

AUSTIN POLICE RETIREMENT SYSTEM

**ACTUARIAL VALUATION
AS OF
DECEMBER 31, 2002**

SEPTEMBER 23, 2003

Rudd and Wisdom, Inc.

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September 23, 2003

Police Retirement Board
Austin Police Retirement System
Post Office Box 684808
Austin, Texas 78768

Re: Actuarial Valuation as of December 31, 2002

Members of the Board of Trustees:

In accordance with the requirements of Article 6243n-1 in the state law which governs the Austin Police Retirement System, an actuarial valuation of the System as of December 31, 2002 has been completed.

The results of the December 31, 2002 actuarial valuation are described in the Summary section of the report. A comparison of the current valuation with the December 31, 2001 valuation is also discussed in this section. The comparative valuation balance sheets are shown in Exhibit 1. Exhibit 2 shows a fifteen-year projection of the growth of the System. Exhibits 3 through 6 summarize the System's assets and development of the actuarial value of assets. Data on both active and retired police officers is contained in Exhibits 7 through 11 with Exhibit 12 showing a historical comparison of the actuarial accrued liability for the active and retired officers.

A summary plan description based on the plan effective September 1, 2003 is included as Exhibit 13. The actuarial methods and assumptions are described in Exhibits 14 through 19, which include a description of assumption changes since the prior valuation. Exhibit 20 defines certain actuarial terms used in this report.

The disclosures required in accordance with Statement Number 25 of the Governmental Accounting Standards Board for the System's annual report are in Exhibit 21. The disclosures required in accordance with Statement Number 27 of the Governmental Accounting Standards Board for the City of Austin's financial statements are included in Exhibit 22.

Respectfully submitted,

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Summary

Austin Police Retirement System Results of December 31, 2002 Valuation

The valuation balance sheet as of December 31, 2002, shown in Exhibit 1, reveals that the plan has an unfunded actuarial accrued liability of \$86,210,239. Total contributions of 27% of pay (9% by the police officers and 18% by the City of Austin) are contributed to the System each year. Effective September 1, 2003, a very small portion of the city contribution rate is allocated by the Board to a new Retiree Death Benefit Fund (account) within the System in order to fund the \$7,500 post-retirement lump sum death benefits.

The normal cost for the present benefits based on the plan provisions effective September 1, 2003 for each police officer is 20.11% of pay. Since total contributions on behalf of each police officer is more than the normal cost, the remaining portion can be used to amortize the plan's unfunded actuarial accrued liability. Assuming that the total payroll increases at the rate of 4% per year in future years attributable to general wage increases, the unfunded actuarial accrued liability will be amortized in 25.7 years.

The valuation balance sheets in Exhibit 1 compare the actuarial condition of the plan on December 31, 2002 with the condition on December 31, 2001. The valuation as of December 31, 2002 is based on the plan provisions effective on September 1, 2003 (summarized in Exhibit 13). This valuation does reflect the 1.5% ad hoc pensioner COLA granted January 1, 2003 but does not reflect any ad hoc pensioner COLAs which may be granted January 1, 2004 or annually thereafter. The results shown for the December 31, 2001 valuation include an adjustment to reflect the 1.5% ad hoc pensioner COLA granted effective January 1, 2003.

Between these two valuations, the unfunded actuarial accrued liability (UAAL) has increased by \$21,740,073 (from \$64,470,166 to \$86,210,239). The primary reasons for this change, which have partially offsetting effects, are as follows:

1. The rate of return, net of all expenses, on the market value of assets during 2002 is estimated at -7.8%. However, the actuarial value of assets used in the valuation and the determination of the amortization period is based on an adjusted market value, in particular, deferring recognition of large portions of the significant losses in 2001 and 2002. The rate of return on the actuarial value of assets, net of expenses, for 2002 is estimated at 3% compared to the assumed rate of return of 8%. Therefore, the actuarial value of assets as of December 31, 2002 is smaller than expected and caused an increase in the UAAL of approximately \$14,400,000 and caused an increase in the amortization period of approximately 7 years.
2. The compounded general wage increases for officers since the last valuation was approximately 8.1% (generally 3% on October 1, 2002 and 5% on April 1, 2003). Since the actuarially assumed general wage increase was 4%, the UAAL is approximately \$8,200,000 more than expected. Although the change in the UAAL is significant because the pay increases resulted in greater than expected projected benefit payments, the aggregate payroll also grew as a result of these pay increases.

Therefore more contributions will be made to the fund and the portion of the total contributions in excess of the normal cost percentage available to amortize the UAAL increases and partially offsets the increasing effect on the amortization period.

3. Total contributions in excess of those required to pay the annual normal cost decreased the UAAL approximately \$6,100,000.
4. Interest accumulation on the unfunded actuarial accrued liability during the one year period between the valuations had the effect of increasing the UAAL approximately \$5,200,000.
5. The December 31, 2002 valuation reflects the plan provisions as of September 1, 2003. Effective September 1, 2003, a separate Retiree Death Benefit Fund (account) is established within the System to fund the \$7,500 post-retirement lump sum death benefits. The exclusion of the liability for these lump sum death benefits from the valuation of the System's liability caused the UAAL to decrease by approximately \$900,000. The portion of the city's total contribution rate of 18% to fund these benefits from the separate account is 0.094%, leaving the remaining 17.906% for the remaining liabilities of the System.

The balance sheets in Exhibit 1 indicate that the number of years required to amortize the system's UAAL has increased from 19.6 years as of December 31, 2001 (reflecting the 1.5% COLA provided January 1, 2003) to 25.7 years as of December 31, 2002 reflecting plan provisions as of September 1, 2003. Since one year has passed since the last valuation, a one-year reduction in the amortization period to 18.6 years would be expected if the experience of the system had been exactly as anticipated. For the reasons described above, the System's UAAL increased more than expected causing an increase in the amortization period. Offsetting this increase was an aggregate payroll that increased more than expected (other than the larger salary increases than expected as described above in item 2) because more members are covered by the System than in the previous valuation. The number of members increased 6.8% (from 1,277 to 1,364). A larger than expected aggregate payroll results in more contributions being made to the System in excess of the normal cost contribution, and therefore, reduces the amortization period.

In summary, this valuation reveals that the actuarial value of assets plus future investment income received by the System and future contributions that will be provided by the members and the City of Austin will be adequate to pay the benefits provided by the state law governing the System as of December 31, 2002. In order for the System to have an adequate financing arrangement, contributions must be made that are sufficient to pay for the System's normal cost and amortize its unfunded actuarial accrued liability over an acceptable period of time. Based on the Texas State Pension Review Board guidelines and the actuarial assumptions and cost methods used in this valuation, periods of 25 years to 30 years are preferable and 40 years is the maximum.

The total contributions to the System are sufficient to pay for the System's normal cost and provide an additional amount that will result in amortization of the unfunded actuarial accrued liability in 25.7 years. In addition, we believe that it is appropriate to assume that

the police officers and the City will be able to maintain their commitment in future years to contribute 9% and 18%, respectively, of compensation into the System. Consequently, we are of the opinion that the System has an adequate financing arrangement based on the actuarial value of assets used in this valuation.

Retiree Death Benefit Fund

The statute effective September 1, 2003 established a Retiree Death Benefit Fund. This fund is a separate account within the System, administered by the System, to fund \$7,500 post-retirement lump sum death benefits. The Retiree Death Benefit Fund will be funded by a portion of the city's total contribution rate of 18%. As part of this December 31, 2002 actuarial valuation, the city contribution needed for the Retiree Death Benefit Fund effective September 1, 2003 is 0.094%. The remaining 17.906% (18% less 0.094%) of the city's contribution will be used for the System's liabilities excluding the post-retirement lump sum death benefits. The 0.094% city contribution rate is comprised of the normal cost percentage plus an additional amount to amortize the unfunded actuarial accrued liability for only the \$7,500 post-retirement lump sum death benefits over 30 years as shown below. The amortization of this unfunded liability is determined as a level percentage of payroll assuming that the payroll will increase 4% per year.

Allocated City Contribution Effective September 1, 2003 for the Retiree Death Benefit Fund	
Normal Cost	0.065%
Thirty-Year Amortization of Unfunded Actuarial Accrued Liability	<u>0.029</u>
Total City Contribution Rate Allocated to the Retiree Death Benefit Fund as of September 1, 2003	0.094%

The 0.094% city contribution rate was determined using the same funding method and actuarial assumptions used in this December 31, 2002 actuarial valuation for the System. In particular, the Entry Age Actuarial Cost Method is used with the normal cost determined as a level percentage of payroll. The UP-1994 Male and Female Mortality Table is used with no age adjustments or projections. The following is a summary of the actuarial valuation results of the liabilities for the \$7,500 post-retirement lump sum death benefits.

Actuarial Valuation Results of the Retiree Death Benefit Fund as of December 31, 2002	
1. Actuarial Present Value of Future Benefits	
a. Current pensioners	\$ 534,422
b. Current active members	<u>598,393</u>
c. Total	\$ 1,132,815
2. Actuarial Accrued Liability (Currently Unfunded)	\$ 896,796

Exhibit I

*Austin Police Retirement System
Actuarial Valuation Balance Sheets*

	<u>December 31, 2002¹</u>	<u>December 31, 2001²</u>
1. Actuarial present value of future benefits		
a. Payable to those now receiving benefits or entitled to receive benefits	\$ 137,524,996	\$ 127,914,809
b. Payable to active members	<u>427,456,048</u>	<u>376,344,984</u>
c. Total	\$ 564,981,044	\$ 504,259,793
2. Actuarial present value of future normal cost contributions	\$ 179,989,245	\$ 155,028,424
3. Actuarial accrued liability (Item 1c-Item 2)	\$ 384,991,799	\$ 349,231,369
4. Actuarial value of assets	\$ 298,781,560	\$ 284,761,203
5. Unfunded actuarial accrued liability (UAAL) (Item 3-Item 4)	\$ 86,210,239	\$ 64,470,166
6. Total contributions (percent of payroll) ³	26.906%	27.000%
7. Normal cost (percent of payroll)	20.110%	20.148%
8. Percent of payroll available to amortize the UAAL	6.796%	6.852%
9. Annualized covered payroll	\$ 79,236,366	\$ 69,706,749
10. Present annual amount available to amortize the UAAL	\$ 5,384,903	\$ 4,776,306
11. Years to amortize the UAAL	25.7 Years	19.6 Years

¹ Reflects plan provisions effective September 1, 2003 and excludes the \$7,500 post-retirement lump sum death benefit.

² Adjusted valuation results as of December 31, 2001 to reflect the 1.5% COLA for pensioners effective January 1, 2003.

³ For the December 31, 2002 valuation, the total contribution rate of 27% (9% by members and 18% by the city) is reduced by the city contribution of 0.094% for the separate Retiree Death Benefit Fund to provide the \$7,500 post-retirement lump sum death benefits.

Exhibit 2
Austin Police Retirement System
Thirty-Year Projection of Present Plan

Year	Fund at Beginning of Year	Contributions by City and Employees	Net Investment Income	Monthly Benefit Payments & Refunds	Estimated RETRO DROP Lump Sums	Fund at End of Year	Ratio of Fund to Payments	Increase in Fund for Year	
								Amount	Percent
1998	\$ 185,937,209	\$ 12,664,793	\$ 20,063,218	\$ 8,233,738	\$ 879,805	\$ 209,551,677	22.99	\$ 23,614,468	12.70 %
1999	209,551,677	14,048,633	36,935,854	9,221,426	438,297	250,876,441	25.97	41,324,764	19.72
2000	250,876,441	15,336,155	19,199,820	9,894,431	2,046,971	273,471,014	22.90	22,594,573	9.01
2001	273,471,014	16,914,200	-12,710,942	11,769,207	1,452,390	264,452,675	20.00	-9,018,339	-3.30
2002	264,452,675	19,914,403	-20,876,785	13,074,962	1,430,698	248,984,633	17.16	-15,468,042	-5.85
2003	248,984,633	21,319,337	19,960,755	16,021,338	4,248,389	269,994,998	13.32	21,010,365	8.44
2004	269,994,998	22,172,110	21,627,455	17,894,867	3,580,868	292,318,828	13.61	22,323,830	8.27
2005	292,318,828	23,058,994	23,380,187	19,734,237	3,457,743	315,566,029	13.61	23,247,201	7.95
2006	315,566,029	23,981,354	25,211,121	21,515,794	3,319,587	339,923,123	13.69	24,357,094	7.72
2007	339,923,123	24,940,608	27,145,866	23,121,582	3,018,610	365,869,405	14.00	25,946,282	7.63
2008	365,869,405	25,938,232	29,196,541	24,794,457	2,969,058	393,240,663	14.16	27,371,258	7.48
2009	393,240,663	26,975,761	31,339,418	26,776,631	3,194,998	421,584,213	14.07	28,343,550	7.21
2010	421,584,213	28,054,791	33,541,739	28,998,873	3,680,870	450,501,000	13.79	28,916,787	6.86
2011	450,501,000	29,176,983	35,775,415	31,345,553	4,448,057	479,659,788	13.40	29,158,788	6.47
2012	479,659,788	30,344,062	38,058,114	33,546,897	4,663,900	509,851,167	13.34	30,191,379	6.29
2013	509,851,167	31,557,824	40,439,972	35,621,641	4,639,218	541,588,104	13.45	31,736,937	6.22
2014	541,588,104	32,820,137	42,987,040	37,491,573	3,828,779	576,074,929	13.94	34,486,825	6.37
2015	576,074,929	34,132,942	45,728,371	39,526,866	3,546,670	612,862,706	14.23	36,787,777	6.39
2016	612,862,706	35,498,260	48,639,674	41,669,587	3,562,239	651,768,814	14.41	38,906,108	6.35
2017	651,768,814	36,918,190	51,684,334	44,088,264	4,259,201	692,023,873	14.31	40,255,059	6.18
2018	692,023,873	38,394,918	54,821,125	46,997,187	4,917,358	733,325,371	14.13	41,301,498	5.97
2019	733,325,371	39,930,715	58,008,912	50,438,006	5,920,655	774,906,337	13.75	41,580,966	5.67
2020	774,906,337	41,527,944	61,208,886	54,306,439	6,812,032	816,524,696	13.36	41,618,359	5.37
2021	816,524,696	43,189,062	64,408,088	58,619,867	7,416,386	858,085,593	12.99	41,560,897	5.09
2022	858,085,593	44,916,624	67,559,596	63,692,374	8,405,525	898,463,914	12.46	40,378,321	4.71
2023	898,463,914	46,713,289	70,608,534	68,951,641	9,476,138	937,357,958	11.95	38,894,044	4.33
2024	937,357,958	48,581,821	73,568,586	74,040,611	10,042,477	975,425,277	11.60	38,067,319	4.06
2025	975,425,277	50,525,094	76,443,496	79,625,215	10,663,042	1,012,105,610	11.21	36,680,333	3.76
2026	1,012,105,610	52,546,098	79,258,481	84,225,647	11,069,658	1,048,614,884	11.00	36,509,274	3.61
2027	1,048,614,884	54,647,942	82,041,381	89,350,849	11,492,340	1,084,461,018	10.75	35,846,134	3.42
2028	1,084,461,018	56,833,860	84,793,885	94,233,479	11,675,296	1,120,179,988	10.58	35,718,970	3.29
2029	1,120,179,988	59,107,214	87,593,831	98,689,746	10,931,665	1,157,259,622	10.56	37,079,634	3.31
2030	1,157,259,622	61,471,503	90,515,805	102,766,033	10,329,583	1,196,151,314	10.58	38,891,692	3.36
2031	1,196,151,314	63,930,363	93,601,281	106,481,759	9,719,203	1,237,481,996	10.65	41,330,682	3.46
2032	1,237,481,996	66,487,578	96,898,853	109,865,466	9,114,768	1,281,888,193	10.77	44,406,197	3.59

A. Data for years 1998 through 2002 was taken from the annual reports for those years. Fund balance at beginning and end of year reflects the market value of the system's assets.

B. Assumptions for years 2003 through 2032:

1. Benefits are assumed to commence in accordance with the demographic and economic assumptions used in this December 31, 2002 actuarial valuation.
2. Contributions will be 9% of pay by the members and 17.906% of pay by the city.
3. Covered payroll and contributions to the system will increase 4% per year.
4. Investment income (net of expenses) will be 8% of the average fund balance in each year.
5. A 1.5% ad hoc COLA for pensioners as of January 1, 2003 was reflected but no ad hoc COLAs were assumed beginning January 1, 2004 or thereafter.

Exhibit 3

Austin Police Retirement System Market Value of Assets as of December 31, 2002

Assets

Investments

Corporate Stocks	\$ 67,772,588
Real Estate Interests	50,211,339
U.S. Government Securities	39,554,070
International Stocks	30,626,335
Short-Term Investment Funds	22,486,048
U.S. Government Bonds (PIMCO)	15,291,769
International Government Securities	13,016,363
Partnership Interests	5,904,685
Corporate Bonds	<u>1,932,328</u>
Total Investments	\$ 246,795,525

Other Assets

Cash	\$ 49,775
Interest and Dividends Receivable	1,259,524
Contributions Receivable	935,280
Fixed Assets	470,870
Other Assets	<u>7,781</u>
Total	\$ 2,723,230

Total Assets

\$ 249,518,755

Liabilities

Contributions Refundable	\$ 157,685
Other Liabilities	<u>376,437</u>
Total Liabilities	<u>\$ 534,122</u>

Net Market Value of Assets

(Assets Minus Liabilities)

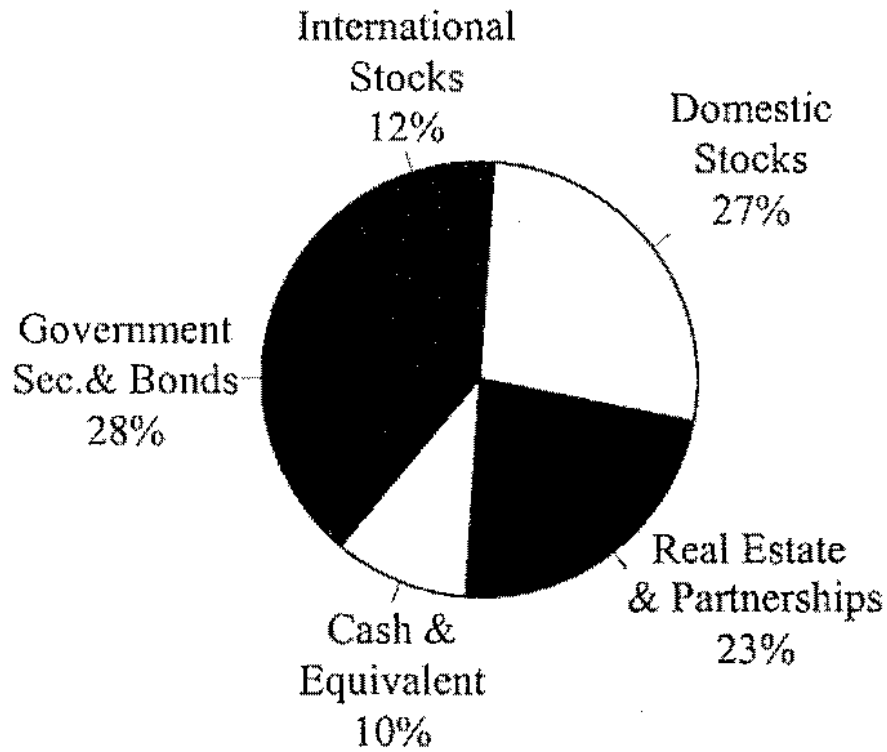
\$ 248,984,633

Exhibit 4

Austin Police Retirement System

Comparison of Market Value Asset Allocation as of the Prior and Current Actuarial Valuation Dates

December 31, 2002



December 31, 2001

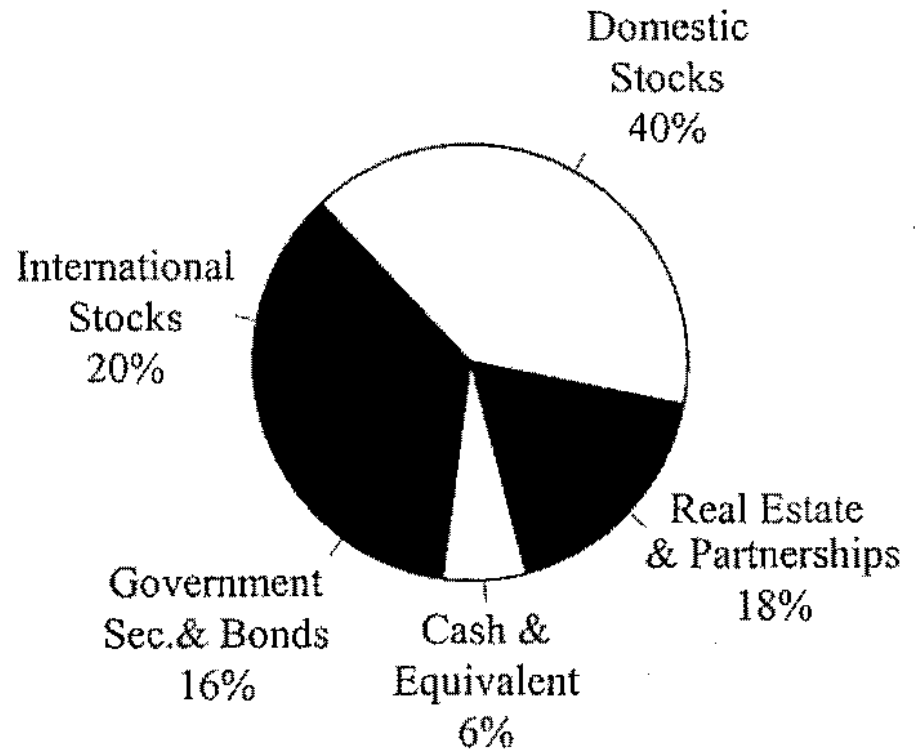


Exhibit 5

**Austin Police Retirement System
Development of Actuarial Value of Assets**

Calculation of 2002 Actuarial Investment Gain/(Loss)

Market Value of Assets as of December 31, 2001	\$ 264,452,675
2002 City of Austin Contributions	12,566,293
2002 Officer Contributions	7,348,110
2002 Benefit Payments and Contribution Refunds	(14,505,660)
Expected Investment Return at 8% during 2002	<u>21,368,402</u>
Expected Market Value of Assets as of December 31, 2002	\$ 291,229,820
Actual Market Value of Assets as of December 31, 2002	<u>248,984,633</u>
2002 Actuarial Investment Gain/(Loss)	\$ (42,245,187)

Calculation of 2001 Actuarial Investment Gain/(Loss)

Market Value of Assets as of December 31, 2000	\$ 273,471,014
2001 City of Austin Contributions	11,178,204
2001 Officer Contributions	5,735,996
2001 Benefit Payments and Contribution Refunds	(13,221,597)
Expected Investment Return at 8.25% during 2001	<u>22,710,660</u>
Expected Market Value of Assets as of December 31, 2001	\$ 299,874,277
Actual Market Value of Assets as of December 31, 2001	<u>264,452,675</u>
2001 Actuarial Investment Gain/(Loss)	\$ (35,421,602)

History of Actuarial Investment Gains/(Losses)

<u>Year</u>	<u>Total Gain/(Loss)</u>	<u>Deferred Percentage</u>	<u>Deferred Gain/(Loss) Amount as of December 31, 2001</u>
2002	\$ (42,245,187)	80%	\$ (33,796,150)
2001	(35,421,602)	60	(21,252,961)
2000	(1,634,745)	40	(653,898)
1999	19,999,541	20	<u>3,999,908</u>
			\$ (51,703,101)

Actuarial Value of Assets

Market Value as of December 31, 2002	\$ 248,984,633
Deferred Gain/(Loss) to be Recognized in Future	<u>-(51,703,101)</u>
Total	\$ 300,687,734
80% of Market Value as of December 31, 2002	\$ 199,187,706
120% of Market Value as of December 31, 2002	\$ 298,781,560
Actuarial Value as of December 31, 2002	\$ 298,781,560

Exhibit 6
Austin Police Retirement System
Historical Comparisons of Market and Actuarial Asset Values
(Valuation as of December 31)

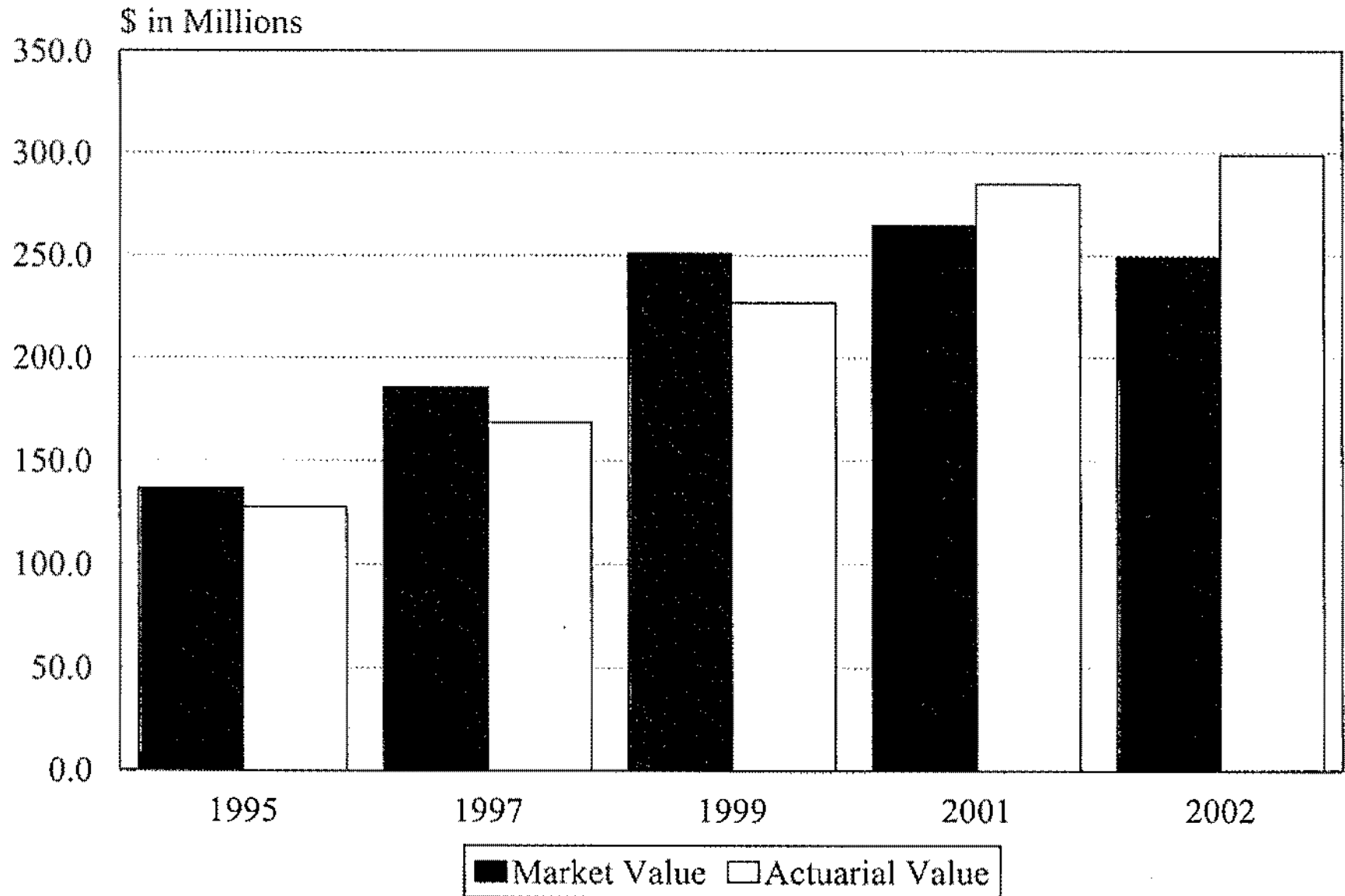
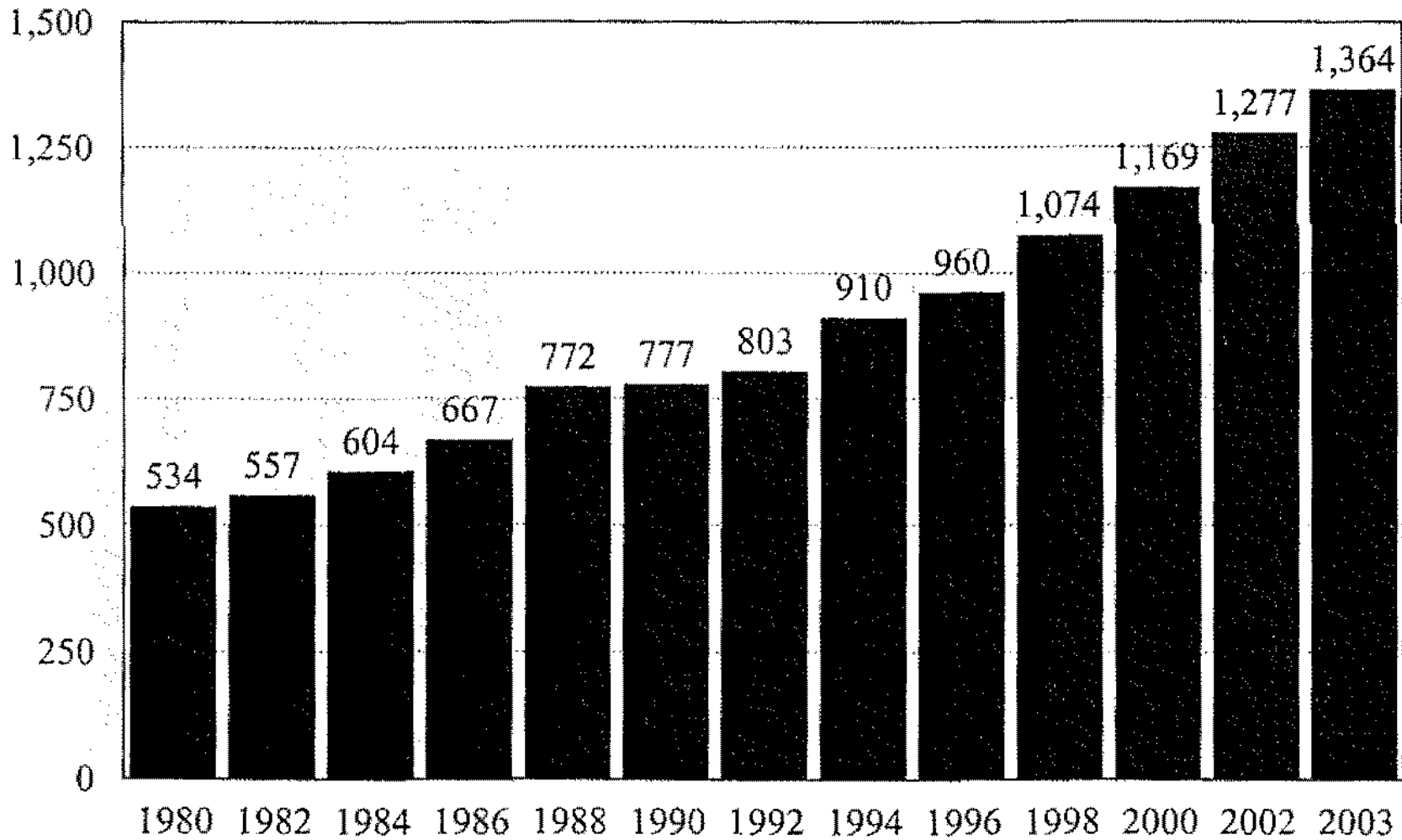


Exhibit 7

*Austin Police Retirement System
Distribution of Police Officers by Age and Service as of December 31, 2002*

Years of Service	Attained Age										Total	
	Under 20	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64		65 or Over
0	0	12	34	13	5	3	1	0	0	0	0	68
1	0	10	48	34	9	6	2	0	0	0	0	109
2	0	7	52	37	13	5	0	0	0	0	0	114
3	0	1	18	15	4	2	0	0	0	0	0	40
4	0	1	26	42	25	4	2	1	0	0	0	101
5	0	0	28	39	20	4	3	0	0	0	0	94
6	0	0	14	38	10	3	0	0	0	0	0	65
7	0	1	1	36	15	2	1	0	0	0	0	56
8	0	0	2	33	26	7	1	0	0	0	0	69
9	0	0	0	17	26	10	0	0	0	0	0	53
10	0	0	0	13	22	23	6	0	0	0	0	64
11	0	0	0	6	14	8	1	0	0	0	0	29
12	0	0	0	3	29	20	7	0	0	0	0	59
13	0	0	0	0	1	0	1	0	0	0	0	2
14	0	0	0	0	12	5	5	1	0	0	0	23
15	0	0	0	0	7	4	3	0	0	0	0	14
16	0	0	0	0	8	29	9	1	1	0	0	48
17	0	0	0	0	8	37	12	2	1	0	0	60
18	0	0	0	0	1	25	13	6	0	1	0	46
19	0	0	0	0	0	19	21	6	0	0	0	46
20-24	0	0	0	0	0	15	79	31	6	0	0	131
25-29	0	0	0	0	0	0	25	29	5	0	0	59
30-34	0	0	0	0	0	0	1	11	1	0	0	13
35-39	0	0	0	0	0	0	0	0	1	0	0	1
40-44	0	0	0	0	0	0	0	0	0	0	0	0
45-49	0	0	0	0	0	0	0	0	0	0	0	0
50+	0	0	0	0	0	0	0	0	0	0	0	0
Totals	0	32	223	326	255	231	193	88	15	1	0	1364
Average Monthly Salary	\$0	\$3,264	\$3,730	\$4,217	\$4,701	\$5,484	\$6,011	\$6,377	\$6,661	\$5,156	0	\$4,841

Exhibit 8
Austin Police Retirement System
Historical Summary of Growth in Number of Contributing Members

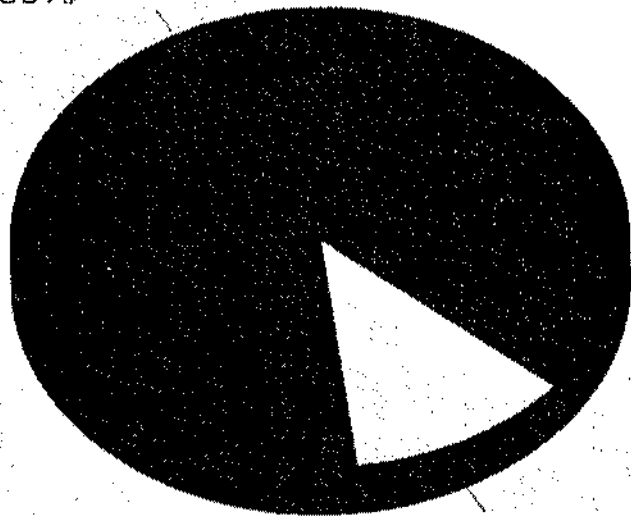


Average annual increase over:

- 7-year period 1996-2003: 5.1%
- 11-year period 1992-2003: 4.9%
- 23-year period 1980-2003: 4.2%

Exhibit 9
Austin Police Retirement System
Breakdown by Sex of Number of Officers and Average Annual Rate
of Pay as Reported for the December 31, 2002 Valuation

Male Officers
88%



Female Officers
12%

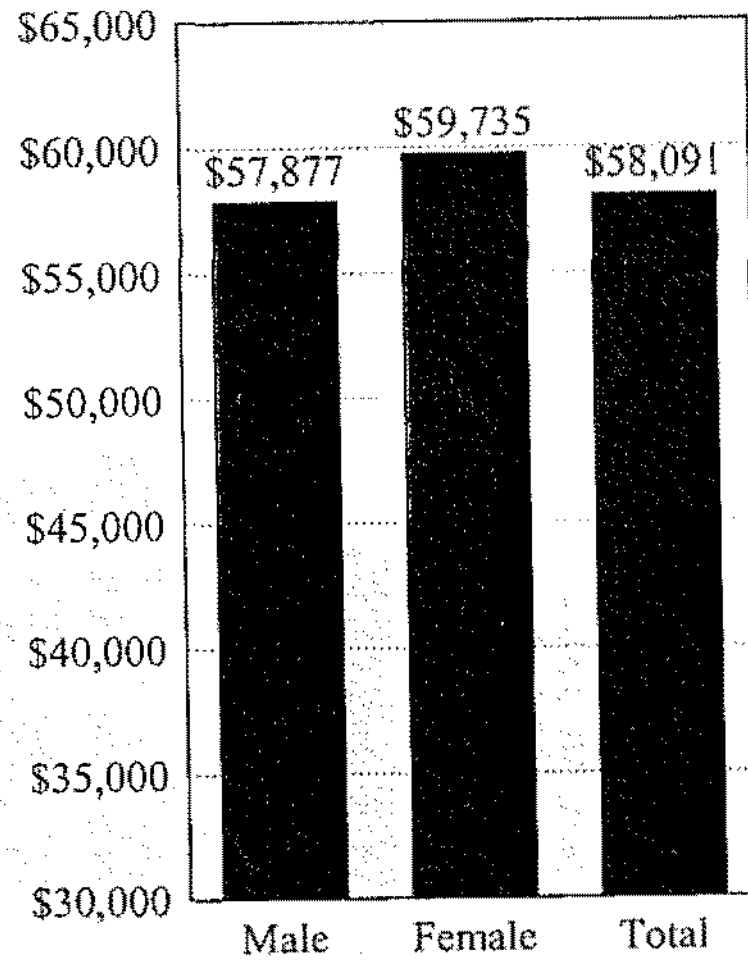


Exhibit 10
Austin Police Retirement System
Breakdown of Pensioners by Type and Annuity Option

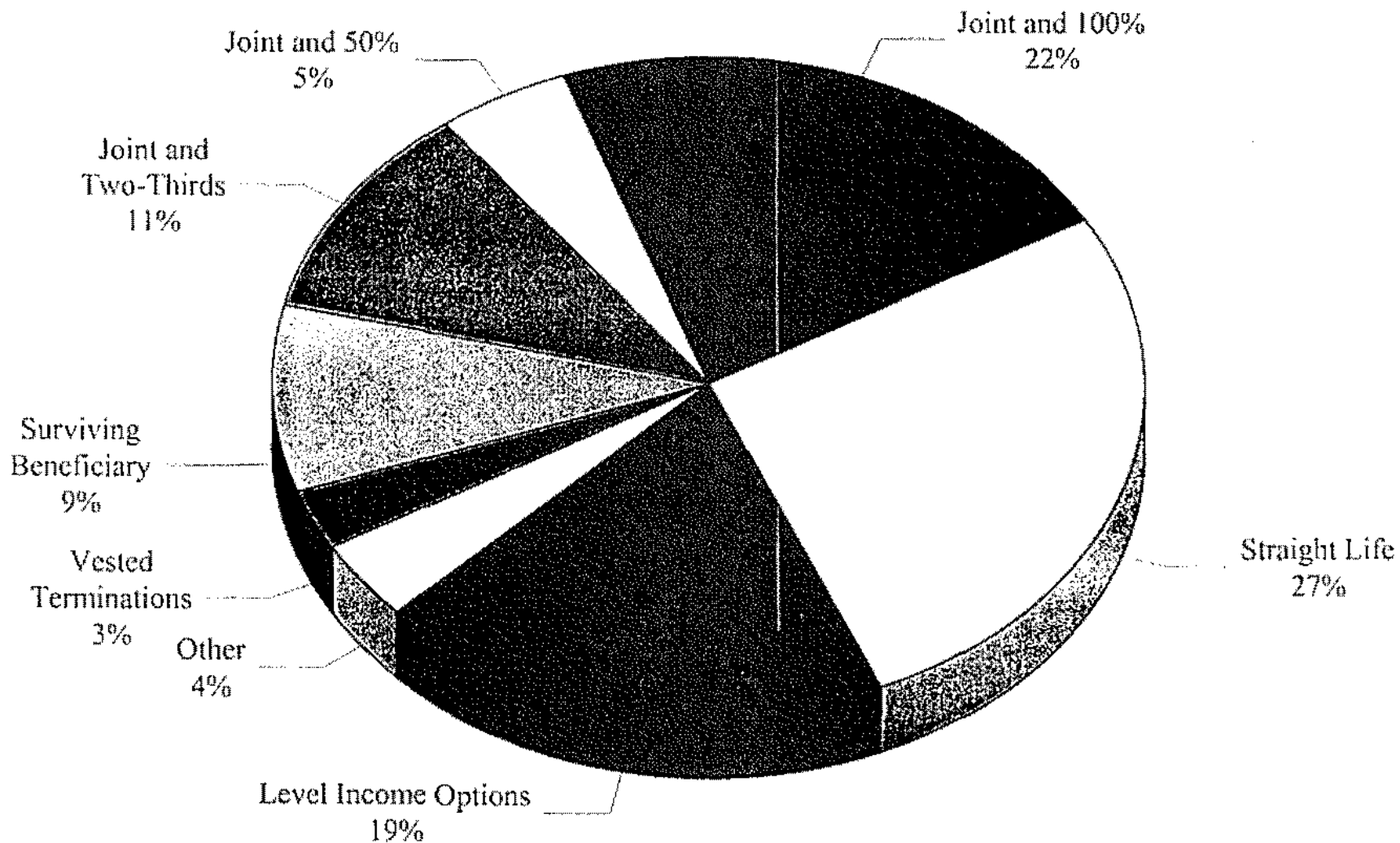


Exhibit 11

*Austin Police Retirement System
Summary Data of Active Police Officers and Pensioners
as Reported for the December 31, 2002 Valuation*

Active Police Officers	Male	Female	Total
Total Contributing Police Officers	1,207	157	1,364
Annualized Reported Payroll	\$69,857,947	\$9,378,419	\$79,236,366
Average Annual Rate of Pay	\$57,877	\$59,735	\$58,091

Pensioners	Number	Monthly Payment	Actuarial Present Value of Benefits
Service Retirements by Type of Annuity			
Straight Life	89	\$326,595	\$40,957,216
Joint and 100%	70	257,357	35,335,449
Joint and 50%	16	66,446	7,898,222
Joint and Two-Thirds Beneficiary	33	130,722	16,714,015
Joint and Two-Thirds Last Survivor	1	4,223	510,459
Level Income Straight Life	18	67,245	6,391,429
Level Income Joint and Two-Thirds	31	100,821	11,193,841
Level Income Joint and 100%	12	48,093	5,830,316
Fifteen Year Certain and Life	<u>2</u>	<u>7,708</u>	<u>956,178</u>
Total Service Retirements	272	1,009,210	125,787,125
Disability Retirements	4	7,487	859,467
Surviving Beneficiaries	27	85,095	9,805,983
Vested Terminated Officers	<u>9</u>	<u>13,436</u>	<u>803,496</u>
Total	312	\$1,115,228	\$137,256,071

Exhibit 12
Austin Police Retirement System
Historical Comparisons of Actuarial Accrued Liability for Active Officers and Pensioners
(Present Plan Valuations as of December 31)

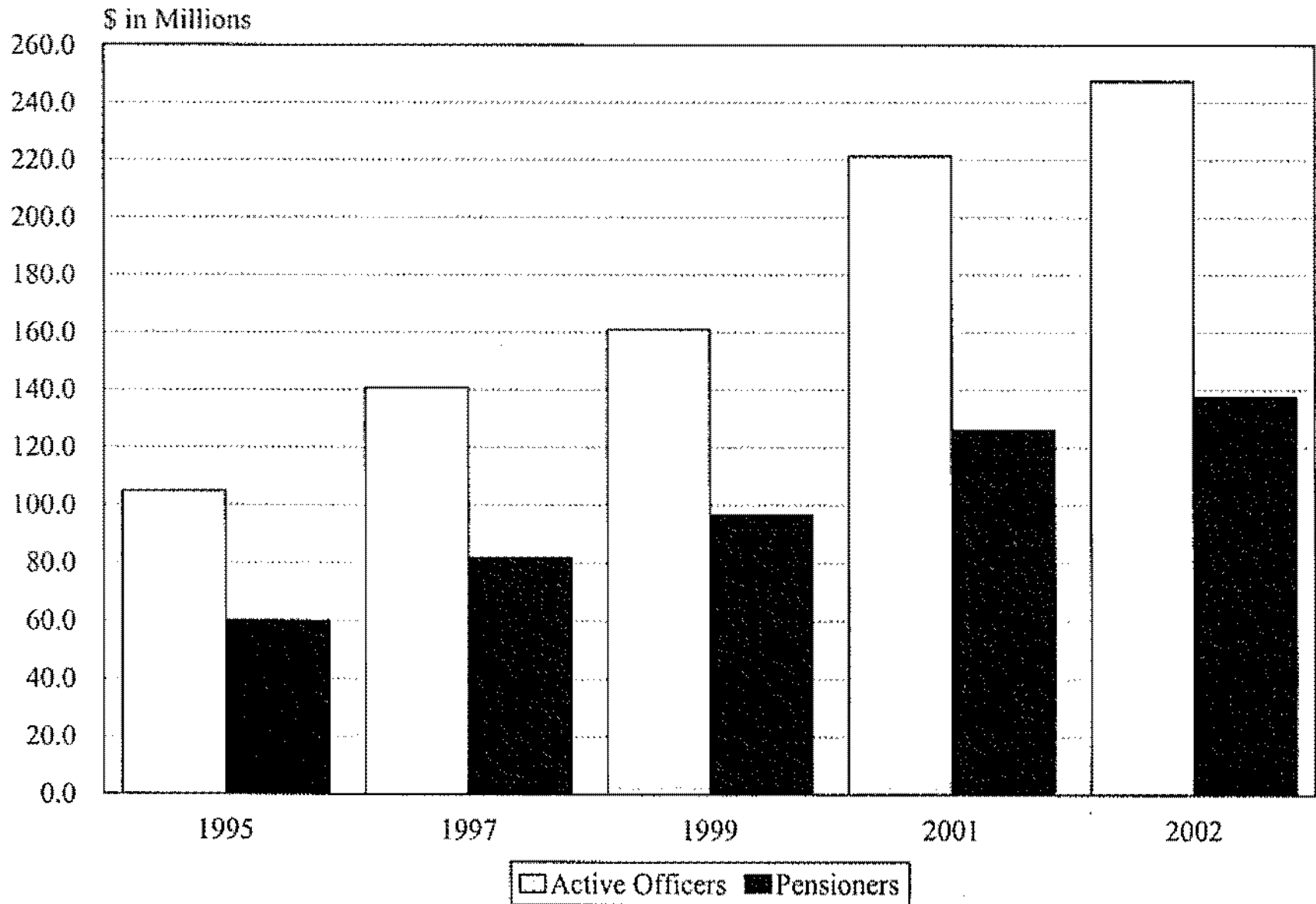


Exhibit 13

*Austin Police Retirement System
Summary Plan Description*

Date System Began

January 1, 1980

Statute Effective Date

September 1, 2003

Administration

The fund is administered by a retirement board consisting of 11 members. Funds are held by the retirement board, as trustee.

Employees Included

All regular and permanent full-time police officers or cadets who are employed by the police department. In addition, employees of the System's administrative staff are also included.

Employee Contributions

9% of each police officer's "Compensation Considered".

City Contributions

18% of "Compensation Considered" for all "Employees Included" effective as of October 1, 1996 and thereafter. Effective September 1, 2003, a very small portion of the city contribution will be allocated by the Board to the Retiree Death Benefit Fund (account) administered by the System.

Service Considered

The number of months during which a member is required to make and does make prescribed contributions plus (a) any creditable service received as a result of the provisions for establishing credit for certain military service, cadet service, probationary service following the commission date when no contributions were previously made or (b) reinstating previously forfeited service.

Exhibit 13 (continued)

*Austin Police Retirement System
Summary Plan Description*

Compensation Considered

Base pay and longevity pay.

Average Final Compensation

The highest monthly average of the "Compensation Considered" for 36 months of the last 120 months during which the member contributed to the system or during the months of service for which he did contribute, if less than 120.

Normal Retirement Date

The first day of the month following the earliest month in which (a) the member has completed at least 23 years of creditable service not reflecting any military service credit; or (b) the member has attained age 55 and completed at least 20 years of creditable service not reflecting any military service credit; or (c) the member has reached age 62.

Normal Service Retirement Benefit

A member is eligible for a normal service retirement benefit after having reached his normal retirement date. The monthly annuity, payable as a life annuity (modified cash refund), is 3.00% of "Average Final Compensation" multiplied by years and months of "Service Considered."

Disability Benefit

A member is eligible for a disability benefit (a) at any age provided he has completed ten years of service and (b) has a total and permanent disability from any cause. A member with less than 10 years of service is also eligible for a disability benefit if his disability is total and permanent and is the result of his duties as a police officer. The annuity is computed considering service and compensation to date of disability; however, not less than 20 years of service will be credited for an occupational disability.

Exhibit 13 (continued)

Austin Police Retirement System Summary Plan Description

Death Benefits

If death occurs before eligibility for retirement, the member's beneficiary receives a benefit equal to twice the accumulated member contributions made plus allowable interest. This benefit will not be less than \$7,500.

If death occurs before retirement but after eligibility for retirement and the member had elected an optional annuity, the member's beneficiary will be entitled to a monthly annuity calculated as if the member had retired at the end of the month in which he died. A \$7,500 lump-sum death benefit is also payable to the beneficiary.

If death occurs before retirement but after eligibility for retirement and prior to selection of an optional annuity and, if the member leaves a lawfully married spouse surviving, then the surviving spouse may select an optional annuity or select a lump sum benefit equal to twice the accumulated member contributions made plus allowable interest. If the lawfully married surviving spouse dies before having received benefits equal to the amount of accumulated member contributions, the excess of such accumulated deposits over the benefits actually received will be refunded in one sum to the member's estate. If the member leaves no surviving spouse, then the member's designated beneficiary, or if no beneficiary exists, the executor or administrator of the estate, may select either the Fifteen Year Certain and Life Annuity or a lump sum benefit equal to twice the accumulated member contributions made plus allowable interest. If an optional annuity is selected in lieu of a lump sum benefit, a \$7,500 lump sum death benefit is payable to the beneficiary.

If death occurs after retirement, the member's beneficiary receives a benefit equal to the excess, if any, of the accumulated member contributions plus allowable interest over the benefits actually received. Under certain optional pension forms the beneficiary will also be entitled to receive a monthly annuity for life or for the remainder of a certain period.

Retiree Death Benefit Fund

Effective September 1, 2003, a separate fund was established to pay \$7,500 post-retirement lump sum death benefits. This fund is funded by city contributions.

Vested Benefit

If the member has 10 years of service, he may elect to leave his accumulated deposits with the retirement system. He will be entitled to a deferred benefit commencing at the normal retirement date based upon his service and compensation prior to termination.

Exhibit 13 (continued)

*Austin Police Retirement System
Summary Plan Description*

Termination of Employment

A member terminating employment for reasons other than service retirement, disability retirement or death will receive an amount equal to his contributions to the retirement system and accumulated interest. Interest will be credited at the end of each calendar year at a rate determined by the system's board of trustees on the member's beginning-of-year account balance.

Optional Payments

A retiring member may elect an optional form of annuity payment rather than the standard Life Annuity. Such options are a Joint and 100% to Survivor, Joint and 50% to Survivor, Joint and Two-Thirds to Survivor, Joint and Two-Thirds to Last Survivor or 15-Year Certain and Life Annuity.

A retroactive deferred retirement option plan (RETRO DROP) can also be elected by retiring members meeting certain eligibility requirements. This option provides the member with a monthly annuity and a lump sum. The RETRO DROP benefit computation date elected by the member may not be earlier than the date the member completed 23 years of creditable service not reflecting any military service credit or may not be earlier than 36 months prior to the date of retirement.

Postretirement Cost-of-Living Increases

The Board may authorize an annual cost-of-living adjustment, subject to actuarial approval, not to exceed 6% per year. Postretirement benefit increases will automatically be provided when the system's benefit formula as a percent of average compensation for years of service increases.

Exhibit 14

Austin Police Retirement System Summary of Actuarial Methods and Assumptions

- | | |
|---|--|
| 1. Actuarial Cost Method | Entry Age Actuarial Cost Method <ul style="list-style-type: none">• The normal cost is calculated to be a level percent of compensation over a member's career.• The unfunded actuarial accrued liability is assumed to be funded by level percent contributions of employee payroll based on annual payroll growth of 4% per year due to general wage increases. |
| 2. Asset Valuation Method | Gains and losses in the market value of assets, based on the difference between the actual rate of return and the assumed rate of return, are recognized in the actuarial value over five years. The actuarial value will not be less than 80% or more than 120% of the market value of assets. |
| 3. Investment Return (Interest Rate) | 8% per year, net of expenses |
| 4. Inflation | 4% per year |
| 5. Salary Increase Due to General Wage Increases | 4% per year |
| 6. Salary Increase Due to Promotion and Longevity Increases | 2.8% per year average over career. See Exhibit 16 for the promotion and longevity salary increases by year of service. |
| 7. Total Salary Increase | 6.8% per year average over career. See Exhibit 16 for the total salary increases by year of service. |
| 8. Interest Credited on Officer's Accumulated Contributions | 4% per year |
| 9. Mortality | |
| a. Active and Retired | UP-1994 Mortality Tables for males and females with no age adjustments or projections |
| b. Disabled | 85% of 1965 RRB Disabled Annuitants Mortality Table |

Exhibit 14 (continued)

Austin Police Retirement System
Summary of Actuarial Methods and Assumptions

- | | |
|--|---|
| 10. Retirement Rates | Expected average retirement age of 52.7 based on the officers included in the December 31, 2002 valuation. See Exhibit 17 for service and age-related rates. |
| 11. Withdrawal Rates | Expected average annual number of terminations with a refund of contributions of 24 per year in 2003 based on the officers included in the December 31, 2002 valuation. See Exhibit 18 for service-related rates. |
| 12. Disability Rates | See Exhibit 19 for age-related rates. |
| 13. Future Military Service Purchase for Officers without Purchase | <ul style="list-style-type: none">• 20 months purchased on average• 50% of officers under 45• 75% of officers 45 and above• 25% of estimated cost paid by officer |
| 14. RETRO DROP Election | 75% of those eligible for at least a one-year RETRO DROP are assumed to make such an election. |
| 15. RETRO DROP Period Election | Members elect the maximum period eligible (up to 36 months). |
| 16. Percent Single after Eligible for Service Retirement | 15% |
| 17. Age of Spouse of Officer Who Dies While Eligible to Retire | Female 3 years younger than male |
| 18. Payment Form Election for Pre-Retirement Death Benefits | |
| a. Married Members | Joint and 100% to Survivor |
| b. Single Members | 15-Year Certain and Life Annuity |
| 19. Ad Hoc Cost-of-Living Increases for Pensioners | None |

Exhibit 14 (continued)

Austin Police Retirement System
Summary of Actuarial Methods and Assumptions

20. Cadet Service Purchase
- 100% of officers who have not yet purchased the credit will purchase their cadet service in the future.
 - Officer purchase amount based on officer contribution rate and cadet pay at time of cadet service.
21. Forfeited Service Purchase, Probationary Service Purchase, and Uniform Military Leave of Service Purchase
- 100% of officers with such eligible service will purchase the respective service.

Exhibit 15

*Austin Police Retirement System
Changes in Actuarial Methods and Assumptions*

	December 31, 2002 Actuarial Assumption	December 31, 2001 Actuarial Assumption
Interest Credited on Officers' Accumulated Contributions	4%	5%

Exhibit 16

*Austin Police Retirement System
Salary Rate of Increase from Year t-1 to Year t*

Year of Service t	Salary Increases Due to	
	Promotion and Longevity Increases	Total Increases
1	18.0%	22.7%
2	11.2	15.6
3	5.8	10.0
4	0.9	4.9
5	0.9	4.9
6	7.1	11.4
7	0.5	4.5
8	0.5	4.5
9	0.5	4.5
10	7.1	11.4
11	0.3	4.3
12	0.3	4.3
13	0.3	4.3
14	7.1	11.4
15	0.2	4.2
16	7.2	11.5
17	0.2	4.2
18	0.1	4.1
19	0.1	4.1
20	0.1	4.1
21	0.1	4.1
22	0.1	4.1
23	0.1	4.1
24	0.1	4.1
25	0.1	4.1
26-45	0.0	4.0

Exhibit 17

*Austin Police Retirement System
Service Retirement Rates Per 1,000 Members*

For Entry Ages Under 32				For Entry Ages 33 and Above			
Service	22 & Under	23-27	28-32	Age	33-37	38-42	43 & Over
23	50	75	100	43			
24	200	200	200	44			
25	250	250	250	45			
26	300	300	300	46			
27	500	400	350	47			
28	500	400	400	48			
29	500	400	500	49			
30	500	500	500	50			
31	500	500	500	51			
32	500	500	1000*	52			
33	500	500		53			
34	500	500		54			
35	600	500		55	200		
36	600	500		56	250		
37	600	1000*		57	300		
38	600			58	350		
39	600			59	500		
40	600			60	1000	500	
41	600			61		350	
42	1000*			62		350	800
				63		350	400
				64		350	400
				65		1000	1000

* 100% retirement rate will be effective at age 60 if earlier.

Exhibit 18

*Austin Police Retirement System
Withdrawal Rates Per 1,000 Members*

Years of Service	Withdrawal Rates
0	100
1	20
2	20
3	20
4	20
5	20
6	20
7	20
8	20
9	20
10	20
11	17
12	14
13	10
14	5
15	0
16	0
17	0
18	0
19	0

Exhibit 19

*Austin Police Retirement System
Disability Rates Per 1,000 Members**

Age	Disability Rates	Age	Disability Rates
20	0.14	40	0.92
21	0.15	41	1.14
22	0.16	42	1.32
23	0.17	43	1.48
24	0.18	44	1.73
25	0.19	45	2.09
26	0.21	46	2.55
27	0.23	47	2.98
28	0.25	48	3.34
29	0.28	49	3.62
30	0.31	50	3.79
31	0.35	51	3.92
32	0.40	52	4.04
33	0.45	53	4.24
34	0.49	54	4.56
35	0.52	55	4.90
36	0.54	56	5.32
37	0.57	57	5.86
38	0.62	58	6.60
39	0.73	59	7.53
		60	9.11
		61	11.72
		62 and later	0.00

* Rates are for disability due to all causes, and occupational disability rates are assumed to be 55% of all cause rates.

Exhibit 20

Austin Police Retirement System Definitions

1. *Actuarial cost method* - A procedure for determining the actuarial present value of pension plan benefits and for developing an actuarially equivalent allocation of such value to time periods in the form of a normal cost contribution rate and an actuarial accrued liability.
2. *Actuarially equivalent* - Of equal actuarial present value, determined as of a given date with each value based on the same set of actuarial assumptions.
3. *Actuarial present value* - The value of an amount or series of amounts payable or receivable at various times in the future, determined as of a given date (the valuation date) by the application of the actuarial assumptions.
4. *Entry Age Actuarial Cost Method* - A method under which the actuarial present value of projected benefits of each individual included in the valuation is allocated on a level basis over the earnings of the individual between the entry age and assumed exit. Entry age is calculated as the difference between the attained age and the years of service credit as of the valuation date. Service is assumed to be continuous.
5. *Normal cost contribution rate* - That portion of the actuarial present value of benefits which is allocated to a valuation year by the Entry Age Actuarial Cost Method. It is expressed as a percent of compensation and is equal to the actuarial present value at hire of projected benefits divided by the actuarial present value at hire of anticipated future compensation. It is calculated for each individual and summed for the entire group.
6. *Actuarial accrued liability* - That portion, as determined by the Entry Age Actuarial Cost Method, of the actuarial present value of benefits which is not provided for by future normal cost contributions.
7. *Unfunded actuarial accrued liability* - The excess of the total actuarial present value of future benefits over the sum of the tangible assets and the actuarial present value of future normal cost contributions.
8. *Actuarial value of assets* - The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation.
9. *Actuarial gain or loss* - A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates.

Exhibit 21

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the System's Financial Statements for Fiscal Year
Ending December 31, 2002*

I. Schedule of Funding Progress

Actuarial Valuation Date ¹	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll ² (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/97 ^{3,4}	\$168,601,584	\$222,703,396	\$54,101,812	75.7%	\$47,188,812	114.6%
12/31/99 ^{3,5}	226,913,439	257,850,162	30,936,723	88.0	54,695,072	56.6
12/31/01 ^{3,6}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁷	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8

¹Prior to the actuarial valuation as December 31, 2002, the System had biennial valuations.

²The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.

³Economic and demographic assumptions were revised.

⁴Reflects changes in plan benefit provisions effective September 1, 1997.

⁵Reflects changes in plan benefit provisions effective September 1, 1999.

⁶Reflects changes in plan benefit provisions effective September 1, 2001.

⁷Reflects changes in plan benefit provisions effective September 1, 2003.

II. Schedule of Employer Contributions

Plan Year Ended December 31	Annual Contribution As a Fixed Percentage of Payroll	Annual Required Contribution ¹	Percentage Contributed
1997	18%	\$ 6,952,258	100%
1998	18	8,254,861	100
1999	18	9,288,148	100
2000	18	10,046,065	100
2001	18	11,178,204	100
2002	18	12,566,293	100

¹ The annual required contribution is based on actual covered payroll.

Exhibit 21 (continued)

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the System's Financial Statements for Fiscal Year
Ending December 31, 2002*

III. Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	December 31, 2002
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	25.7 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market

Actuarial assumptions:

- Investment rate of return, net of expenses, compounded annually 8.0%
- Projected salary increases including promotion and longevity 4.0% to 22.0% per year, averaging 6.8%
- Inflation rate per year 4.0%
- Postretirement cost-of-living adjustments None

IV. Actuarial Information Needed for Notes to the Financial Statement as Required by Paragraph 32 of GASB 25 (Additional Information Required by Paragraph 32 Should be Provided by the System's Auditors)

A. PLAN DESCRIPTION

The Board of Trustees of the City of Austin Police Retirement System is the administrator of a single-employer defined benefit pension plan. The System is considered part of the City of Austin's financial reporting entity and is included in the City's financial reports as a pension trust fund.

The System was originally established in 1979 by a City Council ordinance. Effective August 1991, the System is governed by state law with plan amendments made by the Legislature of the State of Texas. The System provides retirement, death, disability and withdrawal benefits. Benefits vest after 10 years of credited service. Participants may retire at (a) 23 years of service excluding any military

Exhibit 21 (continued)

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the System's Financial Statements for Fiscal Year
Ending December 31, 2002*

service credit regardless of age, or (b) age 55 with 20 years of service excluding any military service or (c) age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). As of December 31, 2002, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service. Effective September 1, 2001; the RETRO DROP provisions were changed to require that a participant must have 23 years of creditable service with the retirement system excluding any military service credit on the date the participant elects for the RETRO DROP benefit computation date. Effective September 1, 2003, the \$7,500 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System.

Distributions to officers or their beneficiaries are also available in the event of total and permanent disability, provided the officer has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the officer, their level of earnings and length of service. Payments to officers or their beneficiaries may be increased annually on an ad hoc basis by the amount of increase in the Consumer Price Index, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

Participating members in the System include full-time police officers and cadets employed by the police department of the City and employees of the System. The following membership status of the System was reflected in the actuarial valuation as of December 31, 2002:

Retirees and beneficiaries currently receiving benefits (303) and terminated employees entitled to future monthly benefits (9)	312
Current participating members	<u>1,364</u>
Total	1,676

Exhibit 21 (continued)

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the System's Financial Statements for Fiscal Year
Ending December 31, 2002*

B. CONTRIBUTIONS

The System is funded by biweekly contributions from the basic compensation, consisting of base pay and longevity pay, of police officers and by contributions from the City. Under the provisions in effect on December 31, 2002, participants are required to contribute 9% of their basic compensation to the System. The City is required to make contributions equal to 18% of basic compensation and may authorize additional contributions. Effective September 1, 2003, a portion of the city's contribution will be allocated to the Retiree Death Benefit Fund.

The City contribution rate is required by the state law governing the System and may be changed by amendment made by the Legislature of the State of Texas. The participant contribution rate must be at least 6% but was increased to 9% effective October 1993 by a recommendation of the Retirement Board and an approving vote of the participating members in accordance with the state law governing the System. The participant contribution rate may be changed by amendment made by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with the state law governing the System.

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2002 and the Plan provisions effective September 1, 2003, the normal cost was 20.11% of pay and the amortization period was 25.7 years.

Exhibit 22

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
Notes to the Financial Statements for the City of Austin
for the Fiscal Year Ending September 30, 2002*

I. Annual Pension Cost

For the fiscal year ending September 30, 2003, the City's Annual Pension Cost (APC) of \$ _____¹ for the Austin Police Retirement System is equal to 18% of the basic compensation, consisting of base pay and longevity pay of the members of the System (including both police cadets and officers), for the period October 1, 2002 through August 31, 2003 plus 17.906% of such basic compensation for the period September 1, 2003 through September 30, 2003. The APC is equal to the City's required and actual contributions. The required contributions are a fixed 18% of pay. However, effective September 1, 2003, a portion (0.094%) of the city's contribution is allocated to a separate Retiree Death Benefit Fund (account). The required contributions were reflected in the December 31, 2002 actuarial valuation, which satisfied the parameters of the Governmental Accounting Standards Board (GASB) Statement No. 27. The Entry Age Actuarial Cost Method was used, with the normal cost calculated as a level percentage of payroll.

The actuarial assumptions included an investment return assumption of 8% per year (net of administrative expenses), projected salary increases ranging from 4% to 22% and averaging 6.8% per year, and no postretirement cost-of-living adjustments. An inflation assumption of 4% per year is included in the investment return and salary increase assumptions. The actuarial value of assets was determined using a method that smoothes the effects of short-term volatility in the market value of investments over a five-year period. The actuarial value of assets will not be more than 120% or less than 80% of the actual market value. The unfunded actuarial accrued liability (UAAL) is amortized with the excess of the total contribution rate over the normal cost rate. The number of years needed to amortize the UAAL is determined using an open, level percentage of payroll method, assuming that the payroll will increase 4% per year, and was 25.7 years in the December 31, 2002 actuarial valuation.

**II. Three-Year Trend Information for the
Austin Police Retirement System**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Contribution as a Percentage of Payroll	Net Pension Obligation
09/30/2001	\$ _____ ¹	100%	18%	\$0
09/30/2002	_____ ¹	100	18	0
09/30/2003	_____ ¹	100	18/17.906 ²	0

¹ City will be able to determine these amounts from their accounting system since there is no net pension obligation.

² For the period October 1, 2002 through August 31, 2003, the required contribution percentage was 18%. Effective September 1, 2003, the city's contribution rate to fund all System benefits except for the \$7,500 post-retirement death benefit is 17.906%. The remainder of the city's contribution (0.094%) is used to fund the \$7,500 post-retirement death benefit from the separate Retiree Death Benefit Fund (account).

Exhibit 22 (continued)

*Austin Police Retirement System
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Notes to the Financial Statements for the City of Austin
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III. Schedule of Funding Progress

Actuarial Valuation Date ¹	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll ² (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/97 ^{3,4}	\$168,601,584	\$222,703,396	\$54,101,812	75.7%	\$47,188,812	114.6%
12/31/99 ^{3,5}	226,913,439	257,850,162	30,936,723	88.0	54,695,072	56.6
12/31/01 ^{3,6}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁷	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8

¹Prior to the actuarial valuation as December 31, 2002, the System had biennial valuations.

²The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.

³Economic and demographic assumptions were revised.

⁴Reflects changes in plan benefit provisions effective September 1, 1997.

⁵Reflects changes in plan benefit provisions effective September 1, 1999.

⁶Reflects changes in plan benefit provisions effective September 1, 2001.

⁷Reflects changes in plan benefit provisions effective September 1, 2003.

IV. Actuarial Information Needed for Notes to the Financial Statement as Required by Paragraph 20 of GASB 27

A. PLAN DESCRIPTION

The Board of Trustees of the City of Austin Police Retirement System is the administrator of a single-employer defined benefit pension plan. The System is considered part of the City of Austin's financial reporting entity and is included in the City's financial reports as a pension trust fund. The Plan issues a stand alone report that is available from the Retirement Board.

The System was originally established in 1979 by a City Council ordinance. Effective August 1991, the System is governed by state law with plan amendments made by the Legislature of the State of Texas. The System provides retirement, death, disability and withdrawal benefits. Benefits vest after 10 years of credited service. Participants may retire at (a) 23 years of service excluding any military service credit regardless of age, or (b) age 55 with 20 years of service excluding any military service or (c) age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). As of December 31, 2001, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service.

Exhibit 22 (continued)

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Effective September 1, 2001, the RETRO DROP provisions were changed to require that a participant must have 23 years of creditable service with the retirement system excluding any military service credit on the date the participant elects for the RETRO DROP benefit computation date. Effective September 1, 2003, the \$7,500 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System.

Distributions to officers or their beneficiaries are also available in the event of total and permanent disability, provided the officer has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the officer, their level of earnings and length of service. Payments to officers or their beneficiaries may be increased annually on an ad hoc basis by the amount of increase in the Consumer Price Index, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

Participating members in the System include full-time police officers and cadets employed by the police department of the City and employees of the System. The following membership status of the System was reflected in the actuarial valuation as of December 31, 2002:

Retirees and beneficiaries currently receiving benefits (303) and terminated employees entitled to future monthly benefits (9)	312
Current participating members	<u>1,364</u>
Total	1,676

B. CONTRIBUTIONS

The System is funded by biweekly contributions from the basic compensation, consisting of base pay and longevity pay, of police officers and by contributions from the City. Under the provisions in effect on December 31, 2002, participants are required to contribute 9% of their basic compensation to the System. The City is required to make contributions equal to 18% of basic compensation and may authorize additional contributions. Effective September 1, 2003, a portion of the city's contribution will be allocated to the Retiree Death Benefit Fund.

Exhibit 22 (continued)

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The City contribution rate is required by the state law governing the System and may be changed by amendment made by the Legislature of the State of Texas. The participant contribution rate must be at least 6% but was increased to 9% effective October 1993 by a recommendation of the Retirement Board and an approving vote of the participating members in accordance with the state law governing the System. The participant contribution rate may be changed by amendment made by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with the state law governing the System.

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2002 and the Plan provisions effective September 1, 2003, the normal cost was 20.11% of pay and the amortization period was 25.7 years.