NEW ISSUE/Book-Entry Only

RATINGS: Fitch Ratings "AAA"
Moody's "Aaa"
Standard & Poor's "AAA"
(FSA Insured: See "Bond Insurance" and "Ratings")

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

$15,000,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Water and Wastewater System Revenue Bonds
Series 2004

Dated: February 15, 2004 **Due: June 1, as shown below**

The $15,000,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2004 (the "Bonds") will be issued in fully registered form without coupons and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in principal amounts of $5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2004.

The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by FINANCIAL SECURITY ASSURANCE , INC.

FSA

Maturity Schedule

Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[1]	Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[1]
2005	$790,000	2.375%	1.13%	04184K CX1	2015	$790,000	3.600%	3.67%	04184K DH5
2006	790,000	2.500%	1.40%	04184K CY9	2016	790,000	3.700%	3.79%	04184K DJ1
2007	790,000	2.500%	1.72%	04184K CZ6	2017	790,000	3.800%	3.90%	04184K DK8
2008	790,000	2.500%	2.08%	04184K DA0	2018	790,000	3.900%	4.00%	04184K DL6
2009	790,000	2.750%	2.35%	04184K DB8	2019	790,000	4.000%	4.12%	04184K DM4
2010	790,000	3.000%	2.64%	04184K DC6	2020	790,000	4.100%	4.21%	04184K DN2
2011	790,000	4.000%	2.88%	04184K DD4	2021	790,000	4.200%	4.30%	04184K DP7
2012	790,000	3.000%	3.125%	04184K DE2	2022	785,000	4.250%	4.38%	04184K DQ5
2013	790,000	3.300%	3.33%	04184K DF9	2023	785,000	4.300%	4.45%	04184K DR3
2014	790,000	3.500%	3.55%	04184K DG7					

This cover page contains information for quick reference only. It is *not* a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

The date of this Official Statement is February 24, 2004

CITY OF ARLINGTON

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Robert Cluck, M.D. Mayor	4 years [1]	May, 2005	Doctor
Wayne Ogle Mayor Pro Tem	8 years	May, 2005	Minister
Joe Bruner Council member	3 years	May, 2004	Certified Public Accountant
Bill McFadin Council member	[2]	May, 2004	Retired
Kathryn Wilemon Council member	[2]	May, 2005	Community Volunteer
Lana Wolff Council member	[2]	May, 2005	Community Volunteer
Steve McCollum Council member	3 years	May, 2004	Small Business Owner
Ron Wright Council member	3 years	May, 2004	Congressman's District Director
Gene Patrick Council member	[2]	May, 2005	Small Business Owner

(1) Served as Councilmember from May 1999 to May 2003.
(2) Elected May 2003.

APPOINTED OFFICIALS

Name	Position	Years of employment with City
Charles R. Kiefer	City Manager	25
David M. Kunkle	Deputy City Manager - Citizen Services	19
Gayle Lacerda	Deputy City Manager - Community Resources	14[1]
Charles F. Anderson	Deputy City Manager - Administration	32
Donna Swarb	Chief Financial Officer	5
Fiona Allen	Director of Water Utilities	13
Jay Doegey	City Attorney	17
Barbara Heptig	City Secretary	7

[1] Non-consecutive service.

ATTORNEY AND INDEPENDENT PUBLIC ACCOUNTANTS

Independent Public Accountants	KPMG, LLP Dallas, Texas
Bond Counsel	Vinson & Elkins L.L.P. Dallas, Texas

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell and is not to be used in an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit D specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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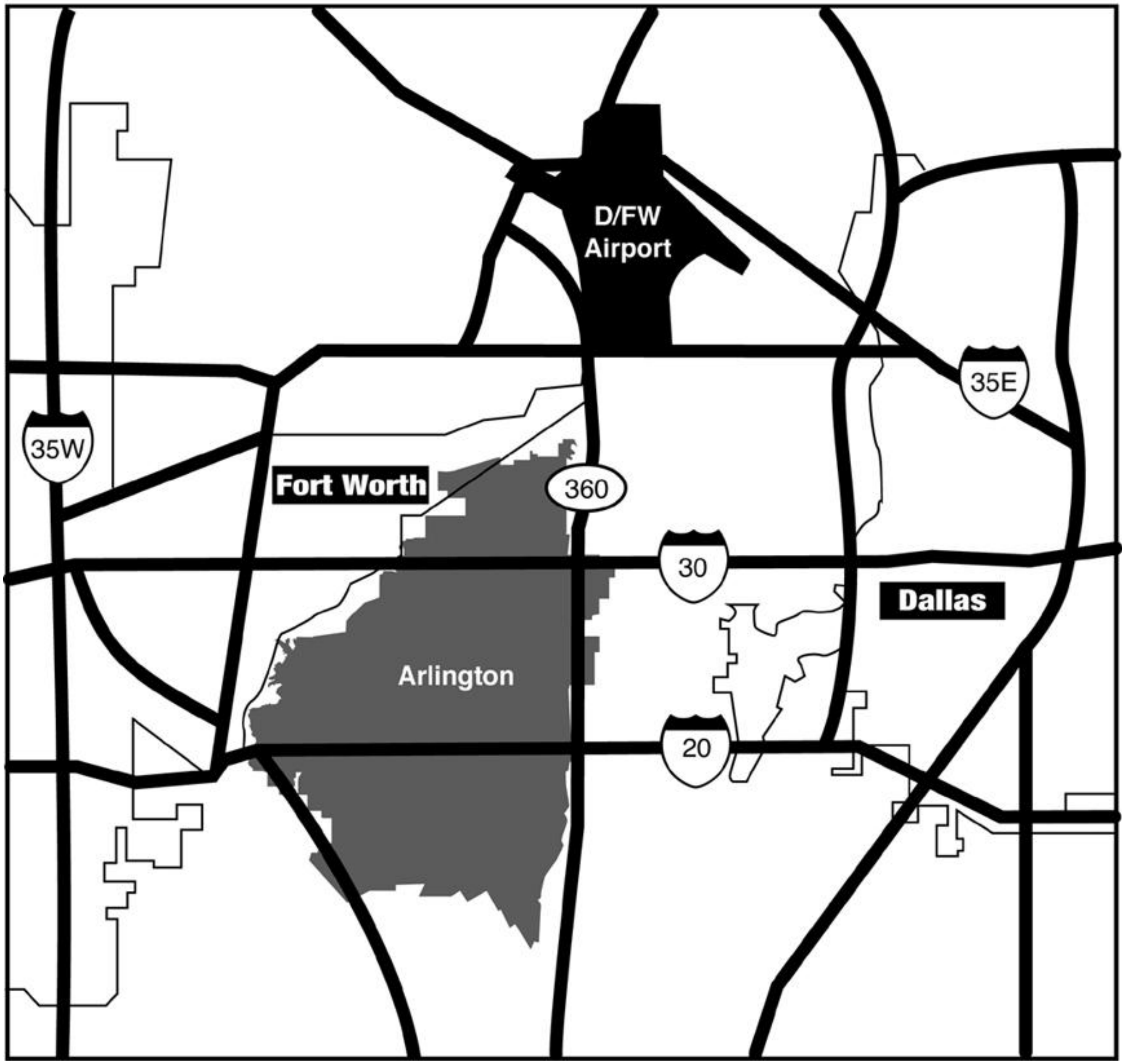
Dallas/Fort Worth/Arlington Metropolitan Area



SECTION ONE: INTRODUCTION

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is hereby made for all purposes.

The Issuer

The City of Arlington, Texas (the "City"), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and 8 miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 98.7 square miles, had a 2000 census population of 332,969. The City's Planning and Development Services Department estimates the current population of the City to be 351,719 residents. 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. The City operates its water and wastewater system and its sanitary landfill operation as self-supporting enterprise funds.

The System

The City's Water and Wastewater System (the "System") serves a 98.7 square mile area which is relatively coterminous with the corporate boundaries of the City. Administered and managed by the Arlington Water Utilities Department, the System serves approximately 143,000 water utility units.

The City has certain water rights in Lake Arlington and contractual water rights through the Tarrant Regional Water District in the Cedar Creek and Richland Chambers Reservoirs. In addition, natural runoff from the Lake Arlington watershed adds to the total water supply. Raw water is purchased, under contract, from the Tarrant Regional Water District.

Approximately 1,176 miles of sanitary sewer mains ranging in size from six to seventy-two inches comprise the wastewater collection system that services all developed areas within the City limits. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own sewage. The wastewater produced in the City is treated by the Trinity River Authority's Central Regional Wastewater Treatment Plant.

The Bonds

$15,000,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2004 (the "Bonds"), dated February 15, 2004, mature on the dates and bear interest at the rates set forth on the cover of this Official Statement. Interest will be paid on December 1, 2004, and on each June 1 and December 1 thereafter until the earlier of maturity or prior redemption.

Use of Proceeds

The proceeds of the Bonds are being used to improve and extend the System and to pay costs related to the issuance of the Bonds.

Security and Rate Covenant

The Bonds, together with certain outstanding previously issued bonds (the "Outstanding Bonds") and any additional parity bonds which may be issued in the future (the "Additional Bonds"), constitute special obligations of the City payable as to principal and interest solely from and secured by a pledge of and a first lien on the Net Revenues of the System. **The Bonds are not general obligations of the City, Tarrant County or the State of Texas. Neither the full faith and credit nor the taxing power of the City, Tarrant County or the State of Texas is pledged to the payment of the Bonds.**

The City Council has covenanted in the Ordinance that it will maintain and collect charges for the use of the facilities and the services afforded by the System sufficient to pay all operation, maintenance, depreciation, replacement and betterment charges of the System, establish and maintain the Interest and Sinking Fund and Reserve Fund required for the Outstanding Bonds, the Bonds, and any Additional Bonds, and to produce Net Revenues each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Outstanding Bonds, the Bonds and any Additional Bonds from time to time outstanding.

Debt Service Reserve Fund

The City has covenanted that it will maintain in the Reserve Fund an amount equal to not less than the average annual principal and interest requirements on the Outstanding Bonds, the Bonds and any Additional Bonds from time to time outstanding (the "Reserve Fund Requirement"), and that upon the issuance of Additional Bonds, it will increase, if necessary, and accumulate such Reserve Fund Requirement in not more than 60 months from the date of such Additional Bonds. Following delivery of the Bonds, the City will accumulate additional funds into the Reserve Fund, if necessary, to meet the Reserve Fund Requirement for the Bonds and the Outstanding Bonds. See "Selected Provisions of the Ordinance - Additional Provisions."

Optional Redemption

Bonds maturing on and after June 1, 2015, are subject to redemption prior to maturity at par plus accrued interest, at the option of the City, on June 1, 2014, or on any date thereafter as described more fully in Section Two herein "Optional Redemption."

Legal Matters

The City will furnish the initial purchaser of the Bonds a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the Ordinance containing the continuing disclosure agreement required pursuant to Rule 15c2-12 of the Securities and Exchange Commission, a certified copy of the approving opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the City, and the approving legal opinion of Vinson & Elkins L.L.P., Dallas, Texas, Bond Counsel, to like effect and to the effect that (i) the interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations except as described below under "Tax Exemption." In rendering the aforesaid opinion, the Attorney General of the State of Texas will review the transcript of proceedings relating to the Bonds, including the Bond initially delivered to the initial purchaser or purchasers of such Bonds.

Bond Counsel has not examined and has not investigated or verified any statements, records, material or matters relating to the financial condition or capabilities of the City, and has assumed no responsibility for the preparation or contents of the Official Statement, except that in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement in order to verify that such descriptions conform to the provisions of the Ordinance. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. Bond Counsel's fee for services rendered with respect to the sale of the Bonds is paid on a "per bond" basis.

The City will furnish to the initial purchaser of the Bonds a certificate, dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature has been filed or is pending, as of such date, to restrain or enjoin the issuance and delivery of the Bonds, or which affect the provisions made for their payments or security or in any manner question the validity of the Bonds.

Litigation

The City was involved in a class action lawsuit in which the plaintiff alleged that the City's street maintenance fee as approved by the City Council in October 2000 was an illegal tax. The Court of Appeals reversed the trial court's decision and dismissed the lawsuit on August 28, 2003. The case was appealed to the Texas Supreme Court and the case was dismissed.

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of self insurance limitations (see "Self Insurance") or insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position, as a whole.

Delivery

The Bonds are offered subject to prior sale, when, as, and if, issued by the City and accepted by the initial purchaser or purchasers of the Bonds, subject to the approval of the Attorney General of Texas and Vinson & Elkins L.L.P., Dallas, Texas, Bond Counsel. Delivery of the Bonds is expected on or about March 23, 2004.

Paying Agent/Registrar

Payments of principal and interest will be payable by Wachovia Bank, N.A. (the "Paying Agent/Registrar") to DTC or its nominee, Cede & Co., which will then remit such payments to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as described in Section Two herein "Book-Entry-Only System."

Ratings

Fitch Ratings, One State Street Plaza, New York, New York, 10004, Moody’s Investors Service, Inc., 99 Church Street, New York, New York, 10007, and Standard & Poor's Rating Services, A Division of The McGraw-Hill Companies, Inc., 55 Water Street, New York, New York, 10041 have given the Bonds the rating of “AAA”, “Aaa” and “AAA” respectively with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by Financial Security Assurance Inc. The underlying rating for the outstanding Water and Wastewater System revenue debt of the City is rated AA+ by Fitch Ratings, Aa3 by Moody’s Investors Service, Inc. and AA- by Standard & Poor’s Rating Services. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies, and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Bonds.

Registration and Qualification

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

Payment Record

The City has never defaulted on its revenue obligations and has not defaulted on its bonds payable from ad valorem taxation since 1935, when all such bonds were refunded at par with a reduction in interest rate.

Sale and Marketability

After requesting competitive bids for the Bonds, the City accepted the bid resulting in the lowest true interest cost, which was tendered by BOSC, Inc. (the “Purchaser”), to purchase the Bonds bearing the interest rates shown under “Maturity Schedule,” at a price of fourteen million nine hundred twenty-five thousand dollars ($14,925,000) and accrued interest to the date of delivery, which resulted in a true interest cost of 3.781391 percent. The true interest cost is a percentage rate which, when used to compute the total present value as of the date of the Bonds (February 15, 2004) of all debt service payments on the Bonds on the basis of semiannual compounding, produces an amount equal to the sum of par value of the Bonds plus any bond premium.

The City has no understanding with the Purchaser regarding the reoffering yields or prices of the Bonds, and has no control over trading of the Bonds after their initial sale by the City. Information concerning reoffering yield or prices is the responsibility of the Purchaser. The Purchaser will provide to the City on the next business day following the award of the bids information relating to the initial offering price of the Bonds. The City will rely on this information for purposes of compliance with the applicable provisions of the Code.

Preparation of Official Statement

Concurrent with the delivery of the Bonds, the City will furnish a certificate dated the date of delivery of the Bonds, signed by the appropriate City officials and stating that the descriptions and statements in this Official Statement on the date of this Official Statement and on the date of delivery were and are true and correct in all material respects, did not and do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such descriptions and statements, in light of the circumstances under which they were made, not misleading, and that no material adverse change has occurred in the financial condition of the City between the date of this Official Statement and the date of delivery of the Bonds other than as contemplated in the Official Statement. Such certificate will also state, however, that such City officials did not independently verify the information indicated in this Official Statement as having been obtained or derived from sources other than the City and its officers but that they have no reason to believe that such information is not accurate. None of the information contained in this Official Statement (with the exception of Appendix B - Financial Section) has been reported on by the City's independent auditors.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately $2,021,327,000 and its total unearned premium reserve was approximately $1,281,769,000 in accordance with statutory accounting practices. At September 30, 2003, Financial Security's total shareholders' equity was approximately $2,208,123,000 and its total net unearned premium reserve was approximately $1,098,686,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings "Section Three: The City of Arlington, Texas and The City's Water and Wastewater System; Section Four: Debt Structure and Capital Improvement Program; and Section Five: Financial Information Concerning The System." The City will update and provide this information within six months after the end of each fiscal year ending in or after 2004. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide notice that audited financial statements are not available and will provide unaudited financial statements for the applicable fiscal year to each NRMISR and any SID. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulations.

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

The Municipal Advisory Council of Texas has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78798-2177, and its telephone number is 512/476-6947.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) obligation calls; (9)

defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

The City has previously made continuing disclosure agreements in connection with the issuance of its bonds and obligations. The City is in compliance with its prior undertakings.

ADDITIONAL INFORMATION

For additional information regarding this document please contact Mr. Chuck Springer, Treasury Manager, City of Arlington, Texas, at (817) 459-6307.

SECTION TWO: THE BONDS

DESCRIPTION OF THE BONDS

General

The Bonds are dated February 15, 2004, and mature on the dates and bear interest at the per annum rates set forth on the cover of this Official Statement. Interest is payable on December 1, 2004, and on each June 1 and December 1 thereafter until the earlier of maturity or prior redemption. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds are not "private activity bonds" under the Code, and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of the proceeds of the Bonds and source of repayment thereof, limitations on the investment of proceeds of the Bonds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds of the Bonds be paid periodically to the Unites States and a requirement that the City file an information report with the Internal Revenue Service. The City has covenanted in the Ordinance authorizing the issuance of the Bonds that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the City and Purchaser with respect to matters solely within the knowledge of the City and the Purchaser, which Bond Counsel has not independently verified. If the City should fail to comply with the covenants contained in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the respective Bonds could become taxable from the date of initial delivery thereof, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Except as stated above, and as stated below in "Tax Accounting Treatment of Original Issue Discount Bonds," Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits, including tax-exempt interest on such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit on the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the owners may not have a right to participate in such audit.

Tax Accounting Treatment of Original Issue Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the principal amount thereof (the “Original Issue Discount Bonds”). In such case, Bond Counsel, under existing law and based upon the assumptions hereinafter stated, will render an opinion to the effect that:

(a) The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the initial public offering of the Bonds; and

(b) Such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bonds prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX EXEMPTION" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

In rendering the foregoing opinion, Bond Counsel will assume, in reliance upon certain representations of the Purchaser, that (a) the Purchaser has purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the City nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions. Certain of the representations of the Purchaser, upon which Bond Counsel will rely in rendering the foregoing opinion, will be based upon records or facts the Purchaser had no reason to believe were not correct.

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

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

Book-Entry-Only System - General

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

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

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

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

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

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

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

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

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

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

Book-Entry-Only System - Miscellaneous

The information in the Subsection entitled "Book-Entry-Only System-General" has been obtained by the City from DTC. The City takes no responsibility for the accuracy or completeness thereof. Neither the City nor the Paying Agent/Registrar will have any responsibility or obligations to DTC Participants or the persons for whom they act as nominees with respect to the payments to or the providing of notice to the DTC Participants, or the Indirect Participants, or Beneficial Owners. The City cannot and does not give any assurance that DTC Participants or others will distribute principal and interest payments paid to DTC or its nominees, as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

Security

The Bonds are special obligations of the City and, together with the Outstanding Bonds and any Additional Bonds, are payable solely out of Net Revenues derived from the operation of the System. The Bonds shall not be a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Ordinance does not create any lien or mortgage on the System and any judgment against the City may not be enforced by levy and execution against the property owned by the City.

The City has reserved the right to issue Additional Bonds on a parity with the Bonds and the Ordinance has provided for the funding of a Reserve Fund with respect thereto. See "Selected Provisions of the Ordinance" herein. Contractual payments for the purchase of water or the treatment of sewage shall be a maintenance and operating expense of the System to the extent provided in the contract incurred therefore and as may be authorized by law. Depreciation shall never be considered as an expense of operation and maintenance.

Rate Covenant

The City shall, at all times while any of the Bonds, Outstanding Bonds and any Additional Bonds are outstanding and unpaid, fix and maintain rates and collect charges for the facilities and services afforded by the System, which will provide revenues annually at least equal to the amount required to (a) pay for all operation, maintenance, depreciation, replacement and betterment charges of the System; (b) establish and maintain the Interest and Sinking Fund and Reserve Fund requirements contained in the ordinances authorizing the Bonds and the Outstanding Bonds, and in the ordinances relating to any Additional Bonds; and (c) produce Net Revenues (exclusive of depreciation) each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Bonds, the Outstanding Bonds, and Additional Bonds from time to time outstanding.

Optional Redemption

The City has reserved the right and option to redeem the Bonds scheduled to mature on or after June 1, 2015, prior to their scheduled maturities, in whole or in part, on June 1, 2014, or on any date thereafter, at par plus accrued interest to the date fixed for redemption in principal amount of $5,000 or any integral multiple thereof. If less than all of the Bonds are to be redeemed the City reserves the right to determine the maturity or maturities and the amounts thereof to be redeemed and if less than a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot which of the Bonds of such maturities, or portions thereof, shall be redeemed. If any Bond (or portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bonds (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption

Not less than 30 days prior to any redemption date, the Paying Agent/Registrar shall cause a notice of redemption to be sent by United States mail, first class postage prepaid, to each Owner of a Bond to be redeemed in whole or in part at the address of the Owner as shown on the records of the Paying Agent/Registrar at the time such notice of redemption is mailed, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by an Owner. Such notice shall, among other things, identify the redemption date, the redemption price, the place at which the Bonds are to be redeemed and identify the Bonds or portions thereof to be redeemed. The notice of redemption shall also state that the Bonds so called for redemption shall cease to bear interest after the redemption date.

Redemption Procedures While Bonds Held by DTC

If the Bonds are being held by DTC under the book-entry system and less than all of such Bonds within a maturity are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each DTC Participant in such maturity to be called for redemption, and each DTC Participant is to then select by lot the ownership interest in each maturity to be redeemed. See "Book-Entry-Only System - General" herein.

In the event the Bonds are no longer in the book-entry form at DTC, if less than all the Bonds are to be redeemed by the City, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot within a maturity the Bonds or portions thereof to be redeemed.

Registration

Registration and Payment. The Bonds will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act as securities depository for the Bonds. Principal and semiannual interest on the Bonds will be paid by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which shall disburse such payments to the DTC Participants who will distribute such payments to the Beneficial Owners as described herein.

For so long as DTC is the securities depository for the Bonds, then "Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Bonds, the term "Owner" shall refer to a successor securities depository or the Beneficial Owners of the Bonds which are shown as registered Owners on the registration books of the Paying Agent/Registrar. Principal of the Bonds will be payable to the Owner at maturity or prior redemption upon presentation to the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the Owners as shown on the records of the Paying Agent/Registrar on the fifteenth calendar day of the month preceding such interest payment date (the "Record Date"), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

Future Registration. In the event that DTC is no longer the securities depository for the Bonds and a successor securities depository is not appointed by the City, the Bonds may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar and such registration shall be at the expense of the City except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Bond in accordance with the provisions of the Ordinance. Such new Bonds must be in the denomination of $5,000 for any one maturity or any integral multiple thereof. The last assignee's claim of title to the Bond must be proved to the satisfaction of the Paying Agent/Registrar.

Successor Paying Agent/Registrar. Provision is made in the Ordinance for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. The Paying Agent/Registrar selected by the City shall be a commercial bank, a trust company organized under the laws of the State of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Bonds. A successor Paying Agent/Registrar, if any, shall be determined by the City. Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Obligation or portion thereof, called for redemption prior to maturity, within 30 days prior to the date fixed for redemption.

LEGAL HOLDINGS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

SELECTED PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions of the Ordinance that authorizes the issuance of the Bonds. Such summary does not purport to be complete and reference should be made to the Ordinance for the complete provisions and the precise wording thereof. Copies of the Ordinance are available from the Department of Finance of the City of Arlington upon request.

The Bonds are parity "Additional Bonds" as defined in the Ordinance. The Bonds, the Outstanding Bonds and any Additional Bonds hereafter issued, are and shall be equally and ratably secured by and payable from a first lien on and pledge of the Net Revenues of the System.

Definitions

(a) The term "Additional Bonds" means the additional parity bonds which the City reserves the right to issue under the Ordinance.

(b) The term "Bonds" means the City's Water and Wastewater System Revenue Bonds, Series 2004.

(c) The term "Net Revenues" means all income, revenues, and receipts of every nature derived from and received by virtue of the operation of the System (including interest income and earnings received from the investment of monies in the special Funds created by the Ordinance or ordinances authorizing the issuance of the Outstanding Bonds and any Additional Bonds) after deducting and paying, and making provision for the payment of, current expenses of maintenance and operation thereof, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however that only such expenses for repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and to render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from the Net Revenues of the System, shall be deducted in determining "Net Revenues." Contractual payments for the purchase of water or the treatment of sewage shall be a maintenance and operating expense of the System to the extent provided in the contract incurred therefore and as may be authorized by law. Depreciation shall never be considered as an expense of operation and maintenance.

(d) The term "Outstanding Bonds" means the City's outstanding: Waterworks and Sewer System Revenue Bonds, Series 1994, authorized by an Ordinance of the City Council passed on August 16, 1994; and Waterworks and Sewer System Revenue Bonds, Series 1996, authorized by an Ordinance of the City Council passed on June 18, 1996; Waterworks and Sewer System Refunding and Improvement Revenue Bonds, Series 1997, authorized by an Ordinance of the City Council passed on June 17, 1997; Water and Wastewater System Revenue Bonds, Series 1999, authorized by an Ordinance of the City Council passed on February 9, 1999; and Water and Wastewater System Revenue Bonds, Series 2001, authorized by an Ordinance of the City Council passed on March 13, 2001; and Water and Wastewater System Revenue Bonds, Series 2002, authorized by an Ordinance of the City Council passed on March 12, 2002; and Water and Wastewater System Revenue Refunding Bonds, Series 2003, authorized by an Ordinance of the City Council passed on February 25, 2003.

(e) The term "System" means the City's existing combined water system and wastewater system, formerly known as the City's combined waterworks and sewer system, including all properties (real, personal or mixed and tangible or intangible) owned, operated, maintained, and vested in, the City for the supply, treatment and distribution of treated water for domestic, commercial, industrial and other uses and the collection and treatment of water-carried wastes, together with all future additions, extensions, replacements and improvements thereto.

Rates

The City will fix and maintain rates and charges for the facilities and services afforded by the System which will provide revenues annually at least equal to the amount required to pay for all operation, maintenance, depreciation, replacement and betterment charges of the System; establish and maintain the Interest and Sinking Fund and Reserve Fund requirements contained in the Ordinance and in ordinances relating to the Outstanding Bonds and any Additional Bonds; and produce Net Revenues (exclusive of depreciation) each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Bonds, the Outstanding Bonds and any Additional Bonds from time to time outstanding.

Various Funds

The City covenants and agrees that all revenues derived from the operation of the System shall be kept separate from other funds of the City. To that end, the following special Funds shall be established and maintained in an official depository bank of the City so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or interest coupons appertaining thereto are outstanding and unpaid: the "Revenue Fund," the "Interest and Sinking Fund" and the "Reserve Fund."

<u>Revenue Fund.</u> The City shall deposit, from day to day as collected, all revenues of every nature derived from the operation of the System into the Revenue Fund and the money from time to time on deposit therein shall be appropriated to the following uses in the following order of priority, to wit: (a) to the payment of all necessary and reasonable expenses of operation and maintenance of the System as said expenses are defined by law; (b) to the Interest and Sinking Fund and Reserve Fund when and in the amounts required by the Ordinance and ordinances authorizing the Outstanding Bonds, and any Additional Bonds and for the payment of the principal of and interest on the Bonds the Outstanding Bonds and any Additional Bonds when and as due and payable and for the creation of a reserve therefore; and (c) to any other purpose of the City now or hereafter permitted by law.

<u>Interest and Sinking Fund.</u> The Interest and Sinking Fund shall be used solely for the purpose of paying the principal of and interest on the Outstanding Bonds, the Bonds, and any Additional Bonds as such principal matures and such interest becomes due and payable.

<u>Reserve Fund.</u> The City covenants and agrees that it will continuously maintain in the Reserve Fund an amount of Reserve Fund Obligations equal to not less than the average annual principal and interest requirements on the Bonds, the Outstanding Bonds and any Additional Bonds from time to time outstanding (the "Reserve Fund Requirement"), and that, upon the issuance of Additional Bonds, it will increase, if necessary, and accumulate the amount to be deposited in the Reserve Fund in accordance with the requirements set forth in the Ordinance and the ordinances authorizing the Outstanding Bonds. For so long as the funds on deposit in the Reserve Fund are equal to the Reserve Fund Requirement, no additional deposits need to be made therein, but should the Reserve Fund at any time contain less than the Reserve Fund Requirement, then, subject and subordinate to making the required deposits to the credit of the Interest and Sinking Fund, the City shall restore such deficiency by depositing additional Reserve Fund Obligations into the Reserve Fund in monthly installments of not less than 1/24th of the Reserve Fund Requirement on or before the 10th day of each month following such deficiency, termination, or expiration. The money on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds, the Outstanding Bonds and any Additional Bonds in the event that there are not sufficient monies on deposit in the Interest and Sinking Fund for such purpose. The City may, at its option, withdraw all surplus in the Reserve Fund over the Reserve Fund Requirement and deposit same in the Revenue Fund; provided, however, that to the extent such monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the Revenue Fund and shall only be used for the purposes for which bond proceeds may be used. For the purpose of determining compliance with the aforesaid requirements, Reserve Fund Obligations shall be valued each year as of the last day of the City's fiscal year, at their cost or market value, whichever is lower, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book-entry form shall be continuously valued at their par value or face principal amount.

"Reserve Fund Obligations" means cash, investment securities of any of the type or types permitted under the Ordinance, any "Credit Facility" or any combination thereof. "Credit Facility" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a "Rating Agency" having an outstanding rating on such obligations would rate such obligations which are fully insured by a standard policy issued by the issuer in its two highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a "Rating Agency' having an outstanding rating on the Bonds would rate the Bonds in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the bonds and the interest thereon. As used herein, "Rating Agency" means any nationally recognized securities rating agency which has assigned a rating to the Bonds.

Investment of Certain Funds. Money in any Fund established pursuant to the Ordinance or any ordinance authorizing the issuance of Outstanding Bonds, and any Additional Bonds, may, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or invested in direct obligations of, including obligations the principal and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities thereof, or in such other investments as are permitted under the Public Funds Investment Act of 1987, Chapter 2256, Texas Government Code, as amended, or any successor law, as in effect from time to time; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investment with any primary dealer of such agreements) that the money required to expended from any Fund will be available at the proper time or times. Such investments shall be valued each year in terms of current market value as of the last day of the City's fiscal year. For purposes of maximizing investment returns, to the extent permitted by law, money in such Funds may be invested in common investments of the kind described above, or in a common pool of such investment which shall be kept and held at an official depository bank, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates or participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are held by or on behalf of each such Fund. If necessary, such investments shall be promptly sold to prevent any default.

Additional Bonds

In addition to the right to issue bonds of inferior lien as authorized by law, the City reserves the right to issue Additional Bonds under and in accordance with the Ordinance for the purpose of improving, extending, equipping and repairing the System and for the purpose of refunding, in any lawful manner, any part or all of the Bonds, the Outstanding Bonds and any Additional Bonds then outstanding. The Additional Bonds shall be secured by and payable from a first and superior lien on and pledge of the Net Revenues in the same manner and to the same extent as the Bonds, the Outstanding Bonds and any Additional Bonds; and the Bonds, the Outstanding Bonds, any then outstanding Additional Bonds, and the Additional Bonds then proposed to be issued shall in all respects be on a parity and of equal dignity as to lien and right. Additional Bonds may be issued under the Ordinance in one or more installments; provided, however, that none of the Additional Bonds shall be issued unless and until the following conditions have been met:

(a) The City is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of the Bonds or the Outstanding Bonds.

(b) Each of the special Funds created for the payment and security of the Bonds and the Outstanding Bonds contain the amount of money then required to be on deposit therein;

(c) The City has secured from a Certified Public Accountant a certificate showing that the Net Earnings of the System for either the completed fiscal year next preceding the date of the Additional Bonds or a consecutive twelve-month period out of the last fifteen months next preceding the date of the Additional Bonds is equal to at least 1.25 times the average annual principal and interest requirements (calculated on a fiscal year basis) of all bonds, which will be outstanding after the issuance of the proposed Additional Bonds. However, should the certificate of the accountant certify that the Net Earnings of the System for the period covered thereby were less than required above, and a change in the rates and charges for water and wastewater afforded by the System became effective at least 60 days prior to the last day of the period covered by the accountant's certificate, and an independent engineer or engineering firm having a favorable reputation with respect to such matters will certify, that, had such change in rates and charges been effective for the entire period covered by the accountant's certificate, the Net Earnings of the System covered by the accountant's certificate would have been, in his or their opinion, equal to at least 1.25 times the average annual principal and interest requirements (calculated on a fiscal year basis) of the Outstanding Bonds after giving effect to the issuance of the Additional Bonds, then, in such event, the coverage specified in the first sentence of this paragraph shall not be required for the period specified, and such accountant's certificate will be sufficient if accompanied by an engineer's certificate to the above effect;

(d) The ordinance authorizing the Additional Bonds requires that deposits shall be made into the Interest and Sinking Fund in amounts adequate to pay the principal and interest requirements of the Additional Bonds as the same become due; and provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased to an amount equal to the Reserve Fund Requirement for all Bonds to be outstanding after the issuance of said Additional Bonds. Such additional amount shall be so accumulated in not more than sixty months from the date of the Additional Bonds; and

(e) The Additional Bonds are scheduled to mature only on June 1, and the interest thereon is scheduled to be paid on June 1 and December 1.

(f) The term "Net Earnings" shall mean all income, receipts and revenues derived from the operation of the System, including interest earned on invested monies in the special Funds created for the payment and security of obligations payable from the Net Revenues, after deduction of maintenance and operating expenses but not deducting depreciation, debt service payments on the Bonds, the Outstanding Bonds and any Additional Bonds and other expenditures which, under standard accounting practice, should be classified as capital expenditures. Revenues and receipts resulting solely from the ownership of the System (grants, meter deposits and gifts) and interest earned on construction funds created from bond proceeds shall not be treated or included as income, revenues or receipts from the operation of the System for purposes of determining "Net Earnings."

Covenants by City

The City covenants that so long as any principal or interest pertaining to any of the Bonds, the Outstanding Bonds and any Additional Bonds remains outstanding and unpaid, it will not authorize or issue any further bonds of the City secured by a lien on and pledge of the revenues of the System superior or senior to the pledge and lien created herein for the Bonds, the Outstanding Bonds and any Additional Bonds, or secured by a lien on and pledge of the revenues of the System on a parity with the Bonds, the Outstanding Bonds and any Additional Bonds except in conformity with the provisions of the Ordinance.

The City covenants that the System shall be operated on a fiscal year basis and shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Bonds, the Outstanding Bonds and any Additional Bonds are outstanding, the City agrees to maintain insurance on the System of a kind and in an amount customarily carried by municipal corporations in the State of Texas engaged in a similar type of business.

The City covenants that so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or any interest thereon remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System and its component parts separate and apart from all other records and accounts of the City in accordance with accepted accounting practices prescribed for municipal corporations, and complete and correct entries shall be made of all transactions relating to the System, as provided by Chapter 1502, Texas Government Code, as amended.

For so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or any interest thereon remain outstanding, the City will not sell or encumber the physical properties of the System or any substantial part thereof; provided, however, this covenant shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System.

The City covenants that following the close of each fiscal year, it will cause an audit of such books and accounts of the System to be made by an independent firm of Certified Public Accountants which shall include, among other things, a detailed statement of the income and expenditures of the components of the System for such fiscal year; a balance sheet as of the end of such fiscal year; and a detailed statement of the source and disposition of all funds of the System during such fiscal year. Copies of these annual audits shall be immediately furnished, upon written request, to the original purchasers and any subsequent holder of the Bonds, the Outstanding Bonds and any Additional Bonds.

No free service of the System shall be allowed, and should the City or any of its agents or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of funds from sources other than the revenues and income of the System.

Remedies in Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in any payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds, the holder or holders of any of the Bonds, the Outstanding Bonds or any Additional Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

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

INTRODUCTION

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

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

General

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

Mayor and City Council

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

Administration

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

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

Certain City Council Appointees

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

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

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

Principal Executive Officers

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

Deputy City Manager - Mr. Charles F. Anderson - with the City since January 1972, he received his B.A. in Chemistry from Texas Wesleyan University. Prior to being appointed to Deputy City Manager, he served as the Director of Water Utilities. Prior to joining the City of Arlington he worked for General Dynamics and served in the U.S. Army.

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

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

Chief Financial Officer - Ms. 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.

Director of Water Utilities – Ms. Fiona Allen – with the City since December 1990, she received her B.S. in Civil Engineering from Texas A&M University and is a Professional Engineer and Registered Sanitarian. Prior to joining the city, she worked as Project Manager for Maggiore & Associates, Inc.

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 recreation centers, and a municipal airport.

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

FUNCTIONAL GROUPS

Community Resources Group

The Deputy City Manager for Community Resources is responsible for oversight and management of five 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, as well as the Internal Audit Division and the Administrative Services Department.

The Public Works Department has recently been formed through the combination of the Engineering Services and Transportation functions. 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. New division level organization charts have been created and functions have been consolidated in the areas of 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 21st century. The Department has received awards from the United States Environmental Protection Agency, Texas Municipal Utilities Association, and the American Water Works Association.

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

The Parks and Recreation Department is responsible for the operation and maintenance of the City's 4,529 acres of parks, including four municipal golf courses and five recreational centers and for the management of the Arlington Community Center. It conducts a wide range of high quality, year-round leisure time programs that are responsive to the physical and cultural needs of the citizens of Arlington.

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.

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

The 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.

Administration Group

The Deputy City Manager for Administration is responsible for the oversight and management of four City departments which include Finance, Human Resources, Technology Services and Support 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, purchasing, treasury management, risk management, and maintenance of the City's fixed assets inventory. It also oversees the Municipal Court Operations which collects court fines, sets trial dockets, and maintains the Municipal Court records.

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

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

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

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.

The Police Department is composed of three major units: Operations, Management Services, and Community Services. More than 740 members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. The Police Department responded to 150,352 calls for service in fiscal year 2003. 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 26,381 calls for service in fiscal year 2003. 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 enhancing the livability of neighborhoods through three Divisions and the Office of Neighborhood Initiatives. The Code Enforcement Division is responsible for enforcing city regulations related to the maintenance, sanitation, rehabilitation and conservation of existing housing. The Health Division is responsible for the inspection of food services establishments, public swimming pools and new septic system installations. In conjunction with Tarrant County, it operates the Public Health Center which is responsible for administering immunizations to children and supplying preventive health screening for the elderly. The Health Division is also responsible for Animal Control Services and operations of the City's Landfill. The Housing Division is responsible for administering federal and state grant funds and providing housing assistance to qualified citizens.

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 also is part of the TRWD system and can be used 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 46.5 million gallons.

The City's water distribution system is fully metered and consists of 1,428 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 Production (MGD)	Maximum Daily Production (MGD)
93-94	45.92	84.68
94-95	46.71	95.50
95-96	52.08	92.57
96-97	49.53	99.48
97-98	58.47	121.97
98-99	56.20	108.31
99-00	63.89	128.23
00-01	57.96	113.14
01-02	57.76	112.88
02-03	57.13	120.02

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 40 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 service was initially provided under the terms and provisions of a water supply contract dated July 13, 1971. Under that contract, the District agreed to supply all of the City's municipal water requirements during its term.

On September 1, 1982, the District entered into a revised water supply contract ("Amendatory Contract") with the City, and the Cities of Fort Worth and Mansfield, and the TRA. The revised contract shall continue in effect until all bonds of the District relating to the District's System have been paid, and thereafter during the useful life of the District's System. Under the Amendatory Contract, the City is required to purchase all of its raw water needs from the District. The District is obligated to meet those needs by developing additional water supply sources; subject to force majeure, the ability of the District to obtain suitable financing, and a determination of feasibility. If the District is unable to supply all of the City's raw water requirements or if it should become apparent that the District will become unable to supply such requirements, the Amendatory Contract provides a procedure by which the City would be permitted to develop or obtain a supplemental water supply to meet its needs. The City is depending upon the District to meet its full raw water needs under the Amendatory Contract and, at present, the City has no assurance of the availability of a supplemental water supply if the District should fail to meet such needs. The District’s current sources 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 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. The project was completed in the fall of 1998. 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 water usage of the City for the 2003-04 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is $1,179,131, which results in a rate of approximately 60.448 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, 1999, through September 30, 2003.

	Average Daily Consumption (MGD)				
Category	**2003**	**2002**	**2001**	**2000**	**1999**
Residential	27.47	26.07	29.43	30.45	26.71
Commercial	11.09	11.61	15.46	15.27	13.69
Fire lines, Sprinklers*	4.76	3.98	-	-	-
Apartment Units	9.14	9.64	10.08	10.26	10.10
Mobile Homes, Condominiums, Townhouses	.84	.87	.67	.68	.66
Total	53.30	52.17	55.64	56.66	51.16

*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, 1999, through September 30, 2003.

Number of Units Served

Category	**2003**	**2002**	**2001**	**2000**	**1999**
Residential	86,444	84,774	84,926	82,673	80,548
Commercial	5,338	5,507	7,258	7,112	6,828
Fire lines, Sprinklers*	952	925	-	-	-
Apartment Units	45,838	45,397	46,057	45,206	44,355
Mobile Homes, Condominiums, Townhouses	4,252	4,252	4,043	4,016	4,026
Total	142,824	140,855	142,284	139,007	135,757

*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, 2003. During this period, their total annual water billings, which represented 9.28 percent of the System's water sales were as follows:

	Consumption in 1,000 Gallons	**Billing**
Arlington Independent School District	340,062	$ 852,084
National Semiconductor	336,273	713,993
General Motors	299,511	640,810
City of Arlington	268,096	681,787
University of Texas at Arlington	201,662	492,360
Six Flags Park	97,155	223,907
Arlington Memorial Hospital	95,573	204,168
Indian Creek Apartments	57,146	123,891
Hurricane Harbor	55,832	122,704
Park Lane Apartments	52,882	112,058
Total	1,804,192	$4,167,762

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**
1999	89,905	20,511	56.20	108.31	625	1.93
2000	92,378	23,389	63.90	128.23	692	2.00
2001	94,867	21,157	57.96	113.14	611	1.95
2002	96,974	21,083	57.76	112.47	596	1.95
2003	99,144	20,853	57.13	120.02	583	2.10

Source: City Water Utilities Department.

WASTEWATER FACILITIES

The wastewater collection system that serves all developed areas within the City limits is comprised of approximately 1,176 miles of sanitary sewer mains ranging in size from six to seventy-two inches. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own wastewater. Wastewater produced in the City is treated under contract by TRA's Central Regional Wastewater System (the "CRWS"). The City's annual volume of contributing flow amounts to approximately 30 percent of the total wastewater flow into the CRWS Plant. As the City with the largest population in the CRWS service area, Arlington contributes the highest daily flow of all TRA regional plant customers. The CRWS Plant meets the effluent permit conditions to treat 162 MGD as set by the Texas 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)

	2003	2002	2001	2000	1999
TRA CRWS Plant	15,102	16,020	16,374	10,502	8,856
Fort Worth Village Creek Regional Plant	0	0	0	4,297	4,864
Total	15,102	16,020	16,374	14,799	13,720

Source: City Water Utilities Department.

Treatment Contract with Trinity River Authority

The City's wastewater is treated under the terms of a 50-year contract with TRA dated October 10, 1973. TRA is the owner and operator of the CRWS Plant and the interceptor pipeline system, which serves part of Dallas, Dallas-Fort Worth International Airport, and 19 other Dallas County and Tarrant County municipalities. Under the terms of the contract, each contracting party contributes to the TRA's "Annual Requirements" in proportion to its contributing flow of wastewater into the CRWS Plant. The "Annual Requirements" include cost of operation and maintenance of the system and debt service on TRA's bonds issued to construct the system, including deposits to special funds established by the bond resolution. Based upon actions approved in 1996, TRA began treating all of Arlington's wastewater when facilities constructed by Arlington were completed in September 2000. These pipeline facilities convey west Arlington wastewater to TRA System facilities, and on to the TRA treatment plant for final treatment. This pipeline project cost from Arlington to TRA was $11,000,000. The transfer of Arlington's wastewater flows from the Fort Worth Village Creek Regional Plant to this pipeline began in September 2000. Cash balances of the Water Utilities Department funded this project.

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

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

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

For TRA's fiscal year beginning December 1, 2003, the volume of contributing flow by the City is estimated to average 46.37 MGD, which amounts to approximately 30.67 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 2004 is $17,091,092. 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 2003 estimated population for the City of Arlington is 351,719. 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

(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

	2001	2000	1999
Tarrant County	$31,232	$30,143	$28,414
Texas	28,472	27,992	26,244
United States	30,413	29,760	27,880

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, forty-nine elementary schools, and six alternative schools. Currently, a professional staff of approximately 4,066 serves a peak enrollment of 62,345 students.

The University of Texas at Arlington, founded in 1895, features a current enrollment of 24,979 and offers 198 degree programs at the baccalaureate, master and doctoral levels. The physical plant, located on a 394 acre campus, includes 107 University academic and dormitory buildings.

Tarrant County College opened its Southeast Campus in Arlington during 1996. Enrollment at the 166-acre site features a current enrollment of approximately 8,593 students. The college has 301 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
1995	50,492	2.72%
1996	52,328	3.64
1997	53,757	2.67
1998	54,961	2.24
1999	56,234	2.32
2000	57,433	2.13
2001	59,342	3.32
2002	60,760	2.39
2003	62,104	2.21
2004	62,345	0.39

Source: Arlington Independent School District.

Employment

Arlington Major Employers

Name	Type of Business	Number of Employees
Arlington Independent School District	Public Education	7,831
University of Texas at Arlington	Higher Education	4,912
Six Flags Over Texas	Amusement Park	3,200
Americredit	Finance	3,000
City of Arlington	Municipality	2,328
General Motors	Automobile Assembly	2,000
Southwest Sports Group	Major League Baseball and Hockey	1,800(1)
Arlington Memorial Hospital	Medical Center	1,300
Providian Financial	Financial Services	1,200
Chase Bank Call Center	Banking Services	1,100
National Semiconductor	Semiconductor Manufacturer	1,100
Bell Helicopter Textron Inc.	Manufacturer	1,000

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

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

As illustrated in the table below, Arlington has managed to maintain lower unemployment rates than the United States and the State of Texas. For 2003, the City's unemployment rate averaged 5.5 percent compared to the U.S. rate of 6.0 percent and the Texas rate, which was 6.5 percent.

Unemployment Rate
Annual Average Rates
1999 to 2003

	2003	2002	2001	2000	1999
Arlington	5.5%	5.4%	3.6%	2.8%	2.7%
Texas	6.5	6.3	4.9	4.3	4.6
United States............................	6.0	5.8	4.8	4.0	4.2

Source: U.S. Bureau of Labor Statistics.

Financial Institutions

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

Building Permits

During the calendar year 2003, the City issued 5,348 building permits with a total value of $395,904,778. Presented below is a table covering building permit activity for the last three calendar years:

	2003		2002		2001	
	Number	Value (000's)	Number	Value (000's)	Number	Value (000's)
Residence	1,318	$186,524	1,753	$233,542	2,490	$260,026
Duplex	18	2,429	16	1,631	9	874
(No. of Units)	(36)	-	(32)	-	(18)	-
Apartments	16	18,170	12	13,240	22	14,886
(No. of Units)	(250)	-	(285)	-	(285)	-
Commercial	334	84,106	414	121,161	445	119,092
Institutional	64	45,483	40	80,560	35	10,005
Alterations and Additions	114	23,343	190	34,373	224	11,054
Signs	868	1,617	1,082	2,103	1,168	2,338
Miscellaneous	2,616	34,233	2,817	17,507	3,534	34,166
Total	5,348	$395,905	6,324	$504,117	7,927	$452,441

Source: City Building Inspections Division.

INVESTMENTS

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

Legal Investments

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

Investment Policies

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

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 December 31, 2003, 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	48.2%
Federal Agencies	34.7
Statewide Pool	14.5
Money Market Account	2.6
Totals	100.0%

As of December 31, 2003, the weighted average maturity of the City's operating portfolio was 245 days and the market value of the operating portfolio was 100.13 percent of its book value.

SECTION FOUR: DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM

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 AND WASTEWATER SYSTEM REVENUE BONDS

Fiscal Year Ending 9/30	Outstanding Bonds[1] Principal	Interest	Total	The Bonds[2] Principal	Interest	Total	Total Debt Service
2004	$10,715,000	$1,283,942	$11,998,942	$ 0	$ 0	$ 0	$11,998,942
2005	9,355,000	3,303,308	12,658,308	790,000	612,569	1,402,569	14,060,877
2006	8,595,000	2,885,333	11,480,333	790,000	496,483	1,286,483	12,766,816
2007	7,825,000	2,502,068	10,327,068	790,000	476,732	1,266,732	11,593,800
2008	5,345,000	2,158,993	7,503,993	790,000	456,983	1,246,983	8,750,976
2009	5,305,000	1,931,378	7,236,378	790,000	437,232	1,227,232	8,463,610
2010	5,260,000	1,697,844	6,957,844	790,000	415,508	1,205,508	8,163,352
2011	4,610,000	1,475,724	6,085,724	790,000	391,807	1,181,807	7,267,531
2012	4,270,000	1,279,305	5,549,305	790,000	360,208	1,150,208	6,699,513
2013	3,820,000	1,085,705	4,905,705	790,000	336,507	1,126,507	6,032,212
2014	3,380,000	908,895	4,288,895	790,000	310,438	1,100,438	5,389,333
2015	3,365,000	748,375	4,113,375	790,000	282,787	1,072,787	5,186,162
2016	2,840,000	587,195	3,427,195	790,000	254,348	1,044,348	4,471,543
2017	2,240,000	446,250	2,686,250	790,000	225,117	1,015,117	3,701,367
2018	2,240,000	335,250	2,575,250	790,000	195,098	985,098	3,560,348
2019	1,840,000	224,250	2,064,250	790,000	164,287	954,287	3,018,537
2020	1,840,000	132,250	1,972,250	790,000	132,688	922,688	2,894,938
2021	805,000	40,250	845,250	790,000	100,297	890,297	1,735,547
2022	0	0	0	785,000	67,118	852,118	852,118
2023	0	0	0	785,000	33,755	818,755	818,755
	$83,650,000	$23,026,315	$106,676,315	$15,000,000	$5,749,962	$20,749,962	$127,426,277

[1] As of February 24, 2004
[2] FY 2004 interest is net of accrued interest of $54,387.

Source: City Finance Department.

WATER AND WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

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

The following table represents the estimated amount of financing needed to meet the proposed Capital Improvement Program for the five fiscal years shown but does not include any improvements for the Trinity River Authority or the Tarrant Regional Water District. The City's Water Utilities Department estimates that 34 percent of the capital funds needed will be used for improvements to the Water System and the remaining 66 percent for improvements to the Wastewater System.

Proposed Capital Improvement Program

Fiscal Year	Planned Capital Expenditures	Planned Bond Sale	Other Capital Financing Sources[(1)]
2003-2004	$23,500,000	$15,000,000	$8,500,000
2004-2005	24,000,000	15,000,000	9,000,000
2005-2006	24,750,000	15,000,000	9,750,000
2006-2007	24,750,000	15,000,000	9,750,000
2007-2008	24,750,000	15,000,000	9,750,000

(1) Theses 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 FIVE: FINANCIAL INFORMATION CONCERNING THE 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 beginning 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 will be 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, which is designed to encourage customers to reduce water usage, increases with increased 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 will be removed from the wastewater fixed monthly charge.

CITY OF ARLINGTON WATER UTILITIES
FIXED MONTHLY FEE

Meter Size	Water	Wastewater
3/4" (<2,000 gal)	$ 3.65	$2.85
3/4" (>2,000 gal)	4.45	4.00
1"	7.79	7.00
1 1/2"	20.75	16.00
2"	38.05	28.00
3"	90.10	49.03
4"	164.23	85.80
6"	378.53	195.96
8"	592.82	306.17
10"	890.49	459.23

CITY OF ARLINGTON WATER UTILITIES
CONSERVATION RATES BLOCK STRUCTURE

RESIDENTIAL

Usage (1,000 gal)	Water	Wastewater
0 - 2	$1.63	$2.48
3 - 10	1.83	2.48
11 - 15	2.23	2.48
> 16	2.73	2.48

COMMERCIAL

Usage (1,000 gal)	Water	Wastewater
0-15	$1.64	$2.48
> 16	2.01	2.48

SPRINKLER

Usage (1,000 gal)	Rate
All Usage	$2.73

Historical Rate Adjustments

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

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

Fiscal Year	Water	Wastewater	Total
1995	0.0	0.0	0.0
1996	0.0	5.1	1.6
1997	1.6	0.0	1.1
1998	0.0	0.0	0.0
1999	0.0	0.0	0.0
2000	(3.2)	0.0	(2.1)
2001	(1.6)	0.0	(1.1)
2002	1.7	1.6	1.7
2003	0.0	0.0	0.0
2004	(8.4)	46.9	10.7

Source: City Water Utilities Department.

Customer Service Billing System

In January 2001, the Mayor and City Council approved a contract for the purchase of a replacement billing system. The new system provides the opportunity for enhanced customer service through procedural and policy changes that were not possible with the previous system. Implementation of the new system occurred in several phases during fiscal year 2002 and is currently in operation.

Operating Reserve

The current policy, authorized by the City Council in May 2003, requires the operating reserve to equal 45 days of the proposed operating and maintenance expense budget, excluding debt service. The reserve fund balance as of September 30, 2003, was $9,399,878, which equals 53 days of the proposed operating and maintenance expense budget.

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. **Information for Fiscal Year 2003 is unaudited and subject to change.** 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	2003 [1]	2002	2001	2000	1999
Cash and cash equivalents	$ 9,986	$ 6,748	$ 13,235	$ 15,413	$ 15,886
Receivable (net of allowances for uncollectibles)	11,867	12,500	11,236	14,713	12,889
Inventory of supplies, at cost	359	406	469	469	411
Restricted assets:					
Bond contingency	10,907	12,282	11,891	10,966	11,840
Capital/Bond construction	22,509	35,295	24,697	22,250	20,652
Meter deposits	3,597	3,522	3,264	3,227	3,137
Property, plant and equipment less accumulated depreciation	394,598	378,747	362,488	335,470	320,036
Total Assets	$453,823	$449,500	$427,280	$402,508	$384,851
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued liabilities	$ 2,564	$ 3,766	4,071	$ 2,250	$ 2,534
Payable from restricted assets	10,215	10,871	10,342	11,450	10,867
Accrued compensated absences					
Current	64	55	92	79	74
Non Current/Long Term	1,600	1,575	1,352	1,272	1,206
Revenue bonds, net of discount, payable from unrestricted assets	79,411	90,720	87,048	79,259	89,608
Trinity River Authority bonds payable from unrestricted assets	-	-	-	-	146
Total Liabilities	93,854	106,987	102,905	94,310	104,435
Net Assets/Equity:					
Contributed capital -					
From other municipalities or governmental units	-	-	9,097	9,097	9,097
In aid of construction	-	-	110,031	104,061	98,551
Retained earnings -					
Reserved	-	-	6,335	5,959	6,465
Unreserved	-	-	198,912	189,081	166,303
Invested in Capital Assets	317,563	299,616	-	-	-
Restricted	-	-	-	-	-
Unrestricted	42,406	42,897	-	-	-
Total Net Assets/Equity	359,969	342,513	324,375	308,198	280,416
Total Liabilities and Net Assets/Equity	$453,823	$449,500	$427,280	$402,508	$384,851

[1] Unaudited, preliminary subject to change.

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

Revenues	2003[(1)]	2002	2001	2000	1999
Water Sales	$47,206	$45,855	$39,901[(2)]	$50,818	$46,924
Wastewater Service	30,058	29,733	29,366	29,546	28,408
Interest Income	1,209	1,893	3,462	3,461	2,719
Other Income	4,626	5,159	5,214	5,420	5,723
Total Revenues	$83,099	$82,640	$77,943	$89,245	$83,774
Expenses					
Labor Costs	$12,646	$12,366	$11,591	$ 10,850	$ 9,864
Supplies	1,739	1,898	2,352	1,949	1,646
Maintenance	2,030	2,361	1,945	1,911	1,457
Water Supply (The District)	12,423	13,059	12,394	13,698	12,214
Wastewater Treatment Contracts	15,959	16,091	14,601	14,140	13,358
Utilities	2,528	1,392	2,482	2,150	1,964
Other Expenses	9,984	10,315	10,197	10,825	10,154
Total Operating Expenses Before Depreciation	$57,309	$57,482	$55,562	$55,523	$50,657
Net Revenues of the System	$25,790	$25,158	$22,381	$33,722	$33,117
Interest During Construction Included Above	(208)	(474)	(641)	(111)	(284)
Net Revenues Available for Debt Service	$25,582	$24,684	$21,740	$33,611	$32,833
Debt Service Paid[(3)]	$16,188	$16,234	$15,021	$15,567	$14,753
Debt Service Coverage (times) [(4)]	1.58x	1.52x	1.45x	2.16x	2.23x
Debt Service Requirements Paid From Surplus Net Revenues[(5)]	-	-	-	$185	$295

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

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

	2003[1]	2002	2001	2000	1999
Gross Operating Revenues	$81,890	$80,747	$74,481[2]	$85,784	$81,055
Interest Revenues (Excluding Interest During Construction)	1,001	1,419	2,821	3,350	2,435
Operating Expenses Before Depreciation	57,309	57,482	55,562	55,523	50,657
Net Revenues Available for Debt Service	$25,582	$24,684	$21,740	$33,611	$32,833
Average Annual Debt Service [3]	$6,066	$6,664	$6,335	$5,959	$6,465
Average Annual Debt Service Coverage (times) [3]	4.22x	3.70x	3.43x	5.64x	5.08x
Accounts Receivable to Gross Operating Revenues (%)	14.49%	15.48%	15.08%	17.15%	15.90%
Unrestricted Cash to Unrestricted Current Liabilities (times) [4]	3.80x	1.77x	3.18x	6.62x	6.09x
Unrestricted Current Assets to Unrestricted Current Liabilities (times) [4]	8.45x	5.04x	5.88x	12.94x	11.03x
Long-term Debt to Net Plant (%)	18%	22%	22%	22%	26%

(1) Unaudited, subject to change.
(2) Gross Operating Revenues in fiscal year 2001 reflect a refund of $7.0 million.
(3) Unaudited.
(4) 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 774 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 10 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.

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

SELF INSURANCE

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

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

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

As of September 30, 2003, the total current assets less accounts payable and estimated current claims payable were $6,194,000. The estimated non-current claims payable (long term claims) at September 30, 2002 was $744,000. 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.

EXECUTION

This Official Statement was approved and the execution and delivery of this Official Statement authorized by the City of Arlington, Texas on February 24, 2004.

\s\ Robert N. Cluck
Mayor, City of Arlington, Texas

ATTEST:

\s\ Barbara G. Heptig
City Secretary
City of Arlington, Texas

APPENDIX A

City of Arlington Organization Chart