

AUSTIN POLICE RETIREMENT SYSTEM

ACTUARIAL VALUATION

AS OF

DECEMBER 31, 2003

AUGUST 16, 2004

Rudd and Wisdom, Inc.

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August 16, 2004

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

Re: Actuarial Valuation as of December 31, 2003

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, 2003 has been completed.

The results of the December 31, 2003 actuarial valuation are described in the Summary section of the report. A comparison of the current valuation with the December 31, 2002 valuation is also discussed in this section. The comparative valuation balance sheets are shown in Exhibit 1. Exhibit 2 shows a thirty-year projection of the assets 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. Exhibit 12 shows a historical comparison of the actuarial accrued liability for the active and retired officers.

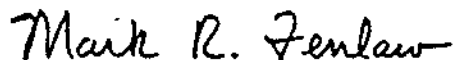
A summary plan description based on the plan effective September 1, 2003 is included as Exhibit 13. The actuarial methods and assumptions are described in Exhibits 14 through 19, which include a description of assumption changes since the prior valuation. Exhibit 20 defines certain actuarial terms used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

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

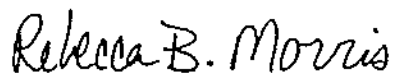
Respectfully submitted,



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Summary

Austin Police Retirement System Results of December 31, 2003 Actuarial Valuation

The valuation balance sheet as of December 31, 2003, shown in Exhibit 1, reveals that the plan has an unfunded actuarial accrued liability of \$93,610,696. 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's biweekly contributions began to be allocated by the Board to a new Retiree Death Benefit Fund (account) within the System, which will be used to pay the \$7,500 post-retirement lump sum death benefits after that date.

The normal cost for the present benefits based on the plan provisions effective September 1, 2003 for each police officer is 20.113% of pay. Since total contributions on behalf of each police officer are 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 pay increases, the unfunded actuarial accrued liability will be amortized in 28.6 years.

The valuation balance sheets in Exhibit 1 compare the actuarial condition of the plan on December 31, 2003 with the condition on December 31, 2002. Both valuations are based on the plan provisions effective on September 1, 2003 (summarized in Exhibit 13). The December 31, 2003 valuation does reflect the 3% ad hoc pensioner COLA granted January 1, 2004 but does not reflect any ad hoc pensioner COLAs which may be granted January 1, 2005 or annually thereafter. The results shown for the December 31, 2002 valuation include an adjustment to reflect the 3% ad hoc pensioner COLA granted effective January 1, 2004.

Between these two valuations, the unfunded actuarial accrued liability (UAAL) has increased by \$3,718,097 (from \$89,892,599 to \$93,610,696). 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 2003 is estimated at 18.4%. However, the actuarial value of assets (AVA) used in the valuation and the determination of the amortization period is based on an adjusted market value. In particular, the AVA defers recognition of a large portion of the significant gain in 2003 and recognizes larger portions of the previously partial deferred large losses in 2002 and 2003. The rate of return on the AVA, net of expenses, for 2003 is estimated at 5.1% compared to the assumed rate of return of 8%. Therefore, the AVA as of December 31, 2003 is smaller than expected and caused an increase in the UAAL of approximately \$8,700,000. This caused an increase in the amortization period of approximately 4 years.
2. In 2003 the officers received a 5% general pay increase on April 1, 2003. Since this was previously reflected in the December 31, 2002 valuation, there were no salary increases reflected for the first time in 2003. Therefore, the pay of the officers was lower than expected because we assumed that pay would increase by 4% in 2003. This caused the UAAL to be less than expected.

3. Total contributions in excess of those required to pay the annual normal cost decreased the UAAL approximately \$8,900,000.
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 \$7,300,000.

The balance sheets in Exhibit I indicate that the number of years required to amortize the system's UAAL has increased from 27.6 years as of December 31, 2002 (reflecting the 3% COLA provided January 1, 2004) to 28.6 years as of December 31, 2003 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 26.6 years would be expected if the experience of the System had been exactly as anticipated (including an 8% rate of investment return on the AVA). For the reasons described above, the System's UAAL increased somewhat more than expected, causing the amortization period to be two years greater than expected.

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, 2003. 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 28.6 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.

Projected Actuarial Valuation Results

In addition to completing this actuarial valuation, we did an analysis to estimate the amortization periods over the next four years. We did these projections because the significant actuarial investment losses that the System experienced in 2001 and 2002 were only partially offset by the significant actuarial investment gain in 2003. As shown in Exhibit 5, a smoothing method is used to determine the actuarial value of assets (AVA) that is used in this valuation. This method phases in over a five-year period any investment gains or losses (net investment return greater or less than the actuarially assumed 8%) that the System has had. The AVA used in this current valuation is deferring recognition of a portion of the gains and losses in 2000-2003. The AVA used in this valuation is \$320,354,298. The method used to determine this amount is shown in Exhibit 5. The market value of assets of \$301,417,630, excluding the Retiree Death Benefit Fund,

is shown in the footnote for Exhibit 3. The difference of \$18,936,668 between these two assets values is the deferred loss that will be recognized over the next four years.

For the purpose of projecting the amortization period in the future, we have assumed that the System would have an annual rate of investment return, net of all expenses, beginning in 2004 of the expected actuarial assumed rate of 8% per year. The projections also reflect the valuation assumption of a 4% annual payroll growth and assume that no future cost-of-living adjustments will be made.

Valuation Date	Amortization Period
December 31, 2003	28.6
December 31, 2004	35
December 31, 2005	41
December 31, 2006	43
December 31, 2007	38

The amortization period is increasing in the future as larger portions of the excess of deferred investment losses from 2000-2002 over the deferred investment gain in 2003 are recognized in determining the actuarial value of assets. If in 2004 and later, the System has investment experience above the assumed 8% or greater payroll growth than the assumed 4% caused by an increase in the number of active member police officers, the amortization periods will be less than shown above. If the System approves a cost-of-living increase as of January 1, 2005, the amortization periods will increase. The System's other non-investment experience will also affect the future amortization periods. For example, we had previously estimated that the amortization period as of December 31, 2003 would be 31 years in a November 13, 2003 letter regarding the January 1, 2004 cost-of-living increase. After reflecting the System's actual experience as described above, the amortization period is 28.6 years instead of 31 years. The lower than expected amortization period was partly caused by more favorable investment experience in 2003 than expected.

If the amortization period increases above 40 years (or above 30 years beginning with the December 31, 2005 valuation if the maximum GASB amortization period is deemed to be important), the System might need to consider increasing contributions and/or decreasing benefits. In order to comply with the 30-year maximum GASB amortization period beginning with the December 31, 2005 valuation, an average net investment return of 16% rather than the assumed 8% would be needed in 2004 and 2005. This also assumes no future COLAs would be provided.

A GASB requirement of a maximum 30-year amortization period is an accounting standard requirement and not an actuarial standard requirement. We would consider 40 years to be the maximum acceptable amortization period. In order to comply with the actuarially acceptable maximum amortization period of 40 years, an average net investment return of 9% rather than the assumed 8% would be required in 2004 and 2005.

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, used to pay \$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, 2003 actuarial valuation, the city contribution needed for the Retiree Death Benefit Fund has been re-determined to be 0.098%. We recommend that this new rate be effective January 1, 2005, replacing the current rate of 0.094% that was determined based on the December 31, 2002 actuarial valuation.

The remaining 17.902% (18% less 0.098%) of the city's contribution will be used for the System's liabilities excluding the post-retirement lump sum death benefits. The 0.098% 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 January 1, 2005 for the Retiree Death Benefit Fund	
Normal Cost	0.067%
Thirty-Year Amortization of Unfunded Actuarial Accrued Liability	<u>0.031</u>
Total City Contribution Rate Allocated to the Retiree Death Benefit Fund as of January 1, 2005	0.098%

The 0.098% city contribution rate was determined using the same funding method and actuarial assumptions used in this December 31, 2003 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, 2003	
1. Actuarial Present Value of Future Benefits	
a. Current pensioners	\$ 571,297
b. Current active members	<u>658,433</u>
c. Total	\$ 1,229,730
2. Actuarial Accrued Liability	\$ 967,520
3. Tangible Assets of Fund	\$ 13,344
4. Unfunded Actuarial Accrued Liability	\$ 954,176

Exhibit 1

*Austin Police Retirement System
Actuarial Valuation Balance Sheets*

	<u>December 31, 2003¹</u>	<u>December 31, 2002^{1,2}</u>
1. Actuarial present value of future benefits		
a. Payable to those now receiving benefits or entitled to receive benefits	\$ 160,104,705	\$ 141,207,356
b. Payable to active members	<u>436,800,839</u>	<u>427,456,048</u>
c. Total	\$ 596,905,544	\$ 568,663,404
2. Actuarial present value of future normal cost contributions	\$ 182,940,550	\$ 179,989,245
3. Actuarial accrued liability (Item 1c-Item 2)	\$ 413,964,994	\$ 388,674,159
4. Actuarial value of assets	\$ 320,354,298	\$ 298,781,560
5. Unfunded actuarial accrued liability (UAAL) (Item 3-Item 4)	\$ 93,610,696	\$ 89,892,599
6. Total contributions (percent of payroll) ³	26.902%	26.906%
7. Normal cost (percent of payroll)	20.113%	20.110%
8. Percent of payroll available to amortize the UAAL	6.789%	6.796%
9. Annualized covered payroll	\$ 80,958,862	\$ 79,236,366
10. Present annual amount available to amortize the UAAL	\$ 5,496,297	\$ 5,384,903
11. Years to amortize the UAAL	28.6 Years	27.6 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, 2002 to reflect the 3% COLA for pensioners effective January 1, 2004.

³ For the December 31, 2003 valuation, the total contribution rate of 27% (9% by members and 18% by the city) is reduced by the city contribution of 0.098% for the separate Retiree Death Benefit Fund used to pay \$7,500 post-retirement lump sum death benefits. For the December 31, 2002 valuation, the total 27% contribution rate was reduced by 0.094% for the Retiree Death Benefit Fund

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
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	21,340,424	46,292,722	13,394,684	1,792,121	301,430,974	19.85	52,446,341	21.06
2004	301,430,974	21,858,893	24,096,130	18,056,034	4,261,562	325,068,401	14.57	23,637,427	7.84
2005	325,068,401	22,733,249	25,964,315	19,982,211	3,779,973	350,003,781	14.73	24,935,380	7.67
2006	350,003,781	23,642,579	27,938,573	21,778,008	3,407,797	376,399,128	14.94	26,395,347	7.54
2007	376,399,128	24,588,282	30,039,754	23,391,674	3,001,010	404,634,480	15.33	28,235,352	7.50
2008	404,634,480	25,571,813	32,274,005	25,066,658	2,923,988	434,489,652	15.52	29,855,172	7.38
2009	434,489,652	26,594,686	34,615,426	27,025,584	3,162,764	465,511,416	15.42	31,021,764	7.14
2010	465,511,416	27,658,473	37,032,918	29,211,177	3,647,173	497,344,457	15.14	31,833,041	6.84
2011	497,344,457	28,764,812	39,500,932	31,528,160	4,402,278	529,679,763	14.74	32,335,306	6.50
2012	529,679,763	29,915,404	42,041,395	33,688,045	4,552,006	563,396,511	14.73	33,716,748	6.37
2013	563,396,511	31,112,020	44,705,230	35,734,015	4,540,285	598,939,461	14.87	35,542,950	6.31
2014	598,939,461	32,356,501	47,556,115	37,582,175	3,750,365	637,519,537	15.42	38,580,076	6.44
2015	637,519,537	33,650,761	50,624,323	39,593,441	3,488,317	678,712,863	15.75	41,193,326	6.46
2016	678,712,863	34,996,791	53,887,034	41,726,392	3,520,266	722,350,030	15.96	43,637,167	6.43
2017	722,350,030	36,396,663	57,309,236	44,129,831	4,235,997	767,690,101	15.87	45,340,071	6.28
2018	767,690,101	37,852,530	60,854,334	46,998,240	4,876,137	814,522,588	15.70	46,832,487	6.10
2019	814,522,588	39,366,631	64,486,179	50,381,585	5,875,748	862,118,065	15.32	47,595,477	5.84
2020	862,118,065	40,941,296	68,167,918	54,223,887	6,755,578	910,247,814	14.93	48,129,749	5.58
2021	910,247,814	42,578,948	71,888,703	58,466,154	7,390,838	958,858,473	14.56	48,610,659	5.34
2022	958,858,473	44,282,106	75,611,975	63,368,132	8,331,533	1,007,052,889	14.05	48,194,416	5.03
2023	1,007,052,889	46,053,390	79,299,405	68,419,946	9,254,095	1,054,731,643	13.58	47,678,754	4.73
2024	1,054,731,643	47,895,526	82,964,553	73,523,204	9,721,789	1,102,346,729	13.24	47,615,086	4.51
2025	1,102,346,729	49,811,347	86,607,596	79,050,609	10,264,287	1,149,450,776	12.87	47,104,047	4.27
2026	1,149,450,776	51,803,801	90,213,168	84,651,091	10,675,074	1,196,143,580	12.55	46,692,804	4.06
2027	1,196,143,580	53,875,953	93,840,218	88,993,655	11,164,008	1,243,702,088	12.42	47,558,508	3.98
2028	1,243,702,088	56,030,991	97,533,981	93,738,965	11,346,676	1,292,181,419	12.30	48,479,331	3.90
2029	1,292,181,419	58,272,231	101,370,271	97,945,046	10,433,243	1,343,445,632	12.40	51,264,213	3.97
2030	1,343,445,632	60,603,120	105,440,513	101,748,877	9,732,677	1,398,007,711	12.54	54,562,079	4.06
2031	1,398,007,711	63,027,245	109,793,067	105,144,828	9,071,166	1,456,612,029	12.75	58,604,318	4.19
2032	1,456,612,029	65,548,335	114,477,538	108,245,159	8,588,789	1,519,803,954	13.01	63,191,925	4.34
2033	1,519,803,954	68,170,268	119,535,736	111,152,812	8,231,959	1,588,125,187	13.30	68,321,233	4.50

A. Data for years 1999 through 2003 was taken from the annual reports for those years. Fund balance at beginning and end of year reflects the total market value of the System's assets including the Retiree Death Benefit Fund (account).

B. Assumptions for years 2004 through 2033:

1. Benefits are assumed to commence in accordance with the demographic and economic assumptions used in this December 31, 2003 actuarial valuation and include benefit payments from the Retiree Death Benefit Fund (account).
2. Contributions will be 9% of pay by the members and 18% 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 3.0% ad hoc COLA for pensioners as of January 1, 2004 was reflected but no ad hoc COLAs were assumed beginning January 1, 2005 or thereafter.

Exhibit 3

*Austin Police Retirement System
Total Market Value of Assets as of December 31, 2003
Including the Retiree Death Benefit Fund*

Assets

Investments

Corporate Stocks	\$ 80,628,569
Real Estate Interests	67,041,756
International Stocks	40,926,843
U.S. Government Bonds (PIMCO)	33,799,946
U.S. Government Securities	28,160,476
Short-Term Investment Funds	22,563,796
International Government Securities	17,734,847
Partnership Interests	7,099,901
Corporate Bonds	<u>1,328,335</u>
Total Investments	\$ 299,284,469

Other Assets

Contributions Receivable	\$ 1,078,744
Interest and Dividends Receivable	1,054,186
Fixed Assets	435,486
Cash	76,365
Other Assets	<u>10,221</u>
Total	\$ 2,655,002

Total Assets \$ 301,939,471

Liabilities

Other Liabilities	\$ 434,950
Contributions Refundable	<u>73,547</u>

Total Liabilities \$ 508,497

Net Market Value of Assets

(Assets Minus Liabilities) \$ 301,430,974*

* Includes \$13,344 for the Retiree Death Benefit Fund. The Net Market Value of Assets, excluding the Retiree Death Benefit Fund, is \$301,417,630.

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, 2003

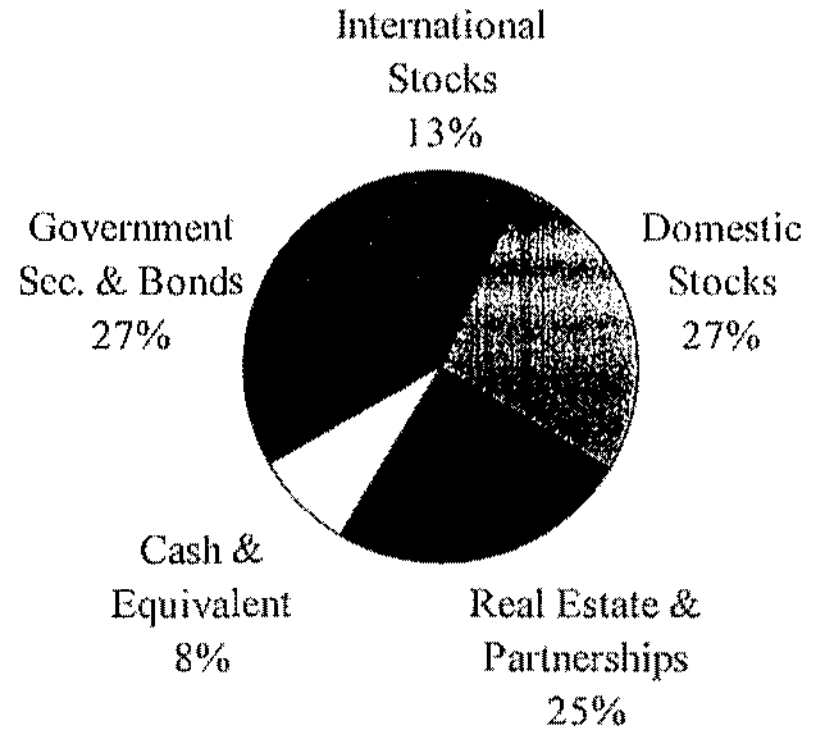
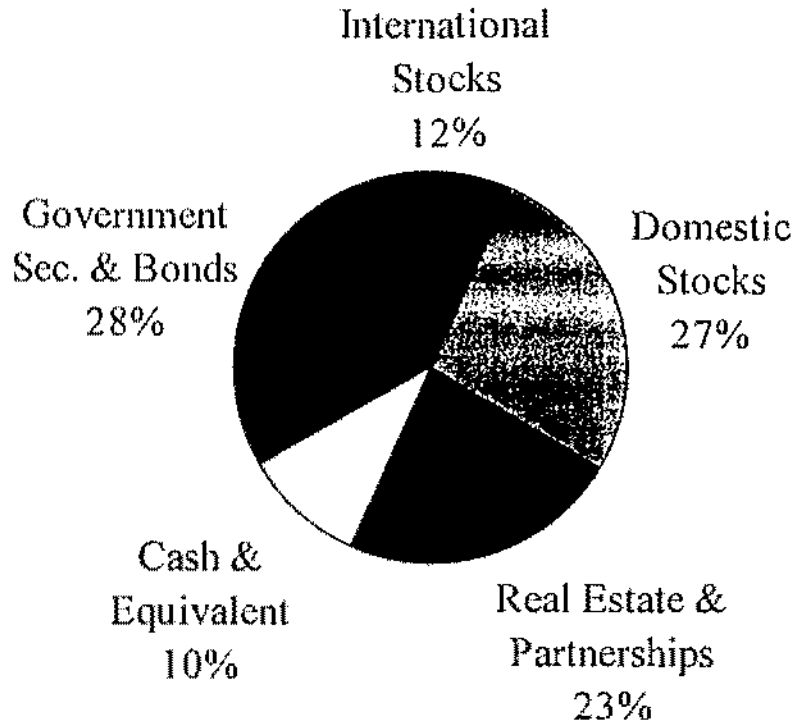


Exhibit 5
Austin Police Retirement System
Development of Actuarial Value of Assets

Calculation of Actuarial Investment Gain/(Loss) Based on Total Market Value for Plan Years	2003	2002	2001	2000	1999
Market Value of Assets as of beginning of year	\$ 248,984,633	\$ 264,452,675	\$ 273,471,014	\$ 250,876,441	\$ 209,551,677
City of Austin Contributions	13,950,555	12,566,293	11,178,204	10,046,065	9,288,148
Officer Contributions	7,389,869	7,348,110	5,735,996	5,290,090	4,760,485
Benefit Payments and Contribution Refunds	(15,186,805)	(14,505,660)	(13,221,597)	(11,941,402)	(9,659,723)
Expected Investment Return*	20,160,180	21,368,402	22,710,660	20,834,565	16,936,313
Expected Market Value of Assets as of end of year	\$ 275,298,432	\$ 291,229,820	\$ 299,874,277	\$ 275,105,759	\$ 230,876,900
Actual Market Value of Assets as of end of year	301,430,974	248,984,633	264,452,675	273,471,014	250,876,441
Actuarial Investment Gain/(Loss)	\$ 26,132,542	\$ (42,245,187)	\$ (35,421,602)	\$ (1,634,745)	\$ 19,999,541

*8% assumed for 2003, 2002 and 1999. 8.25% assumed for 2001 and 2000.

Deferred Actuarial Investment Gains/(Losses) to be Recognized in Future Years

Plan Year	Investment Gain/(Loss)	Deferral Percentage	Deferred Gain/(Loss) Amount as of December 31, 2003
2003	\$ 26,132,542	80%	\$ 20,906,034
2002	(42,245,187)	60%	(25,347,112)
2001	(35,421,602)	40%	(14,168,641)
2000	(1,634,745)	20%	(326,949)
1999	19,999,541	0%	0
Total			\$(18,936,668)

Actuarial Value of Assets as of December 31, 2003

1. Total Market Value of Assets as of December 31, 2003	\$301,430,974
2. Deferred Gain/(Loss) to be recognized in future	\$(18,936,668)
3. Total (Item 1 – Item 2)	\$320,367,642
4. 80% of Total Market Value as of December 31, 2003	\$241,144,779
5. 120% of Total Market Value as of December 31, 2003	\$361,717,169
6. Preliminary Actuarial Value as of December 31, 2003	\$320,367,642
7. Retiree Death Benefit Fund as of December 31, 2003	\$ 13,344
8. Actuarial Value as of December 31, 2003	\$320,354,298

Exhibit 6

*Austin Police Retirement System
Historical Comparison of Market and Actuarial Value of Assets
(Valuation as of December 31)*

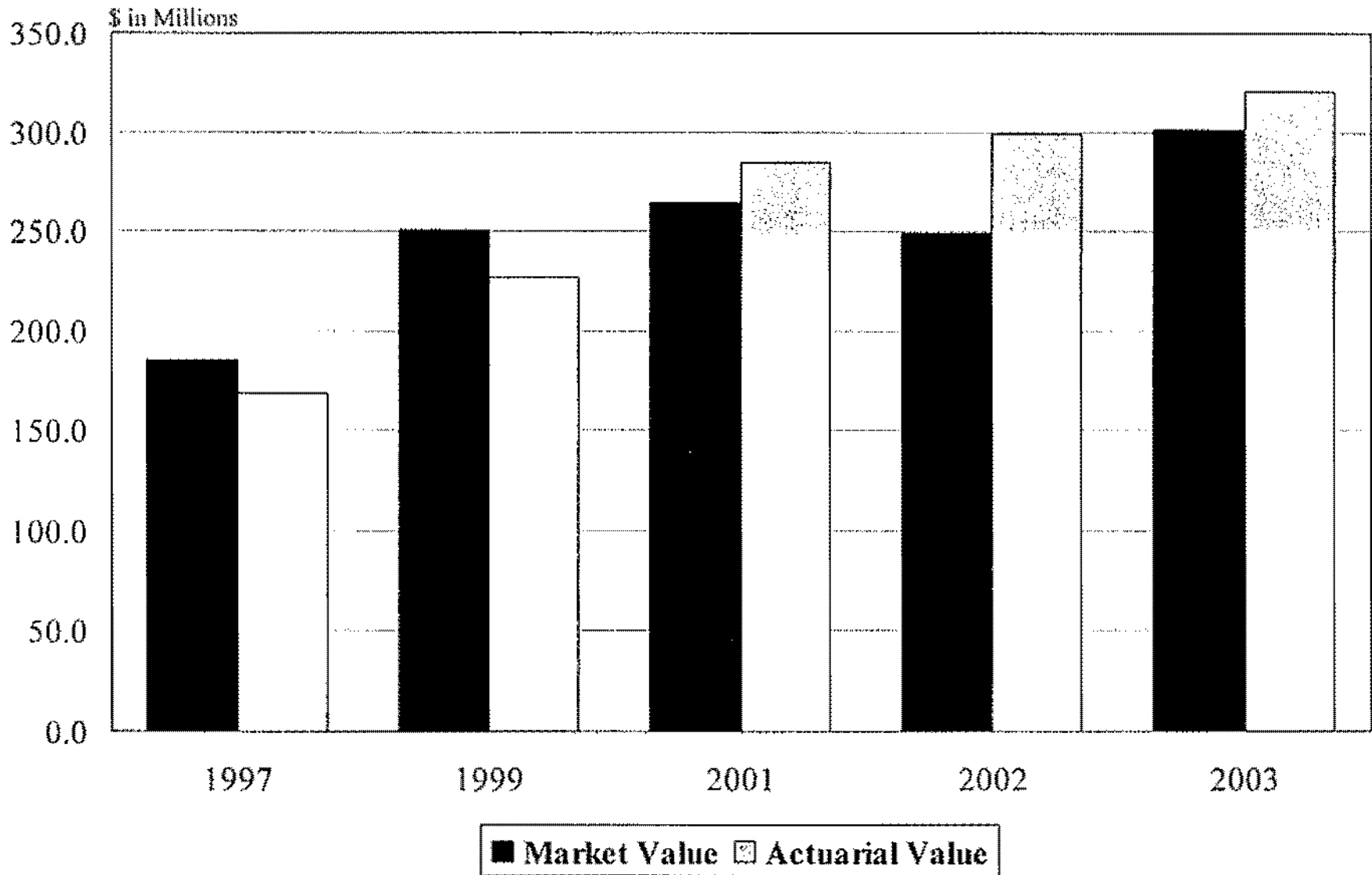


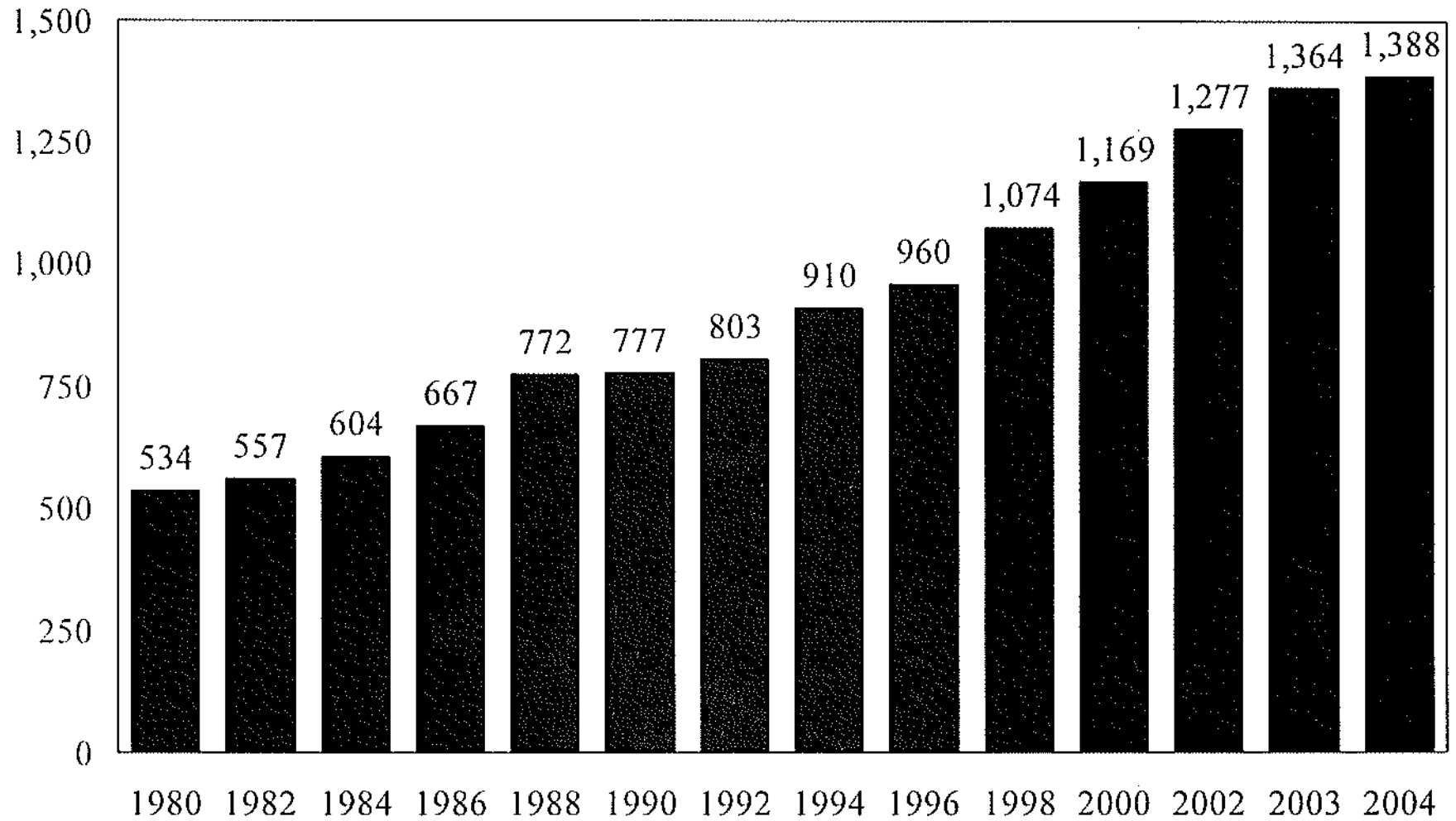
Exhibit 7

*Austin Police Retirement System
Distribution of Police Officers by Age and Service as of December 31, 2003*

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	10	28	17	22	2	0	0	0	0	0	79
1	0	4	32	15	6	2	0	0	0	0	0	59
2	0	2	48	41	9	6	2	0	0	0	0	108
3	0	2	46	38	17	5	1	0	0	0	0	109
4	0	1	14	18	6	3	0	0	0	0	0	42
5	0	1	19	45	24	7	2	1	0	0	0	99
6	0	0	16	38	32	5	3	0	0	0	0	94
7	0	0	6	41	11	4	1	0	0	0	0	63
8	0	1	0	28	24	3	1	0	0	0	0	57
9	0	0	1	32	23	13	1	0	0	0	0	70
10	0	0	0	11	28	12	0	0	0	0	0	51
11	0	0	0	5	28	22	8	0	0	0	0	63
12	0	0	0	2	17	9	1	0	0	0	0	29
13	0	0	0	0	22	27	10	0	0	0	0	59
14	0	0	0	0	1	0	1	0	0	0	0	2
15	0	0	0	0	9	6	6	1	1	0	0	23
16	0	0	0	0	2	9	3	0	0	0	0	14
17	0	0	0	0	0	33	12	2	1	0	0	48
18	0	0	0	0	3	38	14	2	2	0	0	59
19	0	0	0	0	0	21	13	6	0	0	0	40
20-24	0	0	0	0	0	28	62	34	6	0	0	130
25-29	0	0	0	0	0	0	31	38	6	0	0	75
30-34	0	0	0	0	0	0	1	10	4	0	0	15
35-39	0	0	0	0	0	0	0	0	0	0	0	0
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	21	210	331	284	255	173	94	20	0	0	1,388
Average Monthly Salary	\$0	\$3,204	\$3,760	\$4,213	\$4,544	\$5,561	\$6,129	\$6,344	\$6,500	0	0	\$4,861

Exhibit 8

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



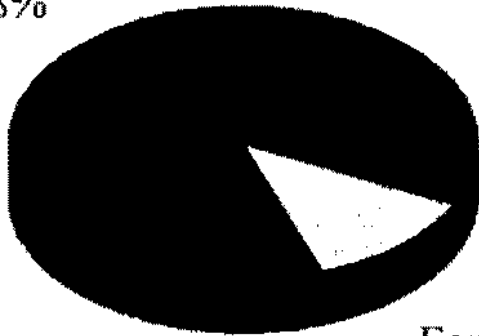
Average annual increase over:

- 6-year period 1998-2004: 4.4%
- 12-year period 1992-2004: 4.7%
- 24-year period 1980-2004: 4.1%

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, 2003 Valuation*

Male
Officers
88%



Female
Officers
12%

\$65,000

\$60,000

\$55,000

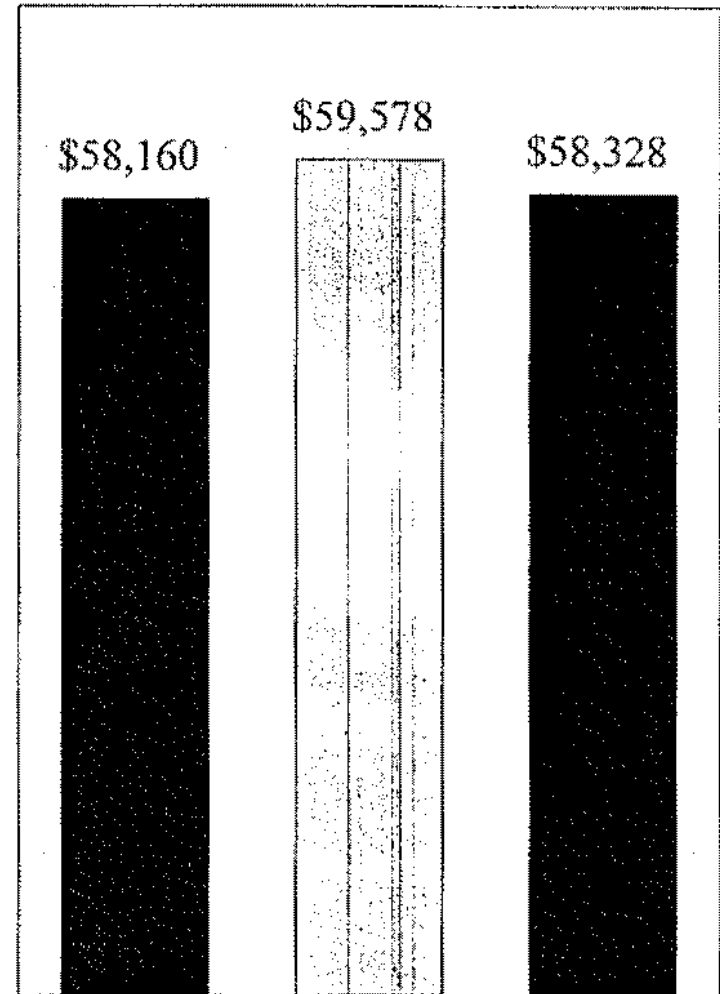
\$50,000

\$45,000

\$40,000

\$35,000

\$30,000



Male

Female

Total

Exhibit 10

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

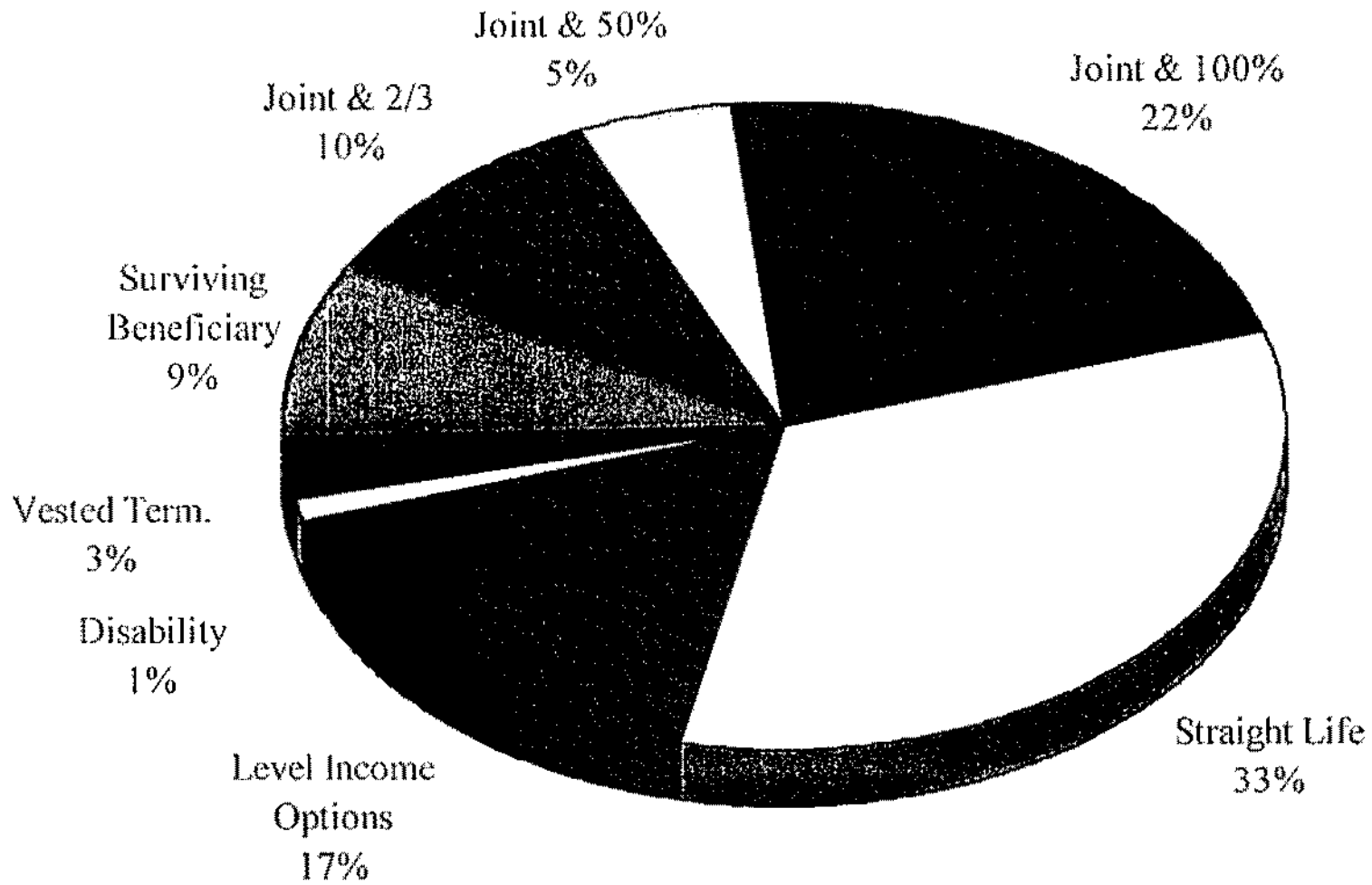


Exhibit 11

*Austin Police Retirement System
Summary Data of Active Police Officers and Pensioners
as Reported for the December 31, 2003 Valuation*

Active Police Officers	Male	Female	Total
Total Contributing Police Officers	1,224	164	1,388
Annualized Reported Payroll	\$71,188,125	\$9,770,737	\$80,958,862
Average Annual Rate of Pay	\$58,160	\$59,578	\$58,328

Pensioners	Number	Monthly Payment	Actuarial Present Value of Benefits
Service Retirements by Type of Annuity			
Straight Life	113	\$442,594	\$55,995,559
Joint and 100%	76	286,578	39,303,391
Joint and 50%	19	78,116	9,539,551
Joint and Two-Thirds Beneficiary	32	130,926	16,919,331
Joint and Two-Thirds Last Survivor	1	4,349	517,049
Level Income Straight Life	17	64,249	6,114,766
Level Income Joint and Two-Thirds	29	97,663	10,718,180
Level Income Joint and 100%	12	49,536	5,870,961
Fifteen Year Certain and Life	<u>3</u>	<u>11,087</u>	<u>1,398,986</u>
Total Service Retirements	302	1,165,098	146,377,774
Disability Retirements	4	7,711	879,891
Surviving Beneficiaries	32	101,743	11,207,324
Vested Terminated Officers	<u>9</u>	<u>13,949</u>	<u>900,781</u>
Total	347	\$1,288,501	\$159,365,770

Exhibit 12

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

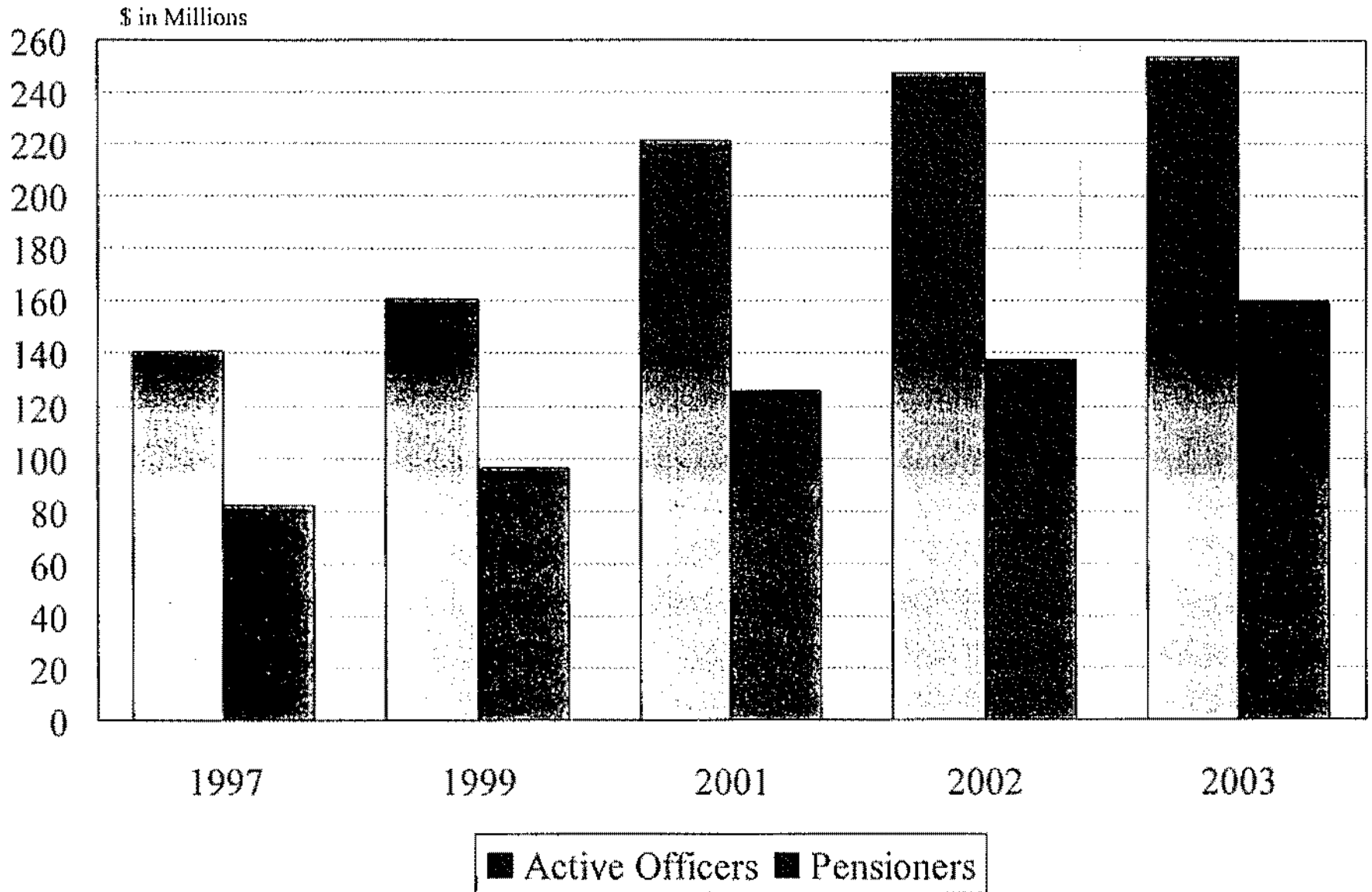


Exhibit 13

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 considered 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, 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. If no monthly annuity is payable, the member's beneficiary receives a lump sum benefit equal to the excess, if any, of the accumulated member contributions plus allowable interest over any benefits actually received.

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.

Exhibit 13 (continued)

Austin Police Retirement System Summary Plan Description

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.

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 Increases 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 | 3% 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 52.8 based on the officers included in the December 31, 2003 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 25 per year in 2004 based on the officers included in the December 31, 2003 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, 2003 Actuarial Assumption	December 31, 2002 Actuarial Assumption
Interest Credited on Officers' Accumulated Contributions	3%	4%

Exhibit 16

*Austin Police Retirement System
Salary Rate of Increase Assumption 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
8	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 18

*Austin Police Retirement System
Assumed 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
Assumed 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.
10. *Amortization period* – The period determined in an actuarial valuation as the number of years required, beginning with the valuation date, to amortize the unfunded actuarial accrued liability with a level percent of payroll that is the difference between the expected total contribution rate and the normal cost contribution rate.

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, 2003*

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)
12/31/99 ^{3,4}	\$226,913,439	\$257,850,162	\$30,936,723	88.0%	\$54,695,072	56.6%
12/31/01 ^{3,5}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁶	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03 ⁶	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6

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

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

³ Economic and demographic assumptions were revised.

⁴ Reflects changes in plan benefit provisions effective September 1, 1999.

⁵ Reflects changes in plan benefit provisions effective September 1, 2001.

⁶ Reflects 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
2003	18.000/17.906 ²	13,929,724 ³	100

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

² Effective September 1, 2003, a portion of the Employer's total 18% contribution is allocated to a Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation.

³ The employer's total contribution during 2003 including the Retiree Death Benefit Fund was \$13,950,555.

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, 2003*

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, 2003
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	28.6 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 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).

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, 2003*

As of the actuarial valuation date of December 31, 2003, 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. Further, the selection of RETRO DROP benefit computation date may be changed in the future by Board rule with approval by the System's actuary. Also effective September 1, 2001 changes were made allowing the eligibility requirement for Service Retirement to be changed in the future by rule of the System's Board with approval by the System's actuary, except, the age 62 minimum eligibility regardless of services could not be changed.

On September 1, 2001, a Post Retirement Option Plan (PROP) introduced an option allowing for participants to elect to receive partial payments from the RETRO DROP lump sum account. The participant can also elect to delay payment of the entire RETRO DROP lump sum. Interest credits will be paid on the participant's RETRO DROP lump sum account following the participant's retirement until the entire lump sum is paid. The interest credits will be granted based on an annual rate determined from time to time by Board Rule.

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. As of December 31, 2003, the assets of the Retiree Death Benefit Fund was \$13,344 included in the System's total market value of assets of \$301,430,974.

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, 2003:

Exhibit 2I (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, 2003*

Retirees and beneficiaries currently receiving benefits (338) and terminated employees entitled to future monthly benefits (9)	347
Current participating members	<u>1,388</u>
Total	1,735

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, 2003, 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 total 18% contribution is allocated to the Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation. This portion was redetermined based on the December 31, 2003 actuarial valuation to be 0.098% effective January 1, 2005.

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

Exhibit 21 (continued)

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open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2003 and the Plan provisions effective September 1, 2003, the normal cost was 20.113% of pay and the amortization period was 28.6 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, 2004*

I. Annual Pension Cost

For the fiscal year ending September 30, 2004, the City's Annual Pension Cost (APC) of \$_____ for the Austin Police Retirement System is equal to 17.906% of the basic compensation, consisting of base pay and longevity pay of the members of the System (including both police cadets and officers). The APC is equal to the City's required and actual contributions. The total required contributions by the City are a fixed 18% of pay. However, effective September 1, 2003, a portion of the city's contribution is allocated to a separate Retiree Death Benefit Fund (account). This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation. This portion was redetermined based on the December 31, 2003 actuarial valuation to be 0.098% effective January 1, 2005. The required contributions were reflected in the December 31, 2003 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 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 28.6 years in the December 31, 2003 actuarial valuation.

Exhibit 22 (continued)

*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, 2004*

**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
09/30/2002	\$ _____ ¹	100%	18%	\$0
09/30/2003	_____ ¹	100	18/17.906 ²	0
09/30/2004	_____ ¹	100	17.906	0

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

²For 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).

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)
12/31/99 ^{3,4}	\$226,913,439	\$257,850,162	\$30,936,723	88.0%	\$54,695,072	56.6%
12/31/01 ^{3,5}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁶	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03 ⁶	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6

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

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

³ Economic and demographic assumptions were revised.

⁴ Reflects changes in plan benefit provisions effective September 1, 1999.

⁵ Reflects changes in plan benefit provisions effective September 1, 2001.

⁶ Reflects changes in plan benefit provisions effective September 1, 2003.

Exhibit 22 (continued)

*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, 2004*

**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 the actuarial valuation date of December 31, 2003, 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. Further, the selection of RETRO DROP benefit computation date may be changed in the future by Board rule with approval by the System's actuary. Also effective September 1, 2001 changes were made allowing the eligibility requirement for Service Retirement to be changed in the future by rule of the System's Board with approval by the System's actuary, except, the age 62 minimum eligibility regardless of services could not be changed.

On September 1, 2001, a Post Retirement Option Plan (PROP) introduced an option allowing for participants to elect to receive partial payments from the RETRO DROP lump sum account. The participant can also elect to delay payment of the entire RETRO DROP lump sum. Interest credits will be paid on the participant's RETRO DROP lump sum account following the participant's retirement until the entire lump sum is paid. The interest credits will be granted based on an annual rate determined from time to time by Board Rule.

Exhibit 22 (continued)

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
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for the Fiscal Year Ending September 30, 2004*

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, 2003:

Retirees and beneficiaries currently receiving benefits (338) and terminated employees entitled to future monthly benefits (9)	347
Current participating members	<u>1,388</u>
Total	1,735

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, 2003, 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 total 18% contribution is allocated to the Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the

Exhibit 22 (continued)

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Disclosures in Accordance with GASB Statement No. 27
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for the Fiscal Year Ending September 30, 2004*

December 31, 2002 actuarial valuation. This portion was redetermined based on the December 31, 2003 actuarial valuation to be 0.098% effective January 1, 2005.

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, 2003 and the Plan provisions effective September 1, 2003, the normal cost was 20.113% of pay and the amortization period was 28.6 years.