	**Percentage of APC Contribution**	**Net Pension Obligation**
9/30/02	$14,098,512	100.00%	-
9/30/03	$14,117,102	100.00%	-
9/30/04	$13,955,035	100.00%	-

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. 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. The annual actuarial study in May 1999 estimated that the $7,000,000 of proceeds would adequately fund the self-insurance program through September 30, 2004. The City annually receives a report from its actuary indicating the adequacy of the funding of the City's self-insurance program. The most recent report received by the City on November 16, 2004, reflects that the self-insurance program should be adequately funded from funds currently on deposit through September 30, 2006.

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. Prior to such date it is anticipated the City Council will review the program for extension.

As of September 30, 2004, the total current assets less accounts payable and estimated current claims payable were $4,285,000. The estimated non-current claims payable (long term claims) at September 30, 2004 was $1,590,000. Claims occurring prior to November 1, 1986 are covered under the City's previous commercial insurance program. Property, Fidelity and Crime coverage's remain commercially insured.