

**OFFICIAL STATEMENT DATED APRIL 19, 2001**

Ratings: Moody's: "Aaa"  
Standard & Poor's: "AAA"  
Fitch: "AAA"  
(See "BOND INSURANCE" and "OTHER  
RELEVANT INFORMATION – Ratings")

**NEW ISSUE – Book-Entry-Only**

*In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "Tax Exemption" herein, including the alternative minimum tax on corporations.*

**City of Austin, Texas  
(Travis and Williamson Counties)**

**\$225,380,000**

**Water and Wastewater System Revenue Refunding Bonds**

Consisting of

**\$152,180,000**

**Water and Wastewater System  
Revenue Refunding Bonds, Series 2001A**

**\$73,200,000**

**Water and Wastewater System  
Revenue Refunding Bonds, Series 2001B**

**Dated: April 15, 2001**

**Due: as shown on inside cover**

The bonds offered hereby are the City of Austin, Texas (the "City") \$152,180,000 Water and Wastewater System Revenue Refunding Bonds, Series 2001A (the "Series A Bonds") and \$73,200,000 Water and Wastewater Revenue Refunding Bonds, Series 2001B (the "Series B Bonds"). The Series A Bonds and the Series B Bonds are referred to herein collectively as the "Bonds". The Bonds are Parity Water/Wastewater Obligations issued under and pursuant to the Master Ordinance adopted by the City on June 8, 2000 and a Supplemental Ordinance adopted on the date hereof. The Master Ordinance and a Supplemental Ordinance (the "Supplement", collectively, the "Ordinance") have revised the terms for the issuance of Parity Water/Wastewater Obligations and the covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while they remain outstanding. The Master Ordinance provides that no additional revenue obligations on a parity with the Prior First Lien Obligations or Prior Subordinate Lien Obligations shall be issued. Commercial Paper Obligations having a combined pledge of Electric Light and Power System and Water and Wastewater System revenues may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from and together with the outstanding Previously Issued Water/Wastewater Obligations, Prior Subordinate Lien Bonds and Previously Issued Separate Lien Obligations, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Water and Wastewater System as provided in the Ordinance. **Neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.** See "Security for the Bonds" herein.

The definitive Bonds for each Series will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds shall commence to accrue on April 15, 2001 and shall be payable on November 15, 2001 and each May 15 and November 15 thereafter until the earlier of maturity or redemption. The Bonds will be registered initially in the name Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The City reserves the right to discontinue such book-entry system. See "Description of the Bonds" herein.



The scheduled payment of the principal of and interest on the Bonds when due will be guaranteed by a municipal bond insurance policy to be issued by Financial Security Assurance Inc. simultaneously with the delivery of the Bonds. (See "BOND INSURANCE" herein.)

## MATURITY SCHEDULE

Serial 2001A

Maturity Date	Amount	Interest Rate	Price or Yield	Maturity Date	Amount	Interest Rate	Price or Yield
05-15-2004	\$2,500,000	6.500%	3.900%	11-15-2011	\$ 200,000	4.625%	4.670%
05-15-2005	2,600,000	6.500%	4.050%	05-15-2012	3,700,000	5.750%	4.730%*
05-15-2006	2,800,000	6.500%	4.200%	11-15-2012	210,000	4.700%	4.730%
05-15-2007	2,900,000	6.000%	4.250%	05-15-2013	3,900,000	5.750%	4.810%*
05-15-2008	3,100,000	6.000%	4.400%	11-15-2013	215,000	4.750%	4.810%
11-15-2008	175,000	4.375%	4.400%	05-15-2014	4,100,000	5.750%	4.910%*
05-15-2009	3,200,000	6.000%	4.500%	05-15-2015	4,400,000	5.750%	5.010%*
11-15-2009	185,000	4.500%	4.500%	05-15-2016	4,600,000	5.750%	5.090%*
05-15-2010	3,400,000	6.000%	4.580%	05-15-2017	4,800,000	5.750%	5.180%*
11-15-2010	195,000	4.500%	4.580%	05-15-2018	5,100,000	5.750%	5.210%*
05-15-2011	3,600,000	5.750%	4.670%	05-15-2019	5,400,000	5.750%	5.270%*

\$17,700,000 5.250% Term Bonds Due May 15, 2022; Price to Yield 5.440%

\$36,500,000 5.125% Term Bonds Due May 15, 2027; Price to Yield 5.450%

\$36,700,000 5.250% Term Bonds Due May 15, 2031; Price to Yield 5.470%

### Series 2001B Bonds

Maturity Date	Amount	Interest Rate	Price or Yield	Maturity Date	Amount	Interest Rate	Price or Yield
05-15-2004	\$1,200,000	6.500%	3.900%	05-15-2012	\$1,800,000	5.750%	4.730%*
05-15-2005	1,300,000	6.500%	4.050%	05-15-2013	1,900,000	5.750%	4.810%*
05-15-2006	1,300,000	6.500%	4.200%	05-15-2014	2,000,000	5.750%	4.910%*
05-15-2007	1,400,000	6.000%	4.250%	05-15-2015	2,100,000	5.750%	5.010%*
05-15-2008	1,500,000	6.000%	4.400%	05-15-2016	2,200,000	5.750%	5.090%*
05-15-2009	1,600,000	6.000%	4.500%	05-15-2017	2,300,000	5.750%	5.180%*
05-15-2010	1,700,000	6.000%	4.580%	05-15-2018	2,500,000	5.750%	5.210%*
05-15-2011	1,700,000	5.750%	4.670%	05-15-2019	2,600,000	5.750%	5.270%*

\$8,600,000 5.250% Term Bonds Due May 15, 2022; Price to Yield 5.440%

\$17,700,000 5.125% Term Bonds Due May 15, 2027; Price to Yield 5.450%

\$17,800,000 5.250% Term Bonds Due May 15, 2031; Price to Yield 5.470%

\*Priced to Call Date.

(Plus Accrued Interest from April 15, 2001)

The initial reoffering yields were supplied to the City by the Purchaser. The initial yields shown above, less premium, will produce compensation to the Purchasers of approximately \$964,584.

The City reserves the right, at its option, to redeem Series A Bonds or Series B Bonds having stated maturities on and after May 15, 2012, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on May 15, 2011, or any date thereafter, at par value thereof, without premium, plus accrued interest to the date fixed for redemption. The Term Bonds are subject to mandatory redemption in part prior to maturity (see "DESCRIPTION OF THE BONDS - Mandatory Redemption").

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. The opinions of Bond Counsel will be printed or attached to the Bonds. (See Appendix E "Form of Bond Counsel's Opinion".)

It is expected that the Bonds will be delivered through the facilities of DTC on or about June 7, 2001.

# CITY OF AUSTIN

## Elected Officials

	<u>Term Expires June 15</u>
Kirk Watson..... Mayor	2003
Daryl Slusher..... Councilmember Place 1	2002
Raul Alvarez..... Councilmember Place 2	2003
Jackie Goodman, Mayor Pro Tem..... Councilmember Place 3	2002
Beverly Griffith..... Councilmember Place 4	2002
William Wynn..... Councilmember Place 5	2003
Danny Thomas..... Councilmember Place 6	2003

## Appointed Officials

Jesus Garza.....	City Manager
Toby Futrell.....	Deputy City Manager
Marcia L. Conner.....	Assistant City Manager
Jim Smith.....	Assistant City Manager
Betty Dunkerley, CPA.....	Assistant City Manager
Roger M. H. Chan.....	Assistant City Manager
John Stephens, CPA.....	Director of Financial Services Department
Andrew Martin.....	City Attorney
Shirley A. Brown.....	City Clerk

## BOND COUNSEL

Fulbright & Jaworski L.L.P.  
Austin and Dallas, Texas

## SECURITIES COUNSEL TO THE CITY

McCall, Parkhurst & Horton L.L.P.  
Austin and Dallas, Texas

## FINANCIAL ADVISOR

Public Financial Management  
Austin, Texas

## AUDITORS

KPMG, L.L.P. and Mendoza, CPA  
Austin, Texas

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800 Brazos, South Tower  
13th Floor  
Austin, Texas 78701  
(512) 472-7194

No dealer, salesman or any other person has been authorized by the City or by the Purchasers to give any information or to make any representations, other than the information and representations contained herein, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, any of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Neither the City, the Financial Advisor or the Underwriters make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system.

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## **OFFICIAL STATEMENT**

**City of Austin, Texas**

**\$152,180,000**

**Water and Wastewater System Revenue Refunding Bonds, Series 2001A**

**\$73,200,000**

**Water and Wastewater System Revenue Refunding Bonds, Series 2001B**

### **INTRODUCTION**

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City") of its \$152,180,000 Water and Wastewater System Revenue Refunding Bonds, Series 2001A (the "Series A Bonds"), and \$73,200,000 Water and Wastewater Revenue Refunding Bonds, Series 2001B (the "Series B Bonds"). The Series A Bonds and the Series B Bonds are referred to herein collectively as the "Bonds". The Bonds are authorized to be issued pursuant to authority conferred by the laws of the State of Texas, a master ordinance adopted by the City Council on June 8, 2000 (the "Master Ordinance") providing the terms upon which Parity Water/Wastewater Obligations will be issued and the covenant and security provisions related thereto, and a supplemental ordinance of the City Council (the "Supplement") providing for the specific terms of the Series A Bonds and the Series B Bonds as the case may be. A summary of certain provisions of the Master Ordinance is attached hereto as Appendix C. Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance, the Supplement or the Bond Ordinance (hereafter defined), as applicable (see Appendices C and D). As noted under "Plan of Financing" below, the City will not issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations but must comply with the covenants contained in the bond ordinances authorizing the issuance of such obligations (collectively, the "Bond Ordinance") while such obligations are outstanding. A summary of certain provisions of the Bond Ordinance is attached hereto as Appendix D. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

The City has also issued revenue obligations secured solely by the Electric Light and Power System revenues pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance. As noted under "Debt Payable from Systems Revenues" herein approximately \$2.2 billion of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of March 1, 2001 and no assurances can be given as to when or if such obligations will be defeased or paid so as to allow the Bonds to be first lien obligations of the Net Revenues of the Water and Wastewater System.

### **PLAN OF FINANCING**

The Series A Bonds are being issued to refund on a long term basis \$150,000,000 of Commercial Paper issued for the Water and Wastewater System and to advance refund \$2,625,000 Circle C Mud #4 Bonds, Series 1990, maturities 2001 – 2013, a debt previously assumed by the City (the "Refunded Bonds"). The Series B Bonds are being issued to refund on a long term basis \$57,650,000 of tax-exempt Commercial Paper and \$15,012,552 of taxable Commercial Paper issued for payment to the Lower Colorado River Authority ("LCRA") for Water Rights. The Series B Bonds are being issued as tax-exempt obligations as a result of a favorable ruling from the IRS regarding tax-exempt status of interest on obligations issued to finance the costs of obligations issued to purchase such water rights (see "Tax Exemption" below). Proceeds of the Bonds will also be used to pay costs of issuance. The Bonds are second and third series of Parity Water/Wastewater Obligations to be issued under the Master Ordinance. Pursuant to the Master Ordinance no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations. At such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations then Outstanding shall be Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations or obligations subordinate to the Parity Water/Wastewater Obligations then Outstanding, and shall be payable only from and secured only by a lien on and pledge of the Net Revenues of the Water and Wastewater System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance. The Master Ordinance has revised the terms for the issuance of Parity Water/Wastewater Obligations and the covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while any such obligations remain outstanding.

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled payment date from funds to be deposited with The Bank of New York (the "Escrow Agent") pursuant to an Escrow Agreement dated as of the date hereof (the "Escrow Agreement") between the City and the Escrow Agent.

The Supplement provides that the City will deposit certain proceeds of the sale of the Bonds along with other lawfully available funds of the City, if any, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Bonds (see "Verification of Mathematical Calculations"). Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will be used to purchase direct obligations of the United States of America (the "Federal Securities").

Simultaneously with the issuance of the Series A bonds, the City will give irrevocable instructions to provide notice, if any, to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on the first optional redemption date, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

The Arbitrage Group, certified public accountants, will verify at the time of delivery of the Series A Bonds that the Federal Securities will mature and pay interest, without reinvestment, at such times and in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of an interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service requirements on the Series A Bonds.

By deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have affected the defeasance of the Refunded Bonds pursuant to the terms of the resolution authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will no longer be payable from revenues pledged to their payment, but will be payable solely from the principal of an interest on the Federal Securities and cash on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the City for the purpose of a limitation or indebtedness or for any other purpose.

**SOURCES AND USES OF FUNDS**

The sources and uses of funds are as follows:

Sources:	
Par Amount of Bonds	\$225,380,000
Premium	428,904
Equity Contribution by the City	<u>1,524,136</u>
	<u>\$227,333,040</u>
Uses:	
Commercial Paper Refunded	\$222,662,552
Escrow Fund Deposit	2,685,725
Cost of Issuance, including Insurance Premium	<u>1,984,763</u>
	<u>\$227,333,040</u>

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**DEBT PAYABLE FROM SYSTEMS REVENUES**

(As of March 1, 2001)

<u>Combined Utility Systems Obligations</u>	
Prior Lien Bonds	\$1,915,728,097
Subordinate Lien Bonds	<u>298,764,512</u>
Sub-Total	\$2,214,492,609
Electric Utility Obligations	\$ 126,700,000
<u>Water/Wastewater Utility Obligations (a)</u>	
Parity Water and Wastewater Bonds(b)	\$ 325,380,000
Circle "C" MUD No. 3	16,020,000
Maple Run MUD	12,335,000
North Austin MUD No. 1	12,025,000
Southland Oaks MUD	19,425,000
Village at Western Oaks	<u>16,335,000</u>
Sub-Total	\$ 401,520,000
<u>Commercial Paper (c)</u>	\$ 143,118,648
<u>General Obligation Bonds (d)</u>	\$ 13,563,168
<u>Assumed Bonds and Obligations</u>	
Assumed District Bonds (e)	\$ 25,284,251
Contract Tax Obligations (e)	<u>1,410,000</u>
Sub-Total	\$ 26,694,251
TOTAL (f)	<u>\$2,926,088,676</u>

- (a) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only and are on a parity with the Bonds as to the lien on the Net Revenues of the Water and Wastewater System
- (b) Includes the Bonds. Simultaneous to the issuance of the Bonds the City is defeasing approximately \$9,235,000 of the Circle "C" No. 3, Series 1991 Bonds with surplus funds on hand.
- (c) The City has a Tax-Exempt Commercial Paper Program in place for the Combined Utility Systems in an amount not to exceed \$350,000,000 and a Taxable Commercial Paper Program for the Combined Utility Systems for \$160,000,000. **Excludes approximately \$222,662,552 of the Tax-Exempt Commercial Paper being refunded by the Bonds.** The Commercial Paper Notes and the reimbursement obligation to the respective banks providing the direct pay letter of credit are payable from the Net Revenues of both the Electric Light and Power System and the Water and Wastewater System after providing for the payment of the Prior Lien Bonds, the Subordinate Lien Bonds and the Parity Water/Wastewater Obligations and Separate Lien Obligations. Pursuant to the City's Financial Policy, Commercial Paper Note proceeds could only be utilized for voter authorized projects although such voter authorization was not required by State law. The City's Financial Policy was amended by the City Council on February 16, 1995, to provide for the issuance of commercial paper to finance routine capital improvements required for normal business operation or improvements to comply with local, state and federal mandates without prior voter authorization. The Electric Light and Power Utility may therefore utilize commercial paper for all improvements, excluding major generation needs. The Water and Wastewater Utilities will be limited to routine capital improvements of less than \$5,000,000 per project.
- (d) Contractual Obligations and Public Improvement Refunding Bonds payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.
- (e) Such bonds are payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.
- (f) Does not include Certificates of Participation outstanding in the amount of \$11,410,000 and \$7,450,000 issued for subleases for space to house the administrative offices of the Electric Utility and Wastewater Utility, respectively. The City anticipates funding the required lease payments from the revenues of the respective utility system, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenues of the Electric Light and Power System and the Water and Wastewater System are not specifically pledged in such subleases.

## SELECTED FINANCIAL INFORMATION

### Combined Electric, Water and Wastewater Systems

#### Operating Summary

	(000's)				
	Fiscal Year Ended September 30				
	(Unaudited) 12 Months Ended 12-31-00	2000	1999	1998	1997
Combined Gross Revenues	\$1,077,498	\$1,070,558	\$926,692	\$918,508	\$812,186
Combined Maintenance and Operating Expenses	<u>524,022</u>	<u>516,441</u>	<u>429,926</u>	<u>413,939</u>	<u>383,121</u>
Combined Net Revenues	<u>\$ 553,476</u>	<u>\$ 554,117</u>	<u>\$496,766</u>	<u>\$504,569</u>	<u>\$429,065</u>
Principal and Interest on Revenue Bonds(1)	\$ 235,765	\$ 236,916	\$231,711	\$234,464	\$229,538
Debt Service Coverage on Revenue Bonds(1)	2.35x	2.34x	2.14x	2.15x	1.87x

(1) Prior and Subordinate Lien Bonds only, does not include the Bonds or the Separate Lien Obligations.

#### Water and Wastewater System Only (1)

	(Unaudited) 12 Months Ended 12-31-00	2000	1999	1998	1997
Gross Revenues	\$239,404	\$249,950	\$222,462	\$215,407	\$190,302
Maintenance and Operating Equipment Net Revenues	<u>93,663</u>	<u>96,366</u>	<u>87,012</u>	<u>80,953</u>	<u>75,031</u>
	<u>\$145,741</u>	<u>\$153,584</u>	<u>\$135,450</u>	<u>\$134,454</u>	<u>\$115,271</u>
Principal and Interest on Prior/Subordinate Lien Revenue Bonds	<u>\$ 62,290</u>	<u>\$ 61,863</u>	<u>\$ 57,580</u>	<u>\$ 59,075</u>	<u>\$ 53,608</u>
Net Revenues Available for Separate Lien Obligations	<u>\$ 83,451</u>	<u>\$ 91,721</u>	<u>\$ 77,870</u>	<u>\$ 75,379</u>	<u>\$ 61,663</u>
Principal and Interest on Separate Lien Obligations	\$ 14,501	\$ 11,196	\$ 11,196	\$ 10,855	\$ 10,446
Debt Service Coverage (Previously Issued Separate Lien Obligations) (2)	5.75x	8.19x	6.96x	6.94x	5.90x

(1) Water and Wastewater portion only.

(2) The Bonds will be on a parity with the Previously Issued Separate Lien Obligations. The Bonds, the Previously Issued Separate Lien Obligations and any additional Parity Water/Wastewater Obligations issued under the Master Ordinance are "Separate Lien Obligations" under the ordinances authorizing the Prior First Lien Obligations and the Prior Subordinate Lien Obligations.

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**DEBT SERVICE REQUIREMENTS (a)**

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds (b)	Outstanding Subordinate Lien Bonds (b)	Total Prior & Subordinate Lien Bond Requirements	Series A Bonds		Series B Bonds		Electric Utility System Obligations	Water & Wastewater Separate Lien Obligations (c)	Assumed Bonds and Obligations (d)	Total Combined Utility Systems Requirements
				Principal	Interest	Principal	Interest				
2001	\$ 172,525,024	\$ 54,799,645	\$ 227,324,669	\$ -	\$ -	\$ -	\$ -	\$ 2,439,824	\$ 14,693,324	\$ 4,904,073	\$ 249,361,890
2002	197,163,485	33,050,013	230,213,498	-	9,021,148	-	4,344,573	6,554,750	16,843,285	3,931,472	270,908,726
2003	191,507,865	12,388,344	203,896,209	-	8,327,214	-	4,010,375	6,554,750	17,207,056	3,624,375	243,619,978
2004	214,294,251	12,396,518	226,690,769	2,500,000	8,327,214	1,200,000	4,010,375	7,042,250	18,883,569	3,641,944	272,296,120
2005	220,482,721	12,437,341	232,920,063	2,600,000	8,164,714	1,300,000	3,932,375	7,017,250	19,099,049	3,388,750	278,422,200
2006	220,025,934	12,714,598	232,740,532	2,800,000	7,995,714	1,300,000	3,847,875	6,992,250	19,291,570	3,622,154	278,590,095
2007	220,654,390	15,123,468	235,777,858	2,900,000	7,813,714	1,400,000	3,763,375	6,967,250	19,405,670	1,786,797	279,814,663
2008	195,328,174	15,113,703	210,441,876	3,100,000	7,639,714	1,500,000	3,679,375	6,942,250	17,751,575	1,803,605	252,858,395
2009	191,331,574	16,250,039	207,581,613	3,375,000	7,449,886	1,600,000	3,589,375	6,917,250	16,481,288	1,817,473	248,811,883
2010	188,679,061	15,920,116	204,599,178	3,585,000	7,249,895	1,700,000	3,493,375	9,199,625	16,656,850	1,832,284	248,316,206
2011	189,750,231	16,712,258	206,462,489	3,795,000	7,037,345	1,700,000	3,391,375	9,182,125	7,303,425	1,842,423	240,714,181
2012	184,617,253	17,141,238	201,758,490	3,900,000	6,821,333	1,800,000	3,293,625	9,183,125	7,371,175	1,857,082	235,984,829
2013	180,262,696	17,406,641	197,669,338	4,110,000	6,599,023	1,900,000	3,190,125	9,204,625	7,327,425	1,878,034	231,878,569
2014	193,475,056	18,859,978	212,335,033	4,315,000	6,364,731	2,000,000	3,080,875	9,215,625	7,377,925	1,691,280	246,380,469
2015	129,974,825	30,755,713	160,730,538	4,400,000	6,123,875	2,100,000	2,965,875	9,216,125	7,316,925	1,697,470	194,550,807
2016	111,916,528	31,239,715	143,156,243	4,600,000	5,870,875	2,200,000	2,845,125	9,203,563	7,350,175	1,550,467	176,776,447
2017	105,928,738	21,563,885	127,492,623	4,800,000	5,606,375	2,300,000	2,718,625	9,177,813	7,379,675	1,292,388	160,767,499
2018	83,923,688	21,805,425	105,729,113	5,100,000	5,330,375	2,500,000	2,586,375	9,238,625	7,394,050	880,930	138,759,468
2019	51,639,217	21,129,813	72,769,030	5,400,000	5,037,125	2,600,000	2,442,625	9,292,500	7,394,550	231,957	105,167,787
2020	26,826,434	23,728,400	50,554,834	5,600,000	4,726,625	2,700,000	2,293,125	9,242,500	7,481,800	234,976	82,833,860
2021	23,174,159	23,806,325	46,980,484	5,900,000	4,432,625	2,900,000	2,151,375	9,280,000	7,449,800	237,034	79,331,318
2022	13,622,644	29,843,513	43,466,156	6,200,000	4,122,875	3,000,000	1,999,125	9,302,500	7,506,200	89,569	75,686,425
2023	14,166,181	28,853,025	43,019,206	6,600,000	3,797,375	3,200,000	1,841,625	9,407,500	7,536,200	-	75,401,906
2024	14,818,419	28,640,038	43,458,456	6,900,000	3,459,125	3,400,000	1,677,625	9,395,000	7,572,200	-	75,862,406
2025	1,571,703	25,298,938	26,870,641	7,300,000	3,105,500	3,500,000	1,503,375	9,465,000	7,591,700	-	59,336,216
2026	1,573,031	9,630,775	11,203,806	7,700,000	2,731,375	3,700,000	1,324,000	9,515,000	7,594,700	-	43,768,881
2027	-	10,046,013	10,046,013	8,000,000	2,336,750	3,900,000	1,134,375	9,545,000	7,681,200	-	42,643,338
2028	-	10,138,313	10,138,313	8,500,000	1,926,750	4,100,000	934,500	9,652,500	7,721,300	-	42,973,363
2029	-	-	-	8,900,000	1,480,500	4,300,000	719,250	9,637,500	7,737,800	-	32,775,050
2030	-	-	-	9,400,000	1,013,250	4,600,000	493,500	9,700,000	7,730,700	-	32,937,450
2031	-	-	-	9,900,000	519,750	4,800,000	252,000	9,737,500	-	-	25,209,250

(a) This table presents all obligations payable from the Net Revenues of the Electric Light and Power System and the Water and Wastewater System either or both.

(b) No Prior First Lien Bonds or Prior Subordinate Lien Bonds may be issued in the future.

(c) Excludes the Refunded Bonds and the Bonds simultaneously being Defeased with cash on hand.

(d) Includes Assumed MUD's, Water District Bonds and Contract Tax Obligations, each payable from City ad valorem taxes and additionally payable from surplus Net Revenues of the Waterworks and Wastewater System. Excludes Refunded Bonds.

## SECURITY FOR THE BONDS

### **Pledges of Net Revenues**

*Prior First Lien Bonds.* The Net Revenues of both the Electric Light and Power System and the Water and Wastewater System have been pledged jointly and severally, to the payment and security of the Prior First Lien Bonds currently outstanding and the payment of principal and interest thereon shall constitute a first lien on and pledge of the Net Revenues of both Systems.

*Prior Subordinate Lien Bonds and Previously Issued Separate Lien Obligations.* The Net Revenues of both the Electric Light and Power System and the Water and Wastewater System have been irrevocably pledged, jointly and severally, to the payment and security of the Previously Issued Prior Subordinate Lien Bonds, and as to the applicable separate utility system, the Separate Lien Obligations, as defined therein which includes the Bonds, the Previously Issued Water/Wastewater Obligations, the Previously Issued Separate Lien Obligations (as defined in the Master Ordinance) and any additional Parity Water/Wastewater Obligations, subject only to the prior lien and pledge securing the payment of the Prior Lien Bonds, including the establishment and maintenance of the special funds maintained for the payment and security of the Prior Lien Bonds, including amounts required to be deposited to the Reserve Fund.

### **Avoidance of Pledge**

Texas has adopted the 1998 revisions to Article 9 of the Uniform Commercial Code (the "UCC"), to become effective July 1, 2001. The revisions would for the first time provide means to perfect pledges by government entities and, in addition, would make unperfected pledges subject to the interest of a bankruptcy trustee, whether or not the pledged collateral is exempt from judicial liens. Security interest arising before July 1, 2001 that are not perfected by July 1, 2002 will be considered unperfected pledges. For a number of reasons, it will be impractical and perhaps impossible to perfect the City's pledge of Net Revenues under the revised Article 9. In proceedings for the adjustments of their debts under the Bankruptcy Code, municipalities are generally authorized to exercise the powers of a bankruptcy trustee. Accordingly, after July 1, 2002, it is likely that the City could avoid its pledge of Net Revenues to secure payments of the Bonds, unless the Texas UCC is further amended, or other statutes are enacted, to avoid this result. Since the pledge of the Net Revenues may be legally unenforceable in the circumstances in which it would be most valuable, no person should rely upon the pledge as providing asset security or a preference right in the event that the City should become insolvent.

Even under the 1998 UCC revisions, the rights of bondholders with respect to the Net Revenues and the amounts in the funds created under the Ordinance, and other financial covenants of the City made in the Ordinance are valid and enforceable except in the event of bankruptcy. Thus, for example, outside of the occurrence of municipal bankruptcy, bondholders may enforce the obligation of the City to apply the Net Revenues and amounts on deposit in the debt service reserve fund to pay holders of the Bonds and Additional Bonds, as described above. Moreover, the City is aware that legislation (SB 565) has been filed in the current session of the Texas Legislature (SB 565) to amend Texas law to avoid the results of the adoption of the 1998 UCC revisions mentioned above. SB 565 has passed the Texas Senate and the Texas House of Representatives, and is awaiting the signature of the Governor. If SB 565 is signed into law by the Governor, it will become effective immediately. No assurance can be given, however, that SB 565 will be signed into law.

### **Rate Covenant Required By Prior First Lien Bonds and Prior Subordinate Lien Bonds**

The City has agreed to establish rates and charges for the facilities and services of the Electric Light and Power System and the Water and Wastewater System to provide Gross Revenues in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses, (ii) to fund the reserves required for Prior Lien Bonds, Subordinate Lien Bonds, Separate Lien Obligations and other obligations or evidences of indebtedness payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and (iii) to produce Net Revenues (after satisfaction of the amount required in (i) and (ii) above) equal to at least (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness, except Prior Lien Bonds and Separate Lien Obligations, payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Light and Power System or the Water and Wastewater System, or both.

### **Rate Covenant Required by Master Ordinance**

The City will fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues in each Fiscal Year sufficient: (i) to pay all current Operating Expenses, (ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Water and Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an

amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Separate Lien Obligations or (y) an amount, when added to Other Available Water and Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Separate Lien Obligations, and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water and Wastewater System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above, the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates and charges to be revised and adjusted to comply with this covenant or obtain a written report from an Utility System Consultant after a review and study of the operations of the Water and Wastewater System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with such rate covenant and such adjustments and revisions to Water and Wastewater rates and charges are promptly implemented and enacted in accordance with such Utility System Consultant's report. Notwithstanding anything herein to the contrary, the City shall be deemed to be in compliance herewith if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

### **Reserve Fund for Parity Water/Wastewater Obligations**

The Master Ordinance creates and establishes the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). Except as provided below with respect to Commercial Paper and associated Credit Agreements, the Reserve Fund shall be maintained for the benefit of the owners of the Parity Water/Wastewater Obligations. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. The Reserve Fund is not pledged or available for the Previously Issued Separate Lien Obligations. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the Parity Water/Wastewater Obligations as they become due or paying principal of and interest on the Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund shall be an amount equal to the Required Reserve Amount. The Required Reserve Amount is an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations. The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. If the City is required to make a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subject to the following paragraph and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

In accordance with the provisions of the ordinance authorizing the issuance of the Previously Issued Water/Wastewater Obligations, the amount currently on deposit in the Reserve Fund is \$3,649,128 (the "Current Reserve"), which Current Reserve is funded in full with a surety bond issued by MBIA Insurance Corporation. By reason of the issuance of the Bonds, the Required Reserve Amount shall be and is hereby recalculated and determined to be \$11,344,743. Upon the issuance of the Bonds, a surety bond in an amount equal to 50% of average Annual Debt Service Requirements for the Bonds (\$7,737,801) issued by Financial Security Assurance Inc. ("FSA") shall be deposited to the credit of the Reserve Fund to fully fund the Required Reserve Amount.

In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of this Ordinance and any Supplement, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

As Parity Water/Wastewater Obligation secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Ordinance or a Supplement, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

The Reserve Fund shall not secure Parity Water/Wastewater Obligations issued in the form of commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplement.

### **Reserve Fund for Prior First Lien Bonds and Prior Subordinate Lien Bonds**

A separate reserve fund has been established under the Bond Ordinances for the benefit of the Prior First Lien Bonds and Prior Subordinate Lien Bonds but not the Bonds, the Previously Issued Separate Lien Obligations or any additional Parity Water/Wastewater Obligations and the amount required to be maintained as the Required Reserve is an amount equal to the greater of (i) \$85,000,000 or (ii) the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest on (or other similar payments) all Prior Lien Bonds, and all Subordinate Lien Bonds then outstanding. This reserve fund was not established for the benefit of the Bonds, the Previously Issued Separate Lien Obligations or any additional Parity Water/Wastewater Obligations.

If the reserve fund at any time contains less than the Required Reserve other than as a result of the issuance of additional obligations, the City will cure the deficiency within twelve (12) months from the date the deficiency in funds occurred with available Net Revenues, subject to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of any special funds created for the payment and security thereof. The Bond Ordinance provides for the investment of funds and requires valuation of such investments within 45 days of the end of the City's Fiscal Year on a current market value basis, except for State and Local Government Series investments held in book-entry form, which will be valued at cost. As of March 1, 2001, the Reserve Fund contained approximately \$166,741,206 valued in this manner. If the Required Reserve is on deposit in the Reserve Fund, investment earnings on funds in the Reserve Fund may be transferred to the "Interest and Redemption Fund" created and established for the payment of the Prior Subordinate Lien Bonds.

The City may seek to amend among other things the Reserve Fund provisions applicable to the Prior First Lien Bonds and Prior Subordinate Lien Bonds.

### **Issuance of Additional Prior and Subordinate Lien Bonds Precluded**

The Master Ordinance provides that no additional revenue obligations will be issued on a parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations.

### **Separate Lien Obligations**

In the Bond Ordinance, the City has reserved the right to issue or incur, by contract or otherwise, Separate Lien Obligations payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Water and Wastewater System, but not both, on a parity with the lien and pledge securing the payment of the Prior Subordinate Lien Bonds as to the appropriate utility system.

### **Issuance of Parity Water/Wastewater Obligations**

Under the Master Ordinance the City reserves and shall have the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if: (i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in the Master Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of the Master Ordinance and any Supplement contain the amount then required to be therein or the proceeds of sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts; and (ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water and Wastewater System, after deducting amounts expended from the Water and Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water and Wastewater Revenues, are equal to

1.25 times the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations to be Outstanding, after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations. The Bonds are being issued in satisfaction of the requirements described in this paragraph.

For purposes of (ii), if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the certificate, report or opinion of the Accountant required above shall give effect to the issuance of the proposed refunding Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded following their cancellation or provision being made for their payment).

In making a determination of Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water and Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water and Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

### **Short-Term Parity Water/Wastewater Obligations**

The City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of this subsection, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

### **Special Facilities Debt and Subordinated Debt**

Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

### **Credit Agreements**

Payments to be made under a Credit Agreement may be treated as Parity Water/Wastewater Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that the City will have sufficient Gross Revenues to meet the financial obligations of the Water and Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of the Water and Wastewater System after giving effect to the payments to be made under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

### **System Fund**

Under the Master Ordinance in accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Water/Wastewater Obligations are Outstanding a separate fund or account known and designated as the "Water and Wastewater System Fund" (the "Water and Wastewater System Fund" or the "System Fund"). All funds deposited to the credit of the System Fund and disbursements from such Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of the Water and Wastewater System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding and (iii) the special Funds and Accounts for the

payment of the Parity Water/Wastewater Obligations.

FOURTH: To pay Subordinated Debt, including amounts for the payment the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

FIFTH: To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water and Wastewater System's Surplus Revenue Account.

Any Net Revenues remaining in the Water and Wastewater Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

### **System Surplus Revenue Account**

At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water and Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water and Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water and Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water and Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water and Wastewater Funds". The amount so designated as "Other Available Water and Wastewater Funds" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

## **BOND INSURANCE**

The following information has been furnished by Financial Security Assurance Inc. (the "Insurer") for use in this Official Statement. Reference is made to Appendix F for a specimen of the Insurer's policy.

### **Bond Insurance Policy**

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

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

### **Financial Security Assurance Inc.**

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

At December 31, 2000, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,436,681,000 and its total unearned premium reserve was approximately \$707,587,000 in accordance with statutory accounting principles. At December 31, 2000, Financial Security's total shareholder's equity was approximately \$1,488,866,000 and its total net unearned premium reserve was approximately \$582,709,000 in accordance with generally accepted accounting principles.

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

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

the City the information presented under this caption for inclusion in this Official Statement.

## **DESCRIPTION OF THE BONDS**

The Bonds will be dated April 15, 2001, interest will accrue from April 15, 2001 and interest on the Bonds will be payable on November 15, 2001 and each May 15 and November 15 thereafter until maturity or earlier redemption. The Bonds will mature in the years and in the principal amounts set forth on the inside cover page hereof. Principal of the Bonds is payable only at maturity, subject only to optional redemption as hereinafter described.

### **Book-Entry-Only System**

The City has elected to utilize the Book-Entry-Only System of DTC (defined below) as described under this heading. The obligation of the City is to timely pay the Paying Agent the amount due under the Ordinance. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owners of the Bonds are as described herein.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the Series A Bonds and of the Series B Bonds, as the case may be, and the certificates for each series shall be in the aggregate principal amount of the maturity for each series, in the aggregate principal amount of the maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

*Use of Certain Terms in Other Sections of this Official Statement.* In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by, the City, the Financial Advisor or the Purchasers.

### Optional Redemption

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 15, 2012, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on May 15, 2011, or any date thereafter, at par value thereof, without premium, plus accrued interest to the date fixed for redemption.

### Mandatory Redemption

The Series A Bonds and Series B Bonds maturing in the years 2022, 2027 and 2031 (the "Term Bonds") are subject to mandatory redemption prior to maturity in part at random, by lot or other customary method selected by the Registrar, at 100% of the principal amount thereof plus accrued interest to the date of redemption on the dates, in the years and principal amounts as follows:

#### Series A Bonds

Term Bonds due May 15, 2022		Term Bonds due May 15, 2027		Term Bonds due May 15, 2031	
<u>Redemption Date</u>	<u>Amount</u>	<u>Redemption Date</u>	<u>Amount</u>	<u>Redemption Date</u>	<u>Amount</u>
May 15, 2020	\$5,600,000	May 15, 2023	\$6,600,000	May 15, 2028	\$8,500,000
May 15, 2021	5,900,000	May 15, 2024	6,900,000	May 15, 2029	8,900,000
May 15, 2022	6,200,000(a)	May 15, 2025	7,300,000	May 15, 2030	9,400,000
		May 15, 2026	7,700,000	May 15, 2031	9,900,000(a)
		May 15, 2027	8,000,000(a)		

#### Series B Bonds

Term Bonds due May 15, 2022		Term Bonds due May 15, 2027		Term Bonds due May 15, 2031	
<u>Redemption Date</u>	<u>Amount</u>	<u>Redemption Date</u>	<u>Amount</u>	<u>Redemption Date</u>	<u>Amount</u>
May 15, 2020	\$2,700,000	May 15, 2023	\$3,200,000	May 15, 2028	\$4,100,000
May 15, 2021	2,900,000	May 15, 2024	3,400,000	May 15, 2029	4,300,000
May 15, 2022	3,000,000(a)	May 15, 2025	3,500,000	May 15, 2030	4,600,000
		May 15, 2026	3,700,000	May 15, 2031	4,800,000(a)
		May 15, 2027	3,900,000(a)		

(a) Maturity

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds of each series, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds of the appropriate series within the applicable Stated Maturity to be redeemed on the next following May 15 from moneys set aside for that purpose in the Debt Service Fund (as hereinafter defined). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Term Bonds of each Series required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Term Bonds of like Series and maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

### **Notice of Redemption**

Not less than thirty (30) days prior to a redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first class postage prepaid, in the name of the City and at the City's expense, to the registered owner of each Bond to be redeemed in whole or in part at the address of the bondholder appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the bondholder.

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Bonds is The Bank of New York, Jacksonville, Florida. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be given to each registered owner of the Bonds, which notice will also give the address of the new Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to act as and perform the duties of Paying Agent/Registrar for the Bonds.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

### **Record Date for Interest Payment**

The record date ("Record Date") for the interest payable on any interest payment date with respect to the Bonds means the close of business on the last business day of the month preceding each interest payment date. In the event of a non-payment of interest on the Bonds on one or more maturities on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment for such maturity or maturities (a "Special Record Date") will be established by the Paying Agent/Registrar, if any, when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid to the address of each registered owner of a bond of such maturity or maturities appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

### **Registration**

In the event the Book-Entry-Only System should be discontinued, both principal and interest on the Bonds shall be payable only to the registered owners appearing on the registration books of the Paying Agent/Registrar at the times and in the manner described herein and in the Bond Ordinance. The ownership of the Bonds may be transferred and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration shall be at the expense of the City, except for any tax or other governmental charge with respect thereto. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds of like series and aggregate principal amount will be delivered by the Paying Agent/Registrar to the last assignee (the new registered owner) in exchange for such transferred and assigned Bonds not more

than three days after receipt of the Bonds to be transferred in proper form. Such new Bond or Bonds must be in the denomination of \$5,000 or any integral multiple thereof within a maturity.

Neither the City nor the Paying Agent/Registrar shall be required to issue or transfer any Bond called for redemption within 45 days of the date fixed for redemption of the Bonds; such limitation on transfer is not applicable to an exchange by a bondholder of the unredeemed balance of a Bond called for redemption in part.

## THE SYSTEMS

The City owns and operates an Electric Light and Power System and a Water and Wastewater System which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns two gas/oil-fired electric generation facilities, which are available to meet system demand and is in the process of constructing a new gas fired facility slated for completion by the summer of 2001. The Electric Light and Power System has approximately 1,199 full-time employees as of September 30, 2000. The Water and Wastewater System has 881 full-time employees as of the same date.

### THE WATER AND WASTEWATER SYSTEM

#### Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City</u>
Chris Lippe, P.E.	Director, Water and Wastewater Utility	16 Years
Perwez Moheet, CPA	Assistant Director, Business Support Services	20 Years
Jane Burazer	Assistant Director, Water and Wastewater Treatment	14 Years
Reynaldo Cantu, P.E.	Assistant Director, Engineering & Planning	10 Years
David Juarez, P.E.	Assistant Director, Operations Maintenance	12 Years

### WATER SYSTEM

#### Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 450 square miles. The City also has contracted to supply treated water on a wholesale basis to seven municipal utility districts (MUDs), one water control and improvement district, seven water supply corporations, one private utility, the Cities of Rollingwood, Pflugerville and Sunset Valley.

The City has previously acquired the systems and assets of eleven water control and improvement districts. The City has paid off and canceled the bonded indebtedness of eight of these districts and is presently paying, from surplus revenues of the Water and Wastewater Utility, the unpaid bonded indebtedness of the other three districts. The Texas Natural Resource Conservation Commission (TNRCC), formerly the Texas Water Commission (TWC), is empowered to grant the City a certificate of convenience and necessity to provide water and wastewater service to retail customers outside the City's boundaries. The City is not required to obtain such a certificate.

#### Facilities

In 1888, City leaders campaigned successfully for the first Austin Dam across the Colorado River, which was completed early in 1893. In 1934, a \$4,500,000 loan and grant was obtained from the Public Works Administration to complete the Buchanan Dam. LCRA finished the dam (which is 150 feet high, 11,200 feet long), and the lake it forms is thirty-two miles long and two miles wide, covering 23,000 surface acres.

Since that time, a stairway of lakes was created by building five additional dams, giving the area 150 miles of lakes. The Tom Miller Dam is within the City limits, and forms Lake Austin, which covers 3,000 surface acres; Mansfield Dam, the fifth largest masonry dam in the world, impounds Lake Travis, which covers 42,000 acres; Marble Falls Dam creates Lake Marble Falls, which spreads over 900 acres; Lake Lyndon B. Johnson, held by Alvin Wirtz Dam, has an area of 6,300 acres; and Roy Inks Dam forms Lake Inks, with a surface of 900 acres. The City owns Tom Miller Dam and has leased it to LCRA through December 31, 2020. The other dams are owned by LCRA.

The combined storage capacity of the six lakes is around 3,300,000 acre-feet of water, or more than a trillion gallons.

Approximately 800,000 acre feet of this is reserved for flood control. Of the six dams on the Colorado River, two form major impounding reservoirs for the control of flood water; however, Mansfield Dam is the only designated flood control structure.

The City has also constructed Longhorn Dam on the Colorado River just downstream of Lake Austin, and Decker Dam on Decker Creek, a tributary of the Colorado River that joins the river downstream of Longhorn Dam. Town Lake, which has a capacity of approximately 3,500 acre-feet, is created by Longhorn Dam. Decker Dam creates Lake Walter E. Long, which has a capacity of approximately 34,000 acre-feet.

United States Geological Survey records at Austin gauging station No. 08158000 show the following flows for the water year (October 1 through September 30).

1973 – 896,400 Acre Feet	1982 – 1,356,000 Acre Feet	1992 – 5,419,000 Acre Feet
1974 – 1,463,000 Acre Feet	1983 – 587,000 Acre Feet	1993 – 978,000 Acre Feet
1975 – 3,039,000 Acre Feet	1984 – 764,000 Acre Feet	1994 – 708,200 Acre Feet
1976 – 992,600 Acre Feet	1985 – 751,000 Acre Feet	1995 – 896,700 Acre Feet
1977 – 1,956,000 Acre Feet	1986 – 886,500 Acre Feet	1996 – 758,300 Acre Feet
1978 – 885,100 Acre Feet	1987 – 3,399,000 Acre Feet	1997 – 3,013,512 Acre Feet
1979 – 867,200 Acre Feet	1988 – 834,000 Acre Feet	1998 – 1,313,831 Acre Feet
1980 – 803,500 Acre Feet	1989 – 667,900 Acre Feet	1999 – 803,240 Acre Feet
1981 – 1,626,000 Acre Feet	1990 – 692,300 Acre Feet	2000 – 627,370 Acre Feet
	1991 – 829,700 Acre Feet	

Using the twenty-five years from 1976-2000, the average flow was 1,296,638 acre feet per year. Using the lowest year, 1983, the flow for the Colorado River at Austin was 587,000 acre feet, or 192 billion gallons, which is over 4 times the amount of water treated for distribution (52.2 billion gallons) by the City for the fiscal year ended September 30, 2000.

Water Rights. The City holds independent rights to impound, divert and use the waters of the Colorado River and its tributaries, and additional rights to such water pursuant to agreements with LCRA.

The City's independent water rights have been adjudicated before the TNRCC in accordance with the Texas Water Right Adjudication Act, Texas Water Code Section 11.301 et seq. The City's rights, as determined by the TNRCC, are set forth in the Final Determination of all claims of Water Rights in the Lower Colorado River Segment of the Colorado River Basin issued by the TNRCC on July 29, 1985. Both the City and LCRA appealed the Final Determination, seeking additional rights and contesting the rights awarded to each other, in a proceeding styled In Re: The Exceptions of the Lower Colorado River Authority and the City of Austin to the Adjudication of Water Rights in the Lower Colorado River Segment of the Colorado River Basin, Cause No. 115,414-A-1 in the District Court of Bell County, Texas, 264th Judicial District ("Cause No. 115,414-A-1").

The City and LCRA entered into a Comprehensive Water Settlement Agreement (the "Settlement Agreement") on December 10, 1987. The settlement generally improves the independent water rights of both the City and LCRA. Such rights include: the rights to maintain Tom Miller Dam and Lake Austin, Longhorn Dam and Town Lake, and Decker Dam and Lake Walter E. Long; the right to divert and use 271,403 run of the river acre-feet of water per year from Lake Austin and Town Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Town Lake for industrial purposes, so, as to consumptively use not to exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial purposes, so as to consumptively use not to exceed 16,156 acre-feet per year; and the right to divert and use water through Tom Miller Dam for the generation of hydroelectric power. LCRA's independent water rights, as determined by the TNRCC, including rights to maintain Lakes Travis and Buchanan and to divert and use water therefrom. Pursuant to the Settlement Agreement and the final judgment in Cause No. 151,414-A-1, certain other pending water-related disputes between the City and LCRA were settled. LCRA was granted an option to acquire up to a 50% undivided interest in the City's proposed Water Treatment Plant No. 4 (discussed below). The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication have been issued by the TNRCC.

Pursuant to previous agreements between the City and LCRA, LCRA has agreed to supply the City additional water from storage in Lakes Travis and Buchanan. The City also has leased Tom Miller Dam, and the City's right to divert and use water for the generation of hydroelectric power through Tom Miller Dam, to LCRA. The Settlement Agreement provided for the City to receive water from Lake Travis for the proposed Water Treatment Plant No. 4, and for additional water for municipal and other purposes of use downstream of Lake Travis.

The City and LCRA executed the First Amendment to the December 10, 1987 Comprehensive Water Settlement Agreement (the "First Amendment") on October 7, 1999. This First Amendment extends the existing Settlement Agreement through the year 2050, and gives the City a 50-year assured water supply by providing additional water that the City can take from the Highland Lakes. Additionally, the First Amendment includes an option for the City to renew the Settlement Agreement through the year

2100, a full century of water supply. The City paid a discounted amount of \$100.0 million to the LCRA as part of the First Amendment contract provisions. The \$100.0 million payment to LCRA included compensation for the following terms:

- Pre-paid reservation fee for an additional 75,000 firm acre-feet of water supply, which increased the City's total water supply from 250,000 firm acre-feet to 325,000 firm acre-feet for the additional 50-year period with an option to renew for another additional 50-year period.
- Pre-paid water use charges that would be paid by the City for water use above 150,000 firm acre-feet up to 201,000 firm acre-feet.

As a result of this amendment, the City will not have to pay any additional raw water costs to the LCRA until such time as the City begins diverting over 201,000 firm acre-feet per year. The City projects water usage above 201,000 firm acre-feet in approximately the year 2021. The amendment also had numerous provisions that benefited the City. Also, a legal issue regarding the building of Water Treatment Plant No. 4 was settled. The First Amendment provides for mutual release of the City and LCRA from any claims or causes of action relating to the delayed construction of Water Treatment Plant No. 4.

### **Water Treatment Plants**

The City's Water and Wastewater Utility has three water treatment plants (Green, Davis and Ullrich) which have a rated capacity of 227 million gallons per day ("mgd"). The water treatment plants have a combined clear well storage capacity of 38.8 million gallons on site. The City's Water and Wastewater Utility includes a water distribution system having 3,580 miles of water mains of varying diameters, distribution storage facilities with an effective storage capacity of 113 million gallons, 23,391 fire hydrants and twenty-four booster pump stations.

The City receives its water supply from the Colorado River through the three water treatment plants. The Green Plant takes water from Town Lake, which is located near the downtown area of the City. The Davis Plant and the Ullrich Plant both take water from Lake Austin.

The Green Plant is located east of Shoal Creek near its junction with the Colorado River and has a rated capacity of 35 mgd. An intake station on the river contains four traveling water screens and four raw water pumps. The Green Plant was constructed in 1924 and expanded in 1935, 1938, 1949 and 1985. The firm pumping capacity (i.e., with one of the largest pumps out of service) is 35 mgd. Water is pumped through a forty-two inch line to the chemical feed building, where it is split into two parallel treatment units. The Green Plant operates on a site that limits any major expansion or upgrading of treatment processes. Its capacity can be replaced by the planned expansion of the Ullrich Plant and construction of a transmission line from the Ullrich Plant north to the Green Plant service area. If the requirements for the Safe Drinking Water Act (SDWA) Phase II Disinfection/Disinfection By-Products Rule require expensive space consuming modifications, the aging Green Plant may need to be replaced by the year 2003. Without the restrictions of this proposed rule, it could continue in service.

The Davis Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 115 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, and raw water and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963, 1975 and 1986.

The Ullrich Plant, located on a site south of Red Bud Trail and Forest View Drive, has a rated capacity of 77 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, six upflow-solids contact clarifiers, twelve filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. The Ullrich Water Treatment Plant is currently being expanded from 77 mgd to 100 mgd; these improvements are scheduled for completion in 2000. At the same time, design work will commence for the expansion of this plant to 160 mgd. It is likely that other improvements will be needed prior to 2005 in order to meet the Disinfectant/Disinfection By-Products Rule of the federal Safe Drinking Water Act.

Construction of Water Treatment Plant No. 4 will add incremental initial capacity of up to 60 million gallons per day with an intake structure rated at 150 million gallons per day. Based on revised growth projections, the City anticipates that construction of Water Treatment Plant No. 4 will not be started before the year 2017. \$104 million of bonds have been authorized for this project based on an earlier schedule pursuant to which the plant would have been already under construction. Additional costs incurred due to the revised timing are anticipated to be funded with capital recovery fees.

### **Water Conservation Plan**

The Water and Wastewater Utility developed a water conservation plan for emergency purposes in the early 1980's after experiencing an equipment failure in the distribution system during a high summer demand period. Although the problems were short lived, they had sufficient impact to cause the development of a plan for any potential future problems. The plan is designed to educate customers to use water effectively and to reduce the peak demands on the Water and Wastewater Utility. The contingency plan, which is in effect from May 1 to September 30 of each year, has three stages with progressively more restrictive

water use provisions. The plan is presently designed to shift from voluntary to mandatory stages when daily pumpage exceeds a specific limit established by the City Manager which relates to treatment capacity. If higher levels of pumpage should occur, the plan would move to one of the more restrictive mandatory levels. Currently, the treatment facilities have a rated capacity of 227 mgd. Mandatory water restrictions were required during the extreme drought conditions of July through September 2000. Inclining block rates implemented April 1, 1994, are designed to promote water conservation by Single Family Residential Customers.

### **Water Storage and Pumping Facilities**

In addition to the water treatment plants, the Water and Wastewater Utility owns and operates the following storage facilities and major water pump stations.

	<u>Total Storage Capacity (Millions of Gallons)</u>	<u>Firm Pumping Capacity (Gallons per Minute)</u>
<b>North System</b>		
Anderson Mill	3	(1)
East Austin	12	37,700
Forest Ridge	3	5,000
Four Points (ground)	7	
Four Points (elevated)	1	3,600
Guilford Cove	0.275	600
Highland Park	2	1,000
Howard Lane	20	(1)
Jollyville	11	51,000
Martin Hill	34	(1)
North Austin	10	39,800
Pond Springs	3	(1)
Spicewood Springs	10	59,000
<b>South System</b>		
Center Street	8	31,400
Davis Lane	20	43,500
Eberhart	1.5	11,500
La Crosse	2	(1)
Leuthan Lane	3	860
Loop 360	0.439	1,200
Lost Creek	(2)	2,000
Oak Hill Pump	(2)	250
Oak Hill Reservoir	1	(1)
Pilot Knob	10	(1)
Slaughter Lane	6	15,000
Travis County	(2)	1,800
Westlake Drive	0.010	200

(1) Storage only, no pumps.

(2) Pumps only, no reservoir.

Source: City's Water and Wastewater Utility.

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**Historical Water Pumpage - TABLE EIGHT**

The following table summarizes historical demand and maximum day water pumpage from fiscal years 1988 through 2000.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (Million of Gallons)</u>
1988	36,332	6.80	162
1989	38,300	5.40	178
1990	38,311	-	177
1991	36,125	(5.70)	161
1992	36,989	2.40	169
1993	39,824	7.70	189
1994	39,766	(0.10)	199
1995	39,542	(0.70)	192
1996	45,835	15.90	205
1997	42,812	(6.60)	195
1998	46,438	8.50	211
1999	46,422	(0.03)	216
2000	52,194	(12.40)	227

Source: City's Water and Wastewater Utility.

**Projected Water Pumpage - TABLE NINE**

The following table, based on actual operating experience, summarizes the peak day and total annual water pumpage requirements projected by the City.

<u>Fiscal Year</u>	<u>Total Pumpage (Million of Gallons)</u>	<u>Maximum Day Pumpage (Million of Gallons)</u>
2001	47,210	229
2002	48,270	235
2003	49,098	241
2004	51,001	247
2005	51,018	253
2006	52,044	259
2007	52,044	265
2008	53,617	271
2009	54,421	277
2010	55,237	0

Source: City's Water and Wastewater Utility.

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**Information Concerning Water Sales - TABLE TEN**

Fiscal Year Ended September 30

	2000		1999		1998		1997		1996	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		52,326,065		46,679,391		46,668,512		42,802,212		45,835,430
Less: Sales to Other Water Utilities (1)		<u>3,863,466</u>		<u>3,146,201</u>		<u>3,797,257</u>		<u>3,662,066</u>		<u>4,397,220</u>
Thousands Gallons to System		48,462,599		<u>43,533,190</u>		<u>42,871,255</u>		<u>39,140,146</u>		<u>41,438,210</u>
Water Sales:										
Urban	161,243	41,973,466	159,625	35,594,247	152,545	36,026,412	143,177	30,219,525	140,110	32,597,080
Rural	<u>11,242</u>	<u>2,435,328</u>	<u>10,607</u>	<u>1,852,000</u>	<u>10,131</u>	<u>1,968,939</u>	<u>11,139</u>	<u>1,787,935</u>	<u>11,180</u>	<u>2,157,102</u>
	172,485	44,408,794	170,232	37,446,247	162,676	37,995,351	154,316	32,007,460	151,290	34,754,182
City Departments	<u>392</u>	<u>650,006</u>	<u>379</u>	<u>619,553</u>	<u>481</u>	<u>705,983</u>	<u>364</u>	<u>559,575</u>	<u>467</u>	<u>734,304</u>
Total Sales to Ultimate Consumer Used by Water Utility	<u>172,877</u>	45,058,800	<u>170,661</u>	38,065,800	<u>163,157</u>	38,701,334	<u>154,680</u>	32,567,035	<u>151,757</u>	35,488,486
Loss and Unaccounted For		1,613,380		1,422,526		1,418,185		48,299		1,404,264
Thousand Gallons to System		<u>1,790,419</u>		<u>4,044,864</u>		<u>2,751,736</u>		<u>6,524,813</u>		<u>4,545,460</u>
		48,462,599		<u>43,533,190</u>		<u>42,871,255</u>		<u>39,140,147</u>		<u>41,438,210</u>
Maximum Daily Consumption		220,305		204,746		206,371		190,919		205,170
Average Daily Consumption in Thousands of Gallons		132,774		119,269		117,455		107,233		113,124

(1) Includes sales to all wholesale customers.

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**Large Water Customers - TABLE ELEVEN**

**Water and Wastewater Utility  
Large Water Customers  
Five Year Comparative Data (1996 - 2000)**

	<u>Fiscal Year Ended September 30</u>									
	<u>(Gallons in Thousands)</u>									
	<u>2000</u>		<u>1999</u>		<u>1998</u>		<u>1997</u>		<u>1996</u>	
	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>
Motorola, Inc. (1)	1,814,060	\$4,031,000	1,781,016	\$3,854,519	1,904,313	\$3,926,799	1,894,879	\$3,918,062	1,887,195	\$4,036,279
Advanced Micro Devices	1,044,510	2,082,000	1,186,752	2,570,155	1,250,741	2,583,860	1,151,306	2,384,265	1,114,446	2,384,586
University of Texas (2)	1,029,359	2,341,000	908,424	2,055,888	824,213	1,783,840	824,049	1,766,841	909,263	2,002,578
Travis County Water Control and Improvement District No. 10	901,248	1,831,000	699,180	1,415,804	737,810	1,508,855	579,175	998,887	754,505	1,380,363
Wells Branch Municipal Utility District	646,054	1,328,000	544,046	1,106,798	559,016	1,012,516	463,043	851,317	482,172	827,891
Anderson Mill Municipal Utility District	546,213	936,000	510,713	871,792	542,058	899,308	467,978	799,344	485,628	802,936
Samsung (3)	462,139	1,005,000	353,927	767,700	363,761	811,784	48,002	90,861	0	0
North Austin Municipal Utility District	406,345	850,000	297,789	622,179	323,138	657,591	276,784	557,003	285,922	546,217
Lost Creek Municipal Utility District	355,547	758,000	282,637	600,415	320,721	654,622	237,423	496,763	321,987	659,613
Shady Hollow MUD	<u>300,277</u>	<u>800,000</u>	<u>217,346</u>	<u>575,947</u>	<u>266,715</u>	<u>671,082</u>	<u>195,505</u>	<u>493,767</u>	<u>276,374</u>	<u>659,892</u>
	<u>7,505,752</u>	<u>\$15,962,000</u>	<u>6,781,830</u>	<u>\$14,441,197</u>	<u>7,092,486</u>	<u>\$14,510,257</u>	<u>6,138,144</u>	<u>\$12,357,110</u>	<u>6,517,492</u>	<u>\$13,300,355</u>

- (1) Totals for Motorola, Inc. include their east Austin plant site and their west Austin plant sites.  
 (2) Totals for the University of Texas at Austin are city-wide for 1996 and 1999.  
 (3) These facilities have no comparative data prior to 1997.

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## WASTEWATER SYSTEM

### Service Area

The Water and Wastewater Utility provides wastewater service to customers within the corporate limits of the City and a portion of Travis and Williamson Counties. The City has entered into wholesale service contracts with ten municipal utility districts, one private utility, the Eanes Independent School District, and the Cities of Sunset Valley and Rollingwood to provide wastewater service.

### Facilities

The Water and Wastewater Utility has three main wastewater treatment plants with a permitted capacity of 120 mgd, one sludge treatment facility, over 2,635 miles of sanitary wastewater mains and lines, and 114 lift stations. The three treatment plants are the Walnut Creek Wastewater Treatment Plant which began operations in 1977, the Govalle Wastewater Treatment Plant constructed in 1936, and the South Austin Regional Wastewater Treatment Plant completed in 1986. The Hornsby Bend Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 1997 and 1998, the City received from the Texas Water Commission and the U.S. Environmental Protection Agency renewals of discharge permits for all its wastewater treatment plants. The permits are valid for five years and will be renewed in 2002 and 2003.

The Walnut Creek Wastewater Treatment Plant is currently permitted to discharge an average flow of 60 mgd. During 1999 average flow was 50 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant is currently in the engineering design phase with construction scheduled to be completed in approximately 2004.

The Govalle Wastewater Treatment Plant was initially constructed in 1936 and has undergone several expansions. It now has a permitted capacity of 20 mgd. During 1999 average flow was 10 mgd. Sludge from this plant is also pumped to the anaerobic digesters at Hornsby Bend. Extensive modernization completed in 1986 and subsequent improvements completed in March and September 1988 have enabled the Govalle plant to reliably produce the quality of effluent required by state and federal permits. A major interceptor tunnel completed in September 1988 diverts any excess flows from Govalle to the South Austin Regional Plant.

The South Austin Regional Wastewater Treatment Plant, which replaced the Williamson Creek Treatment Plant, began operation in April 1986. The plant is now permitted to discharge at a rate of 50 mgd. During 1999 average flow was 32 mgd. A major interceptor transports the wastewater to the South Austin plant from the site of the former Williamson Creek plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant. A 25 mgd upgrade to this plant is currently in the engineering design phase with construction scheduled to be completed in approximately 2005.

The Hornsby Bend Treatment Plant serves as the City's central sludge treatment and disposal facility. Waste sludge from the Walnut Creek, South Austin Regional and Govalle plants is pumped to anaerobic digesters at Hornsby Bend. A greenhouse enclosed aquaculture pond is used to treat the pond water prior to its use for irrigation on utility owned land at the site. Major improvements recently completed at Hornsby Bend include sludge thickening facilities. Sludge received at Hornsby Bend is thickened, anaerobically digested, dewatered in sludge drying basins and composted for marketing and distribution. Some dried sludge is applied to on-site agricultural land. A Center for Environmental Research has been established with the cooperation of the City, the University of Texas and Texas A&M University. The City provides laboratory, offices and research facilities at Hornsby Bend for the two universities to conduct environmental research.

In 1985, the City entered into a contract with the Brushy Creek Water Control and Improvement District No. 1, Williamson County MUD No. 2, Williamson County MUD No. 3 and the City of Round Rock to fund, construct, and operate a regional wastewater collection and treatment system (the "Project") serving the upper Brushy Creek watershed. In 1994, the Project participants terminated the agreement. The City and the City of Round Rock entered an interlocal agreement where the two cities assumed the obligations and divided the Project assets and entered an interim operations and maintenance agreement. LCRA and Brazos River Authority ("BRA") have purchased Round Rock's share in the Project and have also purchased a portion of Austin's share relating to the area now included in the City of Cedar Park's extra-territorial jurisdiction. The City of Cedar Park entered into a wastewater service agreement with LCRA and BRA in 1997. Final negotiations were completed, selling Austin's remaining assets to the LCRA, effective October 1, 2000, with Austin becoming a customer of the LCRA and BRA wastewater system. The agreement, which requires Austin to pay for its portion of capital expansions and operations and maintenance costs on an annual basis, reserves enough wastewater capacity to adequately serve all of the portions of Austin's city limits or extra territorial jurisdiction within the Brushy Creek watershed.

Stormwater is collected in an entirely separate gravity feed storm wastewater system and is segregated from the sanitary wastewater system. The storm wastewater system is operated and maintained by the City's Department of Public Works and Transportation.

The City believes that the structural condition of the Wastewater System is generally sound. Expenses for operation, maintenance and repairs of the over 2,700 miles of wastewater lines and mains were approximately \$7.2 million during FY 1999-2000.

**Lift Stations**

In addition to the wastewater treatment plants, the Water and Wastewater Utility owns and operates the following major lift stations.

<u>Name</u>	<u>Firm Capacity (Gallons per Minute)</u>
Montopolis (1)	22,000
Boggy Creek East	16,400
Shoal Creek	9,000
Tracor	5,580
Canterbury (1)	3,475
Taylor Slough	3,400
Barton Creek	5,800
Lake Creek	4,200
Davis Springs	3,600
Springfield	2,400

(1) These lift stations control flow to the Govalle and South Austin Regional Wastewater Treatment Plants.

**Historical Wastewater Flows - TABLE TWELVE**

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 1988 through fiscal year 1999.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
1988	21,193	(9.7)
1989	22,771	7.4
1990	22,935	(0.7)
1991	25,002	9.0
1992	30,126	20.5
1993	26,797	(11.1)
1994	25,257	(5.7)
1995	30,038	18.9
1996	28,140	(6.3)
1997	32,898	16.9
1998	31,609	(3.9)
1999	34,298	8.5
2000	30,684	(10.5)

*[The remainder of this page is intentionally left blank.]*

## **Projected Wastewater Flows - TABLE THIRTEEN**

The following table summarizes the wastewater flows projected to be received at the City's wastewater treatment plants.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>
2001	33,971
2002	33,470
2003	34,173
2004	34,938
2005	35,803
2006	36,675
2007	37,372
2008	38,082
2009	38,806
2010	39,543

Source: City's Water and Wastewater Utility. Such projections are based on actual operating experience.

To meet these projections, the capacity of the Walnut Creek Wastewater Treatment Plant is expected to be increased from 60 mgd to 75 mgd by the year 2000. Also, if the Govalle Plant is shut down by the year 2002 as presently planned, the South Austin Regional Wastewater Treatment Plant will have to be expanded to a capacity of 65 mgd.

## **COMBINED WATER AND WASTEWATER UTILITY INFORMATION**

### **Future Capital Improvements for Water and Wastewater System**

During the next five years, it is anticipated that the Water and Wastewater System will require approximately \$576.3 million for system improvements. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of \$454.1 million additional Parity Water/Wastewater Obligations and (2) the application of \$122.2 million of anticipated transfers from current revenues and amounts on hand.

### **Services Financed by Utility Districts**

On August 19, 1981, the City Council enacted an ordinance establishing the basic requirements for the City's consent to the creation of a Municipal Utility District ("MUD"), a Water Control and Improvement District ("WCID"), a Fresh Water Supply District or any other water district created under State law for the purpose of supplying water and/or wastewater service to land within the extra-territorial jurisdiction or the City limits of the City. That ordinance has been modified by the City's enactment of its Land Development Code, which contains provisions relating to the City's consent to MUDs.

MUDs and WCIDs supply water and wastewater service to areas within and outside the City limits and function as a financing mechanism for development of land.

Under the current process, the City consents to the formation of a district by approval of a consent ordinance, a consent agreement, and a utility construction contract, if necessary. These contracts between the City, the petitioners seeking formation of the district and the district itself establish a detailed set of requirements and policy statements governing the construction within, operation of and issuance of bonds by such district.

The City has previously entered into contractual commitments with fourteen municipal utility districts for the construction of improvements to and extensions of the City's Water and Wastewater System. The commitments for the financing of such improvements and extensions exist in the form in which the district issues bonds and constructs the improvements. The City generally becomes the owner of such improvements upon completion of construction. The City makes payments equal to its pro rata share of total debt service on the bonds from the City's user fees charged to customers using such improvements, surplus Net Revenues from the Water and Wastewater System and, if necessary, City ad valorem taxes. The district pays its pro-rata share of the bonds directly to the City.

Some of the contractual commitments of the City with the most recently approved districts varies from the process described above in that the issuance by the district of bonds for such improvements and extensions creates a lien on and pledge of the Net Revenues of the Water and Wastewater System to cover the City's payments on the total debt service. The lien is known as a Separate Lien Obligation and is on a parity, with respect to the lien on and pledge of the Net Revenues of the Water and Wastewater System, with the Subordinate Lien Bonds already issued by the City or to be issued in the future. No pledge of the

City's ad valorem taxes is made. The City will own, operate and maintain the facilities after completion of the project. In addition, the City may request that some of the districts finance improvements to the City's water and/or wastewater treatment facilities.

Under the creation agreements with the districts, the districts may be annexed separately and dissolved by the City. Upon annexation and dissolution of the districts, the City would assume the district's outstanding debts and other obligations, which pursuant to state law would become payable from ad valorem taxes levied and collected within the City or, in some cases, from a surcharge fee assessed by the City to utility users within the boundaries of the annexed district. Upon annexation, the City is empowered to issue any authorized but unissued bonds of the district and to use the proceeds for improvements within the annexed district. Alternatively, some of the districts may be annexed but not dissolved at the option of the City. If so, the City would be required only to provide services other than water and wastewater services and not to assume the district's outstanding debt. In December 1997, the City annexed ten MUD's and thereby assumed their outstanding utility system debt.

The City previously consented to the creation of twelve MUDs inside the city's corporate limits, of which nine have been dissolved. Three of the twelve MUDs had their annexation status changed from full purpose to limited purpose in 1995 and were reannexed for full purpose in 1998. The creation of the inside City districts were approved by the Texas Water Commission ("TWC"). They receive retail Water and Wastewater services as well as other services from the City and will issue bonds and levy a MUD tax to finance internal water, wastewater and drainage facilities. Under existing law, the City will not have to assume any of the debt issued for these City districts, so long as they are not dissolved.

Development in some area MUDs may have impacted an initiative petition which was submitted to the City Council by the Save Our Springs (SOS) Coalition on March 13, 1992. Certification of the petition caused an ordinance "to prevent pollution of Barton Springs, Barton Creek and the Barton Springs Aquifer" to be added to the City's August 8, 1992 election. At the election, the voters of the City approved the ordinance. Certain developers challenged the ordinance as an unconstitutional taking of property without just compensation. Ultimately, the Texas Supreme Court upheld the constitutionality of the ordinance. See "The City - Recent Annexation" herein.

### **Water and Wastewater Rates**

The City is not subject to regulation by the TNRCC with regard to the rates charged for water and wastewater services to customers within the boundaries of the City. The TNRCC has appellate jurisdiction to determine municipal water and wastewater rates outside the City's boundaries.

Texas law allows water districts to appeal the City's water and wastewater rates to the TNRCC.

The Texas legislature passed legislation effective September 1, 1989, which states that water districts may appeal a city's water and wastewater rates to the TNRCC.

The following schedules present the monthly retail and wholesale customer water and wastewater rates.

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**Water Service Rates Effective November 1, 2000 TABLE FOURTEEN**

**Monthly Customer Charges**

<u>Customer Account Charge</u>	<u>Equivalent Meter Charge</u>			
	<u>Charge per Month</u>	<u>Meter Size</u>	<u>Retail Charge per Month</u>	<u>Wholesale Charge per Month</u>
Retail Customer Account Charge (\$/Month)	\$1.32	5/8 3/4	\$ 0.91 1.37	\$ 0.91 1.37
Wholesale Customer Account Charge (\$/Month)	\$1.32	1 1 ¼ 1 ½ 2 3 4 6 8 10 12	2.00 2.91 3.82 5.64 13.63 22.72 45.43 68.14 90.85 104.48	2.00 2.91 3.82 5.64 13.63 22.72 45.43 68.14 90.85 104.48

**Volume Unit Charge (1)**

<u>Unit Cost per 1,000 Gallons</u>	<u>Inside City</u>	<u>Outside City</u>
Single-Family Residential (2)		
0 - 2,000 Gallons	\$1.25	\$1.25
2,001 - 12,000 Gallons	2.00	2.69
12,001 - Over Gallons	4.90	4.9025
Multifamily (3)		
Off Peak	\$2.19	\$2.15
Peak	2.35	2.30
Commercial (3)		
Off Peak	\$2.60	\$2.50
Peak	2.77	2.70
Large Volume/Industrial (3)		
Off Peak	\$2.30	N/A
Peak	2.48	N/A
Golf Courses (3)		
Off Peak	\$2.60	\$2.50
Peak	2.77	2.70

- (1) Wholesale unit charges vary between \$1.42 and \$2.24 for each 1,000 gallons.
- (2) The City of Austin has approved an inclining block rate structure to promote water conservation for the Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.
- (3) Off Peak (October – May Consumption). Peak (June – September Consumption).

*[The remainder of this page is intentionally left blank.]*

**Wastewater Service Rates Effective November 1, 2008 – TABLE FIFTEEN**

**Customer Account Charge**

	<u>Inside City</u>	<u>Outside City</u>	<u>Wholesale Customers</u>
Customer Account Charge (\$/month)	\$2.60	\$2.60	\$1.75

**Volumes Unit Charge**

	<u>Unit Cost per 1,000 Gallons*</u>	
	<u>Inside City</u>	<u>Outside City</u>
Retail Inside City:		
Single-Family		
0 - 2,000 Gallons	\$1.80	\$2.80
2,001 - Over Gallons	4.65	4.96
Multifamily	3.59	3.59
Commercial	3.91	3.91
Large Volume/Industrial	3.40	N/A
Golf Courses	3.91	3.91

Wholesale unit charges vary between \$1.28 and \$3.26 for each 1,000 gallons.

\* Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.

**Water and Wastewater Capital Recovery Fees**

On September 3, 1982, the City Council adopted an ordinance, under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 as shown below. There are a number of express exemptions from payment of these fees. The City's current policy is to restrict the use of Capital Recovery Fee receipts for the defeasance of water and wastewater revenue bond debt.

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Drinking Water Protection Zone in the extraterritorial jurisdiction	\$1,700	\$1,300	\$3,000
Drinking Water Protection Zone in the City limits	1,500	1,200	2,700
Desired Development Zone in the extraterritorial jurisdiction	1,300	800	2,100
Desired Development Zone in the City limits	700	400	1,100
Urban watersheds	600	400	1,000
Central urban redevelopment combining district area and the area bounded by Town Lake, Lamar Boulevard, 15 <sup>th</sup> Street, and IH-35	600	400	1,000

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**Analysis of Water Bills - TABLE NINE A**

	Fiscal Year Ended September 30				
	2000	1999	1998	1997	1996
<b>Average Monthly Bill Per Customer - Water</b>					
Inside City (Urban)					
Residential	\$ 30.13	\$ 23.50	\$ 24.38	\$ 19.84	\$ 23.49
Multi-Family	338.37	306.97	287.39	268.40	282.59
Commercial	199.83	166.96	167.04	141.46	155.37
Industrial	95,352.85	90,525.34	90,635.15	90,714.07	96,335.85
City Departments	321.34	315.39	273.08	309.89	286.16**
Outside City (Rural)					
Residential	42.02	33.95	37.50	28.83	37.62
Multi-Family	193.96	168.54	181.26	205.62	233.76
Commercial	178.16	127.26	136.67	112.24	129.24
Average Monthly Bill					
Above Customers	57.71	48.23	49.24	43.02	48.35
Sales to Other Water Utilities*	38,611.80	31,045.89	30,633.76	22,886.99	27,037.64
Average Monthly Bill					
All Customers	\$ 61.50	\$ 51.32	\$ 52.99	\$ 46.86	\$ 52.97
<b>Average Monthly Use in 1000 Gallons - Water</b>					
Inside City (Urban)					
Residential	10.13	8.25	8.84	7.41	8.75
Multi-Family	138.10	125.51	123.52	115.50	122.10
Commercial	81.34	67.58	71.32	60.41	65.75
Industrial	43,836.58	41,787.88	43,884.04	43,817.22	44,968.85
City Departments	154.26	147.32	130.30	139.17	141.15
Outside City (Rural)					
Residential	11.98	9.87	11.11	8.74	11.10
Multi-Family	82.78	71.81	77.44	88.03	100.55
Commercial	76.62	54.05	58.24	47.36	54.99
Average Monthly Use					
Above Customers	21.76	18.62	19.79	17.57	19.52
Sales to Other Water Utilities*	18,938.56	15,422.55	15,821.91	11,737.39	14,093.65
Average Monthly Use					
All Customers	23.62	20.15	21.73	19.54	21.93
<b>Average Revenue Per 1000 Gallons - Water</b>					
Inside City (Urban)					
Residential	\$2.97	\$2.85	\$2.76	\$2.68	\$2.68
Multi-Family	2.45	2.45	2.33	2.32	2.31
Commercial	2.46	2.47	2.34	2.34	2.36
Industrial	2.18	2.17	2.07	2.07	2.14
City Departments	2.08	2.14	2.10	2.23	2.03
Outside City (Rural)					
Residential	3.51	3.44	3.37	3.30	3.39
Multi-Family	2.34	2.35	2.34	2.34	2.32
Commercial	2.33	2.35	2.35	2.37	2.35
Average Revenue					
Above Customers	2.65	2.59	2.49	2.45	2.48
Sales to Other Water Utilities*	2.04	2.01	1.94	1.95	1.92
Average Revenue					
All Customers	2.60	2.55	2.44	2.40	2.42

\* Includes all Wholesale Customers.

\*\* Several UT campus accounts activated.

**Analysis of Wastewater Bills - TABLE NINE B**

<b>Average Monthly Bill Per Customer - Wastewater</b>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Inside City (Urban)					
Residential	\$ 23.13	\$ 19.82	\$ 18.21	\$ 18.27	\$ 18.90
Multi-Family	477.69	413.23	379.55	370.09	372.98
Commercial	253.56	191.99	176.54	167.14	167.02
Industrial	127,044.30	118,340.25	119,765.31	114,209.91	107,515.00
City Departments	***	169.76	217.44	236.69	218.40**
Outside City (Rural)					
Residential	28.91	23.50	21.62	21.48	22.25
Multi-Family	373.97	295.60	305.84	381.17	367.83
Commercial	668.53	634.63	490.90	436.06	406.82
Average Monthly Bill					
Above Customers	58.34	50.14	47.80	47.41	47.77
Sales to Other Utilities*	28,359.53	23,816.54	21,793.24	22,026.20	17,731.62
Average Monthly Bill					
All Customers	\$ 60.15	\$ 51.66	\$ 49.43	\$ 49.73	\$ 49.68
<b>Average Monthly Use in 1000 Gallons - Wastewater</b>					
Inside City (Urban)					
Residential	6.08	5.24	5.10	5.11	5.30
Multi-Family	122.67	106.47	102.36	99.78	100.54
Commercial	51.72	47.68	45.90	43.24	43.48
Industrial	38,611.97	36,108.57	38,260.31	36,485.28	34,346.18
City Departments	***	50.10	65.96	78.37	63.98
Outside City (Rural)					
Residential	6.46	5.26	5.18	5.16	5.36
Multi-Family	95.76	75.88	82.27	102.80	99.14
Commercial	168.11	160.33	129.87	115.24	107.42
Average Monthly Use					
Above Customers	14.66	13.25	13.31	13.18	13.26
Sales to Other Wastewater Utilities*	10,550.50	8,919.36	8,780.43	8,064.18	6,530.35
Average Monthly Use					
All Customers	15.33	13.81	13.97	14.03	13.97
<b>Average Revenue Per 1000 Gallons - Wastewater</b>					
Inside City (Urban)					
Residential	\$3.80	\$3.79	\$3.57	\$3.57	\$3.57
Multi-Family	3.89	3.88	3.71	3.71	3.71
Commercial	4.90	4.03	3.85	3.87	3.84
Industrial	3.29	3.28	3.13	3.13	3.13
City Departments	***	3.39	3.30	3.02	3.41
Outside City (Rural)					
Residential	4.48	4.47	4.17	4.16	4.15
Multi-Family	3.91	3.90	3.72	3.71	3.71
Commercial	3.98	3.96	3.78	3.78	3.79
Average Revenue					
Above Customers	3.98	3.79	3.59	3.60	3.60
Sales to Other Utilities*	2.69	2.67	2.48	2.73	2.72
Average Revenue					
All Customers	3.92	3.74	3.54	3.54	3.56

\* Includes all wholesale customers.

\*\* Several UT campus accounts activated.

\*\*\* 2000 Included in Inside City Commercial.

**THE ELECTRIC UTILITY  
"AUSTIN ENERGY"**

**Management**

<u>Name</u>	<u>Title</u>	<u>Length of Service with City</u>
Charles B. Manning, Jr.	General Manager	3 Years 11 Months
Al Lujan	Senior Vice President, Operations	1 Year 1 Month
Andy Ramirez, P.E.	Vice President Power Production	4 Years 7 Months
Bob Kahn	Vice President Legal Services	9 Years 2 Months*
Elaine Hart Kuhlman, CPA	Vice President Finance	12 Years 10 Months*
Roger Duncan	Vice President of Conservation and Renewables	11 Years 3 Months
John Baker, P.E.	Vice President Customer Care and Marketing	6 Years 11 Months

\* Length of service not continuous.

**Competitive Positioning**

With increasing competition in the electric utility industry due to regulatory and market changes, the City continues its initiatives at both the policy level and departmental level to strengthen its electric utility's competitive position. In December 1996, the City Council approved financial targets for the Electric Utility Department to achieve over the next six years. In September 1999, these targets were updated and extended through 2003 and are outlined below.

- Complete an annual competitive pricing rate analysis to evaluate its rate structure for all customer classes, using the Electric Reliability Council of Texas ("ERCOT") average retail price as a standard.
- Complete an annual review of operations and competitive position.
- Direct all excess electric utility cash to a debt management fund to achieve a debt-to-capital ratio of 62% by the year 2003 and allow use of the fund to improve the competitive position of the electric utility.
- Continue to reduce operating expenses per kWh.
- Decrease the transfer to the General Fund as necessary to achieve competitive pricing establishing a range between 6.6% and 9.1% of total revenue.
- Adjust conservation spending for the electric utility as necessary to achieve competitive pricing using the ERCOT average retail price as a standard and cost effective conservation programs are targeted as the first priority in meeting new load growth requirements.
- Establish a renewable energy goal of five percent of the energy mix coming from renewable sources by December 31, 2004.

The utility's competitive position has been improved through reduced costs and improved customer service through the initial joint work of a management consulting firm and electric utility management, which was completed in 1998, as well as the ongoing efforts of electric utility management. The electric utility is meeting these long-range financial targets. The electric utility adopted a "Doing Business As" (DBA) during 1998 in order to establish a positive, consumer-focused brand and name recognition before competition occurs. Its new trademark name is "Austin Energy."

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**Generation – TABLE ONE**

The present generating facilities, or interest of Austin Energy therein, are as follows.

<u>Unit</u>	<u>Year Installed</u>	<u>Turbine Generator Nameplate Rating (MVA)</u>	<u>Net Capacity (MW)</u>	<u>Fuel</u>
<b>Fayette Power Project</b>				
Unit No. 1	1979	341.8	300.00	Coal
Unit No. 2	1980	341.8	300.00	Coal
<b>Holly Street Power Plant</b>				
Unit No. 1	1960	133.70	97.00	Gas/No. 2 oil backup
Unit No. 2	1964	133.70	97.00	Gas/No. 2 oil backup
Unit No. 3	1966	224.00	185.00	Gas/No. 2 oil backup
Unit No. 4	1974	234.00	191.00	Gas/No. 2 oil backup
Photovoltaic Plant (PV300)	1986	0.30	0.05	Solar
<b>Decker Power Station</b>				
Unit No. 1	1970	414.98	335.00	Gas/No. 2 oil backup
Unit No. 2	1977	486.00	435.00	Gas or Nos. 1 through 5 oil
Gas Turbines	1988	229.00	200.00	Gas/No. 1 oil backup
<b>South Texas Project Electric Generating Station</b>				
Unit No. 1	1988	216.69	200.00	Nuclear
Unit No. 2	1989	216.69	<u>200.00</u>	Nuclear
Total Capacity			2,540.05	

Fayette Power Project – The City is a 50% owner in the Fayette Power Project consisting of two coal fired units and related facilities with a net capacity of 1,200 megawatts (“MW”). A third unit has been constructed at the Fayette site but the City is not participating. The Fayette Power Project is a joint power project undertaken by the LCRA and the City. Pursuant to the participation agreement, LCRA was appointed Project Manager and a Management Committee was established, composed of two representatives from each participant, to direct the development and operation of the project. The participation agreement provides that all covenants, obligations and liabilities incurred under the participation agreement are several and not joint and collective. The Fayette Power Project is located approximately 8 ½ miles east of LaGrange, between LaGrange and Fayetteville in Fayette County. Coal deliveries began in January 1979. Unit No. 1 and common facilities went into commercial operation June 16, 1979. Unit No. 2 is identical to Unit No. 1 and went into commercial operation May 1980. A Foxboro distributed control system was installed in 1997 in both Units No. 1 and 2 to improve plant operability performance and efficiency.

South Texas Project – The City is a 16% owner in the South Texas Project (“STP”) consisting of two 1,250 MW nuclear generating units. STP is located between Bay City and Palacios in Matagorda County. The participants in the project are two investor-owned utilities, Reliant Energy, Inc. (30.8%) and Central Power and Light Company (“CPL”) (25.2%), and two municipal entities, City Public Service of San Antonio (28%) and the City (16%).

The entire project was 100% complete as of December 31, 1988. The Nuclear Regulatory Commission (“NRC”) on August 21, 1987 issued a low power license for Unit No. 1. On March 8, 1988, Unit No. 1 achieved reactor criticality for the first time. On March 22, 1988, the NRC issued a full power license for Unit No. 1. Commercial operation began at midnight on August 25, 1988. Unit No. 2 was granted a low power license and full power license March 11 and March 28, 1989, respectively. Initial criticality was achieved March 12, 1989. Commercial operation was attained June 19, 1989.

The participation agreement provides that all covenants, obligations and liabilities incurred under the participation agreement are several and not joint and collective. Effective November 17, 1997 the four co-owners of STP agreed to substantially change operations and management of STP by establishing a new non-profit operating company to replace HL&P as the NRC licensed operator and Project Manager of STP. Previously, the other STP owners, CPL and San Antonio had agreed to this change. The Company was incorporated as South Texas Project Nuclear Operating Company (“STPNOC”).

The new arrangement is governed by a substantially amended Participation Agreement and an operating agreement between the

owners and the new non-profit operating company. The amended Participation Agreement sets forth the rights and responsibilities of the co-owners and creates an owners' committee to act on important ownership issues such as appointing officers for the operating company, approving annual budgets and business plans, and fuel procurement.

The operating company is governed by a five-member board of directors (one appointed by each of the owners as well as the Chief Executive Officer of the operating company). The operating company is responsible for the day-to-day operations of STP.

Renewable Energy Sources – Between 1997 and 1999, Austin Energy installed solar photovoltaic systems at 20 locations, with a cumulative capacity of over 200 kW. These included three systems that were partially funded by voluntary customer contributions (Solar Explorer) with matching funds provided by the U.S. Department of Energy, as well as photovoltaic systems on 16 houses and the Wild Basin Nature Center. Austin Energy also has contracts to purchase 99.4 MW from two (2) wind power projects and 13.4 MW from five (5) landfill methane projects.

### **Conventional System Improvements**

In September 2000, the 2001-2005 Capital Improvements Spending Plan was approved by the City Council in the amount of \$791,318,000.

Austin Energy's five-year spending plan provides continued funding for Distribution and Streetlighting additions including line extensions for new service, system modifications for increased load, relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for generation additions including upgrade and modernization of existing generation, control and plant equipment at the Decker and Holly Power Plants, continuation of remediation projects and capital additions at the South Texas Project and Fayette Power Project, and capital requirements for a new combined cycle plant and peaking capacity additions.

Funding for the total Capital Plan is provided from current revenues and commercial paper. Pursuant to a revised City policy, Austin Energy only seeks voter approval of Parity Electric Utility Obligations for major generation improvements. The new generation additions in the Capital Plan will be financed by internal cash and a portion of the Debt Management Funds.

A breakdown of Austin Energy's 2001-2005 Capital Plan is as follows.

Transmission and Substation	\$ 80,402,000
Distribution and Streetlighting	264,921,000
Generation	337,139,000
General Additions	73,781,000
Energy Management	<u>35,075,000</u>
TOTAL	\$791,318,000

Funding will consist of \$530,216,000 in current revenues and \$261,102,000 in debt for a total of \$791,318,000.

Austin Energy is rebuilding the existing Austrop to Fayette 345 kV single circuit line to add a second 345 kV circuit. This rebuild along with the addition of the new Lost Pines 345 kV Switchyard (located near Bastrop, Texas) are being undertaken to accommodate the new Lost Pines Power Park I Generation Plant and to relieve existing transmission congestion between the Fayette Power Plant and Austin. Lost Pines Power Park is jointly owned by LCRA and Calpine. ERCOT requires that the transmission provider in that service area to provide the necessary interconnection. Austin Energy has been designated by ERCOT as the transmission provider since they already own the existing 345 KV transmission line in the area. The expected completion date for these projects is January 1, 2001 for the Switchyard and the Austrop to Lost Pines 345 kV Circuits and May 1, 2001 for the Lost Pines to Fayette 345 kV Circuits. Austin Energy is also continuing a vigorous construction program of non-345 kV related transmission and substation projects to accommodate Austin's growth. The capital budget for 2001 is \$37.5 million for transmission and substations and \$17.6 million for distribution substations, most of which are recoverable through TCOS.

In 1995, the Public Utility Commission of Texas ("PUC") adopted new rules governing the transmission system in the ERCOT, an organization made up of major investor-owned and municipal systems, a state river authority, a municipal joint agency, energy marketers, independent power producers and a number of cooperatives. As part of these new rules, the PUC established a means for the transmission owners in ERCOT to recover Transmission Cost of Service ("TCOS"). TCOS is based on the principle of equal transmission access for all loads and generation in ERCOT. Each load serving entity in ERCOT has been assigned a share of the total cost of transmission in ERCOT based upon the ratio of that load serving entity's load to the entire load in ERCOT. The funds recovered through this mechanism are distributed to transmission owners in ERCOT based upon a ratio of the transmission owner's investment in transmission facilities to the entire transmission investment in ERCOT. Austin Energy's load represents approximately 3.8% of ERCOT and Austin Energy's transmission cost of service is approximately 4.7%

of ERCOT's total transmission cost of service. This will result in a positive net gain of approximately \$6,000,000 dollars for 2000 from TCOS. A continuing investment in Austin Energy's Transmission System will result in a continuing positive cash flow from TCOS.

### Transmission and Distribution System

The transmission and distribution lines of the Austin Energy System as of September 30, 2000, are as follows:

<u>Miles</u>	<u>Description</u>
55	345 kV transmission line (Fayette Power Project)
94	345 kV transmission line (South Texas Project)
61	345 kV transmission line (Fayette Power Project) (50% ownership with LCRA)
330	69 kV and 138 kV transmission lines
9,301	Overhead, underground and downtown network distribution lines

Austin Energy owns the following transmission substations.

Austrop Decker Plant Garfield	Holman Holly Plant	Lytton Springs Pilot Knob
-------------------------------------	-----------------------	------------------------------

Austin Energy owns the following distribution substations.

<u>Name</u>	<u>Capacity (MVA)</u>	<u>Name</u>	<u>Capacity (MVA)</u>
Angus Valley	60	Lakeshore	60
Austin Dam	60	Lakeway	60
Barton	90	McNeil	90
Bee Creek	60	Magnesium	90
Bergstrom	60	North	60
Brackenridge	210	Northland	100
Brodie	60	Oak Hill	60
Burleson	70	Onion Creek	30
Cameron	90	Patton Lane	130
Cardinal Lane	80	Pedernales	60
Carson Creek	60	River Place	40
Commons Ford	60	Salem Walk	90
Daffin Gin	30	Seaholm	320
Dessau	130	Slaughter Lane	60
Ed Bluestein	200	Sprinkle	30
Fiskville	60	Steck	90
Grove	90	Summit	140
Hamilton	120	Techridge	60
HiCross	90	Trading Post	30
Howard Lane	60	Walnut Creek	60
Jett	60	Warren	60
Jollyville	90	Wheless Lane	90
Kingsbery	60	Williamson	120
Koenig Lane	110	Zilker	20

The City and LCRA entered into the Fayette Power Project Transmission Agreement dated March 17, 1977 setting forth the duties, obligations and responsibilities with respect to the transmission of energy from the Fayette Power Project. The City has also entered into the South Texas Project 345 kV Transmission Line Agreement dated as of January 1, 1976 with the participants in STP setting forth the duties, obligations and responsibilities with respect to transmission facilities associated with STP.

Austin Energy is interconnected with LCRA, with whom Austin Energy has a power interchange agreement. Austin Energy is also interconnected with Reliant Energy, Inc., City Public Service of San Antonio and CPL. Austin Energy is a member of ERCOT. As a participant in ERCOT, Austin Energy is able to provide and be provided with a reliable backup supply of generation under emergency conditions. The diversification of fuel sources of the member systems increases the potential for economic interchanges among the respective systems. Sale and purchase transactions generally maximize the use of the less expensive fuel sources by all members of the interconnected system.

Historically, electric utilities operating in Texas have not had any interstate connections, other than in certain emergency situations, and hence investor owned utilities have not been subject to regulation by the Federal Energy Regulatory Commission ("FERC") and its predecessor agencies under the Federal Power Act. Over the past several years, successful efforts have been made to provide interstate connections. These efforts have resulted in protracted judicial and administrative proceedings involving ERCOT members. The settlement of such proceedings permits the ERCOT members to avoid federal regulation as the result of any interstate interconnection with another interstate connected utility.

### **Power and Energy Sales Contracts**

Austin Energy has twenty enabling agreements in place with various market participants. The agreements are designed to facilitate energy transactions by providing a standard agreement and may be cancelled by either party upon thirty days written notice. Any transactions are by mutual agreement, no party is obligated to ever offer, sell or buy energy under the agreements. At certain times, Austin Energy has surplus capacity and energy and is an active participant in the Texas wholesale power market.

### **Power and Energy Purchase Contracts**

The City has signed two long-term energy purchase agreements for wind and landfill gas (Methane) electric generation and one short term capacity and energy agreement with Electric Clearinghouse, Inc. (ECI), now Dynergy Corporation.

**Wind Power Purchase** – In March 1995, the City signed a 25-year contract with LCRA to purchase up to 39,000 MWh of electric energy per year from the Texas Wind Power Project located in west Texas. The City's share is part of the Texas Wind Power Project in the Delaware Mountains east of El Paso. The project went into commercial operation in September 1995. In December 1999, Austin Energy signed a 10 year contract to purchase the output of a 20 MW wind energy project to be built by Texas Wind Power Corporation in Upton County. Shortly after execution, the contract was assigned to a subsidiary company, King Wind L.P., the development and construction arm of Texas Wind Power Company. The original contract provided Austin Energy an option to increase the project capacity by an additional 78.4 MW. On October 26, 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and increasing the project capacity by an additional 56.7 MW.

**Landfill Gas (Methane) Power Purchase** – In December 1994, the City signed a contract with Alternative Power Limited Partnership (APLP), an affiliate of Browning-Ferris Industries (BFI), to purchase energy from a 3 megawatt landfill gas plant in Austin. The methane gas, which is considered a renewable resource by the federal government, is collected through a system of large perforated pipes inserted below the landfill. The gas is used in an engine generator for making electricity. The project is a "Qualifying Facility" under the PURPA laws and the City has agreed to purchase the energy under a 25-year contract. Only electrical energy actually produced by the plant will be purchased and no capacity payments will be made. The Austin plant went into commercial operation in December 1996.

In March 1998, the APLP power purchase contract was amended to accept an additional 1 MW of power. APLP obtains and uses additional landfill gas from the Waste Management Landfill which is located adjacent to the Sunset Farms Landfill. The contract period is for a minimum of six months.

In December 1999, Austin Energy signed two contracts for purchase of energy from landfill methane-recovery projects to be developed by EcoGas Inc. and Energy Developments, Inc. (EDI). The EcoGas facility, which was believed to be capable of producing 4 MW, will be located at the old Austin sanitary landfill on Route 1812. Eco Gas Inc. assigned its rights to EDI in October 2000. The EDI facilities will be sited at landfills in San Antonio, Houston and Hutchins, Texas. The combined output of the EDI facilities will be 10.4 MW.

**Annual Summary of Customer Consumption and Average Price – TABLE FOUR**

Austin Energy delivers electricity to an average of 334,000 customers within its service area. The kilowatt-hour sales distributed by customer classification served by Austin Energy are shown in the following table.

	Fiscal Year Ended September 30				
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>All Customers*</b>					
Average Monthly kWh Per Customer	2,588	2,377	2,289	2,193	2,214
Average Monthly Bill Per Customer	\$179.91	\$153.37	\$152.87	\$144.62	\$148.96
Average Monthly Revenues Per kWh	\$0.06950	\$0.06452	\$0.06678	\$0.06594	\$0.06727
<b>Residential Customers</b>					
Average Monthly kWh Per Customer	1,032	945	941	883	919
Average Monthly Bill Per Customer	\$83.17	\$71.03	\$72.06	\$65.99	\$69.28
Average Monthly Revenues Per kWh	\$0.08062	\$0.07514	\$0.07656	\$0.07471	\$0.07539
<b>General Customers**</b>					
Average Monthly kWh Per Customer	14,480	13,716	12,941	12,659	12,509
Average Monthly Bill Per Customer	\$909.80	\$798.62	\$784.47	\$765.73	\$776.32
Average Monthly Revenues Per kWh	\$0.06283	\$0.05823	\$0.06062	\$0.06049	\$0.06206

\* Excludes UT and Nightwatchman.

\*\* Excludes UT, Nightwatchman and the City.

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**Generation and Use Data – TABLE SIX**

Fiscal Year Ended September 30

	2000		1999		1998		1997		1996	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		10,627,483,000		10,054,296,000		9,770,302,000		8,907,873,000		9,652,530,000
kWh Received from ERCOT(1)		263,551,000		236,149,000		518,184,000		436,967,000		421,547,000
Less: kWh Delivered to ERCOT		(31,160,000)		(36,200,000)		(43,721,000)		(26,415,000)		(40,838,000)
Less: kWh Delivered to Other Utilities		<u>(355,454,000)</u>		<u>(354,082,000)</u>		<u>(532,916,000)</u>		<u>(427,189,000)</u>		<u>(1,312,273,000)</u>
Total kWh Delivered to Service Area		<u>10,504,420,000</u>		<u>9,900,163,000</u>		<u>9,711,849,000</u>		<u>8,891,236,000</u>		<u>8,720,966,000</u>
Service Area Energy Use:										
Residential	296,481	3,670,131,218	301,057	3,415,342,333	292,269	3,301,122,584	284,007	3,010,608,117	273,435	3,015,196,148
General Service (Less UT & ENW)	<u>36,553</u>	<u>6,351,518,316</u>	<u>35,790</u>	<u>5,890,650,390</u>	<u>34,665</u>	<u>5,383,228,534</u>	<u>33,349</u>	<u>5,065,826,982</u>	<u>32,215</u>	<u>4,835,904,276</u>
	<u>333,034</u>	<u>10,021,649,534</u>	<u>336,847</u>	<u>9,305,992,723</u>	<u>326,934</u>	<u>8,684,351,118</u>	<u>317,356</u>	<u>8,076,435,099</u>	<u>305,650</u>	<u>7,851,100,424</u>
Public Street Lighting	3	33,530,825	3	33,226,385	3	28,174,152	4	28,446,894	5	28,318,801
City Utility Departments	186	201,953,134	214	195,756,743	220	204,290,381	220	189,256,272	213	195,929,066
Other City Departments	<u>630</u>	<u>112,965,298</u>	<u>536</u>	<u>95,255,030</u>	<u>498</u>	<u>84,043,151</u>	<u>494</u>	<u>77,608,259</u>	<u>480</u>	<u>65,482,462</u>
	<u>819</u>	<u>348,449,257</u>	<u>753</u>	<u>324,238,158</u>	<u>721</u>	<u>316,507,684</u>	<u>718</u>	<u>295,311,425</u>	<u>698</u>	<u>289,730,329</u>
Total Service Area Sales	333,853	10,370,098,791	337,600	9,630,230,881	327,655	9,000,858,802	318,074	8,371,746,524	306,350	8,140,830,753
Sales to UT & ENW (Nightwatchman)		14,609,114		11,074,895		10,196,845		9,498,245		8,668,180
Loss and Unaccounted For		<u>119,712,095</u>		<u>258,857,224</u>		<u>700,793,353</u>		<u>509,991,231</u>		<u>571,467,067</u>
Total kWh Delivered to Service Area	<u>333,853(7)</u>	<u>10,504,420,000</u>	<u>337,600</u>	<u>9,900,163,000</u>	<u>327,655</u>	<u>9,711,849,000</u>	<u>318,074</u>	<u>8,891,236,000</u>	<u>306,350</u>	<u>8,720,966,000</u>
System Peak Demand (kWh)		2,383,000(6)		2,239,000(5)		2,389,000(4)		2,167,000(3)		2,148,000(2)

(1) Electric Reliability Council of Texas (formerly Texas Interconnected System).

(2) Includes 1,815,000 kW Peak Demand delivered to service area plus net coincidental demand of 333,000 kW delivered to other utilities.

(3) Includes 1,870,000 kW Peak Demand delivered to service area plus net coincidental demand of 297,000 kW delivered to other utilities.

(4) Includes 2,070,000 kW Peak Demand delivered to service area plus net coincidental demand of 319,000 kW delivered to other utilities.

(5) Includes 2,132,000 kW Peak Demand delivered to service area plus net coincidental demand of 107,000 kW delivered to other utilities.

(6) Includes 2,284,000 kW Peak Demand delivered to service area.

(7) Reduction in number of customers is due to the installation of a new billing system in 2000 that changed the way customers are counted rather than customer loss.

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**Electric Rates – TABLE SEVEN**

The following electric rates are effective March 17, 1997 by Ordinance 970306-P. See “Rate Regulation” below.

<u>Customer Class</u>	<u>Fuel Adjustment Clause (1)</u>	<u>Customer Charge</u>	<u>1<sup>st</sup> 500 kWh</u>	<u>Energy Charge</u>	
				<u>Winter</u> <u>November – April</u>	<u>Summer</u> <u>May - October</u>
Residential Service (E01)	All kWh	\$6.00	\$0.0355 Per kWh	\$0.0602 All kWh Above 500 kWh	\$0.0782 All kWh Above 500 kWh
General Service Non-Demand (E02)	All kWh	6.00		.0464 All kWh	.0644 All kWh
State Accounts Non-Demand (E13)	All kWh	6.00		.0319 All kWh	.0499 All kWh
			<u>Minimum Bill</u>		
Water and Wastewater (E03)	All kWh	\$12.00 (2)		.0277 All kWh	.0648 All kWh
Other City (Including Electric) (E04)	All kWh	12.00 (2)		.0354 All kWh	.0521 All kWh
Streetlight/Traffic (E05)	All kWh	12.00 (2)		.1498 All kWh	.1498 All kWh
			<u>Energy Charge</u>	<u>Demand Charge</u>	
General Service Demand (E06)	All kWh	12.00 (2)	\$0.0180 All kWh	\$12.65 All kW	\$14.03 All kW
General Service Demand - Public Schools (E10) (3)	All kWh	12.00 (2)	.0228 All kWh	5.68 All kW	7.95 All kW
Primary Service (E07)	All kWh	12.00 (2)	.0151 All kWh	11.11 All kW	12.10 All kW
Large Primary Service (E08) (3)	All kWh	12.00 (2)	.0150 All kWh	11.81 All kW	12.60 All kW
State Accounts – Demand Secondary Service (E14)	All kWh	12.00 (2)	.0107 All kWh	10.94 All kW	11.64 All kW
State Accounts – Primary Service (E17)	All kWh	12.00 (2)	.0107 All kWh	10.94 All kW	11.64 All kW
State/Large Primary Service (E15) (3)	All kWh	12.00 (2)	.0107 All kWh	10.94 All kW	11.64 All kW
Transmission Service (E11)	All kWh	12.00 (2)	.0140 All kWh	10.98 All kW	11.72 All kW
Nightwatchman	<u>Fuel Charge</u>		<u>Pole Rental</u>	<u>Customer Charge</u>	
175 Watt Mercury Vapor	60 kWh Per Light		\$1.74 Per Pole	\$ 7.34 Per Light	
100 Watt High Pressure Sodium	35 kWh Per Light		1.74 Per Pole	4.28 Per Light	
400 Watt Mercury Vapor	140 kWh Per Light		1.74 Per Pole	17.11 Per Light	
250 Watt High Pressure Sodium	90 kWh Per Light		1.74 Per Pole	11.00 Per Light	

- (1) The Fuel Adjustment Clause recovers fuel costs. The calculation of the Fuel Adjustment Clause is described in the Rate Ordinance.
- (2) Minimum Bill is applied when the sum of energy, demand and fuel charges is less than \$12.00.
- (3) Does not include special contracts, time-of-use and economic development rates.

## **Annual Adjustment Clause**

The City assesses an Annual Adjustment Clause charge based on a formula designed to recover the actual cost of fuel per kWh. The intent of the fuel formula is to avoid any over or under recovery of costs associated with fuel.

Due to escalating prices for natural gas supplies, Austin Energy increased its fuel factor effective August 2000 during the summer billing period. A second increase was effective November 2000 during the winter billing period. This two step approach reduced the impacts on customer's monthly bills. Austin Energy again adjusted its fuel factor effective February 1, 2001 due to continued escalating natural gas prices. Most electric utilities within ERCOT have increased their fuel factors at least once if not twice within the past twelve months due to the natural gas price increases. Austin Energy will continue to review the effectiveness of the fuel adjustment clause and the impacts of natural gas prices on the fuel adjustment clause.

## **Green Choice Energy Rider**

In March 2001, Austin Energy adopted a Green Choice Energy charge for renewable energy. The first 100,000 MWH of renewable energy (Batch 1) from wind and methane gas energy will be priced at 1.7 cents per kWh in lieu of the fuel adjustment factor. In October 2000 additional wind energy was contracted and is designated as Batch 2. The Batch 2 renewable energy will be priced at 2.85 cents per kWh. Customers who subscribe to this batch will pay this renewable energy charge in lieu of the fuel adjustment factor.

## **Fuel Supply**

Coal. Coal is the fuel for Units 1 and 2 of the Fayette Power Project ("FPP"). In order to secure an adequate supply of coal for the operation of these units, the City and LCRA entered into a Coal Supply Agreement ("ARCO Contract") with Thunder Basin Coal Company, a wholly owned subsidiary of Atlantic Richfield Company, effective April 21, 1977. The ARCO Contract was amended, effective April 1, 1989. During 2000 and 2001, inclusive, the City will purchase approximately 1.25 million tons of coal annually from ARCO (now Arch Coal Company).

In addition to Arch Coal Company, FPP Units 1 and 2 meet their requirements through a spot coal purchasing pool. This pool is made up of sixteen (16) coal suppliers who are capable of providing spot coal to FPP on an as needed basis. These contracts are evergreen and may provide up to 50% of FPP Units 1 and 2 coal requirements.

Currently the City and LCRA own 1,043 rotary dump railroad cars to transport coal from Wyoming to the Fayette Power Project. These railroad cars are maintained at the Smithville Rail Fleet Maintenance Facility which is jointly owned by the City and LCRA. This arrangement reduces the transportation rate on coal and places the control and management of the cars in the hands of the City and LCRA.

In 1989, the City and LCRA also entered into a long-term coal transportation agreement with the Union Pacific Railroad (UP) to deliver at least 95% of FPP's coal needs from mines located in the Powder River Basin of Wyoming. The initial term of the contract expired in 1999. In 1997 the Burlington Northern Santa Fe (BNSF) railroad obtained trackage rights allowing it to serve the FPP facilities.

In 1999, the BNSF contract was expanded to cover 30% of FPP's annual coal requirements and extended for an additional two years. Additionally, in August 2000 the City and LCRA renegotiated and extended the BNSF contract for an additional two years with a one year extension option. This agreement will provide transportation services up to 2003. Also, the City and LCRA renegotiated and extended the UP contract to cover the remainder of FPP transportation requirements for a term ending March 2004. The amended contracts continue competition for FPP coal transportation business and reduce overall costs for FPP.

Gas and Oil. The City currently has gas transportation contracts with Lone Star and PG&E Texas Pipeline (formerly Valero). The City pursues a strategy of buying gas from multiple suppliers with different price adjustment procedures, with the objective of maximizing competition and diversifying risk. This has resulted in the City receiving very competitive bids for gas at prices reflecting the current market. Austin Energy will consider intermediate and long term gas purchases as well from these suppliers.

Currently the City has gas supply contracts with thirteen suppliers. This pool of suppliers includes major marketers and producers who are capable of providing gas to the City on a daily through annual basis. The pool will be expanded, as necessary, to enhance competition and supplier diversity in the future. Prices under these contracts are determined by monthly and/or daily bids or market indexes.

In case of a curtailment in natural gas supplies, fuel oil is used to replace the natural gas shortfall. Austin Energy maintains a reserve of approximately 8.0 million gallons of No. 1 oil and No. 2 oil. The City maintains a standby oil supply contract in case additional supplies are needed.

Nuclear. Procurement of nuclear fuel for reactor use consists of four major steps. The process begins with the procurement of natural uranium concentrates (U308). The U308 is then converted into uranium hexafluoride (UF6). The uranium hexafluoride is then enriched to increase the energy (fissionable isotopes) content of the fuel. The enriched UF6 is then fabricated into fuel assemblies, which are placed in the reactor.

Uranium inventories were depleted in June 1995. STP has implemented a plan to purchase additional supplies of uranium through a combination of long-term and spot supply contracts.

Beginning in 2000, Cameco Corporation and Cogema began providing between 40% and 100% of STP's conversion requirements through 2001. The balance of the conversion requirements will be purchased under spot supply contracts depending on market conditions.

A long-term contract with the U.S. Department of Energy (DOE) provided for all Project enrichment services through September 2000. On July 1, 1993, DOE transferred this contract to the United States Enrichment Corporation (USEC), a federally owned corporation created to assume the enrichment services obligation of the DOE. A new contract has been negotiated with USEC replacing the former contract. The term covers 100% of STP requirements through September 2000 and 50% of requirements through 2002. Another contract has been finalized with Cogema that covers 40% to 60% of requirements from October 2000 through 2004. Both new contracts offer prices about 25% lower than the original long term USEC contract. The new contracts also offer quantity flexibility that permits some requirements to be purchased through other supply contracts if market conditions are favorable.

A fabrication contract with Westinghouse covers the STP requirements for the initial core and operation through 2005 and 2006 for Units 1 and 2 respectively. The contract also provides for fabrication services at a reduced cost.

### **Rate Regulation**

The City's rates, except for wholesale transmission and ancillary services, are regulated by the City Council. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act ("PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City's corporate limits.

The Texas courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction.

The Electric Utility Department of the City initiated a local rate proceeding in response to the increasing competitive nature of the electric utility industry. The Department proposed a reduction or elimination of certain rates, the creation of new tariffs, and amendment of existing tariffs and the customer service regulations. The changes were designed to offer customers more choice and value. Basic electric rates did not increase as a result of the proposed changes. The City Council approved most of the proposals in December 1996 and March 1997.

In 1995, PURA was amended as it pertains to the PUCT's original jurisdiction over the City's provision of wholesale transmission service. The PUCT now has exclusive jurisdiction over rates and terms and conditions for the provision of transmission and ancillary services by the City. Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, discriminatory, predatory, or anti-competitive. The PUCT adopted rules relating to wholesale transmission service and related ancillary service. The City participated in the rulemaking. The PUCT is in the process of considering what changes should be made to the current transmission and ancillary service rules as a result of the changes to PURA made during the 1999 legislative session. The current rules have been challenged in two original petitions filed by Reliant Energy Inc. (formerly Houston Lighting & Power Co.) and City Public Service Board of San Antonio seeking a declaratory judgment holding the transmission pricing methodology in the PUCT's new transmission rules invalid and seeking a remand of the rulemaking. The City of Austin has intervened in the proceedings in defense of the rulemaking. The two proceedings were consolidated and on April 20, 1998, the 98<sup>th</sup> District Court of Travis County entered final judgment against the plaintiffs, declaring the PUCT rules to be "valid, constitutional, and fully effective". The plaintiffs then appealed to the Third Court of Appeals' in Austin. On January 6, 2000, the Third Court of Appeals' invalidated those parts of the PUCT rules dealing with transmission rates, reversing the trial court and rendered judgment for the appellants. The City and others have petitioned the Supreme Court of Texas for a review of the Third Court of Appeal's opinion and in October 2000 the Court agreed to consider the case. Oral argument was heard on December 6, 2000. The City is awaiting a ruling from the Supreme Court.

The City filed with the PUCT a filing package delineating transmission cost of service and costs for ancillary services related to

transmission service. The PUCT entered a Final Order on the filing by the City effective January 1, 1997. The Final Order and subsequent revisions to tariffs increased net income to the system by approximately \$6.0 million on an annual basis.

An Independent System Operator (“ISO”) was established for ERCOT as a part of the rules that were adopted by the PUCT to open access to the wholesale electric market in Texas and was approved by the PUCT on August 21, 1996. The ISO received approval on May 5, 2000, of its certification under SB7. The ISO’s primary mission is to act as an impartial third party operator and planning coordinator for the ERCOT bulk electric system. The City is a member of ERCOT.

In addition, the 1995 PURA revisions required the creation of a committee to investigate the most economical, reliable and efficient means to interconnect the alternating current electric facilities of ERCOT to similar electric utility facilities within the Southwest Power Pool reliability area. A final report was issued to the Legislature during the 1999 session. No further action has been taken on interconnection by the Legislature.

During the 1999 Legislative Session PURA was amended by Senate Bill 7 (SB 7) providing for deregulation of the electric utility industry in Texas. SB 7 opened retail competition for investor owned utilities beginning January 1, 2002. However, the date can be delayed if certain conditions are not met. SB 7 allows local authorities to choose when to bring retail competition to their municipal utilities (MOU), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to “opt in” is adopted by the municipal utility’s governing body, the decision is irrevocable.

General Market Framework: There is a strong ISO established, with clear and enforceable market power protections: no utility can control more than 20% of ERCOT generation. Starting on January 1, 2002, a “Price-to-Beat” for the incumbent Investor Owned Utilities (IOU) rates includes a 6% reduction through 2005 or until 40% of IOU residential and small commercial customers choose a new supplier. There are protections against over-recovery of stranded investment by IOUs and protections against anti-competitive practices and predatory pricing. Retail competitors are required to sell to the residential market (minimum 5% of their business with residential if they sell more than 300 MWs). The air quality provisions require clean up of older “grandfathered power plants”.

#### MOUs Which *Do Not* Choose Retail Competition

- There is no retail choice for MOU customers. MOU cannot sell at retail outside its area.
- Current regulatory scheme continues.
- Continued MOU access to buy and sell power in the wholesale market.

#### MOUs Choosing Retail Competition On or After January 1, 2002

(City councils or governing boards make an affirmative choice to bring retail competition to their MOU.)

- Retail competitors can sell “generation” to MOU customers. MOU provides “wires” access to its distribution system for Retail Electric Providers, other MOUs and Electric Cooperatives. MOU has an “obligation to connect” and provides wire services and local reliability. Wires are not subject to competition.
- MOU can sell at retail outside its service area, per prevailing market rules.

#### MOU Local Control Preserved

- Exclusive MOU jurisdiction to set local distribution and other rates. (Local wires services and rates remain in exclusive jurisdiction of the MOU).
- Local determination of the stranded investment amount and recovery mechanism.
- MOUs are not required to unbundle (structurally separate functions).
- Local authorities determine and provide customer services and protections.
- Local control of MOU power resource acquisition.
- Customers in multi-certified areas cannot switch wires companies to avoid stranded investment charges.
- Securitization is available to MOUs.

#### Participation By MOU In Markets Outside Its Area

- Limited PUCT jurisdiction over terms and conditions for access not rates.
- Subject to market power limits and PUCT anti-competitive code of conduct.

#### Metering And Billing

- MOU retains metering.
- Customers with another generation supplier choose either one consolidated bill from the MOU, or two separate bills (one for wires, one for generation).
- Under SB 7, a System Benefit Fund will be established for consumer education programs, low-income customer programs

and loss of tax revenue by school districts resulting from a devaluation of generation assets in the competitive market. A system benefit fee will be added to the utility bills of IOU customers to provide funding for the System Benefit Fund. MOUs are not required to bill their customers this system benefit fee until six months prior to the MOU "opt-in" date, if the MOU governing body elects to "opt-in." The System Benefit Fund will expire September 2007.

Other Key MOU Provisions: Existing contracts are preserved. Tax-exempt status is preserved. MOU "competitiveness provisions" were included in SB 7 to "level" the field for MOUs when preparing for competition including relaxation of open meetings/records and purchasing provisions. No mandated MOU rate reductions.

### **Real Estate Taxes**

Austin Energy pays no real property taxes on facilities inside or outside the City, nor payments in lieu of taxes with respect to Austin Energy.

### **Service Area**

The service area for Austin Energy was established by the PUCT pursuant to a certificate of convenience and necessity on April 3, 1978. The City's service area encompasses 206.41 square miles within the City itself and 230.65 square miles of surrounding Travis and Williamson Counties. The establishment of such a service area entitles Austin Energy to provide electric service within such area. As presently constituted, the City's service area overlaps with approximately 11 square miles of the service area of TXU in Travis and Williamson Counties.

The City may not extend the service area for Austin Energy to an area receiving similar utility service without first obtaining a certificate of convenience and necessity from the PUCT. The City has no plans to expand its present service area.

### **Federal Regulation**

Rate Regulation and Wholesale Wheeling. Austin Energy is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy under current Federal statutes and regulations. Austin Energy submits various reports to FERC and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records. On April 24, 1996, the FERC issued a Final Rule (the "Rule") proposing significant changes regarding transmission service performed by electric utilities subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Among other things, the FERC requires utilities to submit open-access, mandatory transmission tariffs. The goal of the Rule, according to the FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner's control of its transmission system.

Although municipally-owned utilities, including Austin Energy, are not subject to the FERC's jurisdiction under sections 205 and 206 of the Federal Power Act, the proposals in the Rule could have a significant effect on those utilities. The FERC stated that its overall objective was to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. The FERC also indicated that it intends to apply the principles set forth in the Rule to the maximum extent to municipal and other non-jurisdictional utilities, both in deciding cases brought under sections 211 and 212 of the Federal Power Act and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

According to the Rule, an open access transmission tariff must provide for functional unbundling of utility service, so that the filing utility will be obliged to purchase transmission service to meet its native load under the same transmission tariff it offers to others. A conforming tariff must be available to any entity eligible to request a section 211 order, must provide for expansion of the transmission system when necessary to provide service, must offer firm point-to-point and network service as well as non-firm transmission service, and must offer to provide such ancillary services (e.g., reactive power, loss compensation, scheduling and dispatch, system protection and energy imbalance services) as the transmission provider provides to itself. Transmission capacity must be subject to reassignment and sale on a secondary market. Transmission owners must also make available to potential users an index of capacity owners and information about the transmission capacity available for sale.

The FERC also ruled that it will permit utilities that file conforming open access transmission tariffs to recover their legitimate and verifiable stranded costs from wholesale sales customers who had been parties to sales contracts executed before July 11, 1994 which did not contain an exit fee or other provision relating to stranded cost recovery and who exercised their option to become transmission customers and purchase their electricity needs off-system. In order to recover stranded costs, the FERC said, a utility would be required to demonstrate that it had a "reasonable expectation" of continuing to serve the former customer's requirements for electric sales service and would also be required to demonstrate that it had attempted to mitigate its stranded costs.

Recovery of stranded costs resulting from retail wheeling initially would be the responsibility of state regulatory commissions, which could not permit such recovery in interstate transmission rates but must, instead, use such mechanisms as a surcharge upon rates for local distribution or an exit fee for departing retail customers to compensate utilities for stranded costs stemming from retail wheeling. If, however, a state commission lacked legal authority to provide for compensating utilities for stranded costs resulting from retail wheeling or if the stranded costs result from a formerly retail sale customer becoming a wholesale customer (e.g., by municipalization), the FERC itself would permit the recoverable stranded costs to be recovered in interstate transmission rates.

Although the Rule does not directly regulate non-jurisdictional utilities such as Austin Energy, the Rule could have a significant impact on such utilities' operations. It could significantly change the competitive climate in which they operate, giving their customers much greater access to alternative sources of electric sales service. It would require them to provide open access transmission service conforming to the requirements for investor-owned utilities whenever they are properly requested to do so under sections 211 and 212 of the Federal Power Act or as a condition of taking transmission service from an investor owned utility. In certain circumstances, it would require non-jurisdictional utilities to pay compensation to their present suppliers of wholesale power and energy for the stranded investment that may arise when the non-jurisdictional utilities exercise their option to switch to an alternative supplier of electricity.

On December 20, 1999, the FERC issued "Order No. 2000" (the "Order") related to the formation of voluntary Regional Transmission Organizations (RTOs). The Order requires all utilities subject to the FERC's authority under section 205 (Rates and Charges; Schedules; Suspension of New Rates) and 206 (Fixing Rates and Charges; Determination of Cost of Production or Transportation) of the Federal Power Act to file by October 2000 a proposal to participate in an RTO or an alternative describing plans to participate in an RTO. The essential characteristics of an RTO are its independence from individual market participants, a regional scope, operational authority of transmission facilities under the RTO's control, and authority over short-term system reliability. The essential functions of an RTO are tariff administration, congestion management, parallel path flow, administering ancillary services, operating OASIS, market monitoring, planning and expansion, and interregional coordination. In their October 2000 compliance filings, utilities proposed RTOs across the country incorporating a wide variety of organizational forms. RTO proposals will be reviewed by the FERC for approval.

Austin Energy is not subject to the FERC's jurisdiction under section 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization that is similar to the RTOs envisioned in Order 2000 and which predates Order 2000 by several years. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas' electric market. The ISO formed by ERCOT in 1996 and mandated by State law in 1999 carries out many of the functions of the RTO discussed in Order 2000.

Environmental and Other Regulation. Austin Energy's generating units and its interest in STP are subject to environmental regulation by Federal, State and local authorities and to zoning regulations by local authorities. Austin Energy believes that its operating generating units are presently in compliance with all such regulations now in effect. Federal and State standards and procedures governing protection of the environment are subject to change. These changes arise from continuing legislative, regulatory, and judicial action respecting the standards and procedures.

In 1999, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 TAC 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). The new law applies to the Holly Street Power Plant, Unit Nos. 1, 2, 3 and 4, and to Decker Power Station Unit No. 1. These units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. Under the new law, these grandfathered utility power plants must meet an emission rate limit of 0.14 pounds of NOx emissions per mmBtu of heat input beginning May of 2003. The new law also provides for a regional emission trading program among all grandfathered utility plants in the East Texas Region. Under the trading program, an individual power plant may exceed the emission rate limitation if an offsetting quantity of allowances is acquired from a generating unit that exceeds compliance with the emission rate limitation. The emission trading program will also allow Austin Energy to sell in the open market emission allowances derived from excess NOx reductions.

As part of the development of State Implementation Plans to comply with ambient air quality standards in the Clean Air Act Amendments of 1990, the TNRCC issued in May 2000 revised rules calling for power plant emission reductions in Central and East Texas (30 TAC 117, Control of Air Pollution from Nitrogen Compounds). The section 117 rules apply to the Decker Power Station Unit No. 2 and Fayette Power Project, Unit Nos. 1 and 2. Decker Unit No. 2, a natural gas unit, is required to meet by May of 2005 an emission rate limitation of 0.14 pounds of NOx emissions per mmBtu of heat input. The two coal-fired units at Fayette Power Project are required to meet by May of 2005 an emission rate limitation of 0.165 pounds of NOx emissions per mmBtu of heat input. Austin Energy is allowed to average the emissions of the units subject to the section 117 requirements across the utility system. Thus, Austin Energy could emit greater than the emission rate limitation at a section 117 unit if another of Austin Energy's section 117 units over complies by an equal amount.

Austin Energy will continue to make the necessary changes to assure future compliance with the evolving regulatory requirements. An inability to comply with environmental standards or deadlines could result in reduced operating levels or complete shutdown of individual generating units not in compliance. Further compliance with environmental standards or deadlines may substantially increase capital and operating costs.

STP is subject to regulation by the NRC. The participants were required to obtain liability insurance and a United States Government indemnity agreement for STP Unit 1 and Unit 2 in order for the NRC operating licenses to be issued. This primary insurance and the retrospective assessment discussed below are to insure against the maximum liability under the Price-Anderson Act for any public claims arising from a nuclear incident which occurs at any of the licensed nuclear reactors located in the United States.

Price-Anderson coverage for nuclear construction and operation activities has been extended. Public Law 100-408, signed by the President on August 22, 1988, contains a 15-year extension of the Price-Anderson Act and raises the amount of insurance available for a nuclear accident from \$700 million to approximately \$9.1 billion. The \$9.1 billion would come from nuclear liability insurance available from private sources of approximately \$200 million per reactor (the maximum amount currently attainable) with retrospective assessments of up to \$83 million on each operating reactor (payable at a rate not to exceed \$10 million per year) in the event of an accident. Such limit and retrospective assessments are subject to adjustment for inflation.

In addition, the Participants are required to maintain on-site property damage insurance to cover the costs of cleanup of the facility in the event of an accident. The property insurance obtained is composed of both a primary layer of insurance in the amount of \$500 million and a layer of excess insurance that would contribute \$2.25 billion of additional coverage through a retrospective assessment from each electric utility licensee of an NRC licensed power reactor. The retrospective assessment for STP Units 1 and 2 could be up to \$9 million. The City will be liable for its 16 percent ownership interest of any retrospective assessment with respect to Unit 1 and Unit 2. The Participants are currently assessing the level of insurance at STP for subsequent years.

Finally, the NRC has amended its regulations effective July 27, 1988 setting forth minimum amounts required to demonstrate reasonable assurance of funds for decommissioning by reactor type. On or before July 26, 1990, each holder of an operating license for a production of utilization facility in effect on July 27, 1990, was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City, with the other participants, provided the required report to the NRC. The minimum amount for a PWR reactor the size of each STP unit is \$105 million (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The report provided by the City as well as the other STP Participants, based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with Bank One, NA. The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at September 30, 2000 was \$63,515,224. For Fiscal Year 2001, Austin Energy is collecting \$4,958,221 for decommissioning expense.

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**COMPARATIVE ANALYSIS OF ELECTRIC LIGHT AND POWER SYSTEM  
AND WATER AND WASTEWATER SYSTEM OPERATIONS  
OCTOBER 1, 1996 TO DECEMBER 31, 2000**  
(Thousands Rounded)

INCOME:	12 Months Ended 12-31-00 (Unaudited)	Fiscal Year Ended September 30			
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	
Revenue	\$1,077,498	\$1,070,558	\$926,692	\$918,508	\$812,186
Operating Expense	<u>524,022</u>	<u>516,441</u>	<u>429,926</u>	<u>413,939</u>	<u>383,121</u>
Balance Available for Debt Service	553,476	554,117	496,766	504,569	429,065
Depreciation and Amortization Expense	<u>137,014</u>	<u>133,393</u>	<u>125,279</u>	<u>122,008</u>	<u>114,666</u>
Earnings Before Interest Expense	416,462	420,724	371,487	382,561	314,399
Interest Incurred on Debt	(183,792)	(183,653)	(177,327)	(193,081)	(194,237)
Other	<u>(2,479)</u>	<u>(2,174)</u>	<u>(9,661)</u>	<u>(6,570)</u>	<u>(2,906)</u>
 INCOME (LOSS) BEFORE OPERATING TRANSFERS (a)	 <u>\$ 230,191(b)</u>	 <u>\$ 234,897(b)</u>	 <u>\$184,499</u>	 <u>\$182,910</u>	 <u>\$117,256</u>
 PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>48.63%</u>	<u>48.24%</u>	<u>46.39%</u>	<u>45.07%</u>	<u>47.17%</u>
Balance Available for Debt Service	51.37%	51.76%	53.61%	54.93%	52.83%
Depreciation and Amortization Expense	<u>12.72%</u>	<u>12.46%</u>	<u>13.52%</u>	<u>13.82%</u>	<u>14.12%</u>
Earnings Before Interest Expense	38.65%	39.30%	40.09%	41.11%	38.71%
Interest Incurred on Debt	-17.06%	-17.15%	-19.14%	-21.02%	-23.92%
Other	<u>-0.23%</u>	<u>-0.20%</u>	<u>-1.04%</u>	<u>-0.72%</u>	<u>-0.36%</u>
 INCOME BEFORE EXTRAORDINARY GAIN (LOSS) (a) (b) (c)	 <u>21.36%</u>	 <u>21.95%</u>	 <u>19.91%</u>	 <u>19.37%</u>	 <u>14.43%</u>

(a) Income before transfers to the General Fund and Other Funds, for 12 months ended September 30, 2000, which are as follows:

Transfer to General Fund    \$78,351,603  
Transfers to Other Funds    \$ 150,000

(b) Excludes Combined Utility Funds' costs to be recovered in future years of \$25,711,965 for twelve months ended September 30, 2000.

(c) There was no extraordinary gain or loss during this twelve-month period.

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**OPERATING STATEMENT**  
**ELECTRIC LIGHT AND POWER SYSTEM AND WATER AND WASTEWATER SYSTEM**

	(Unaudited)	As of September 30				
	12 Months Ended 12-30-00	2000	1999	1998	1997	1996
<b>REVENUE</b>						
<b>ELECTRIC UTILITY</b>						
Domestic and Rural Residential	\$ 306,981,905	\$ 295,892,039	\$256,617,222	\$252,740,995	\$224,232,524	\$227,156,977
Commercial General	400,525,974	401,544,007	344,147,629	328,596,713	308,508,479	301,859,452
City Utility Departments	14,354,683	13,339,698	12,806,356	13,428,444	12,017,703	11,865,185
Public Street Lighting	5,673,410	5,479,826	4,325,777	4,464,664	4,441,797	4,460,674
City General Government Departments	7,453,500	7,004,565	4,591,923	4,106,805	4,191,198	3,856,689
Sales to Other Utilities (Including Capacity Contract)	53,253,322	50,780,027	51,565,929	56,566,516	31,236,225	35,603,644
Rent from Electric Property	917,993	851,352	878,071	870,118	696,701	580,053
Customers' Forfeited Discounts and Penalties	1,561,669	1,557,559	3,964,346	3,982,395	3,928,675	3,880,369
Miscellaneous	<u>10,656,940</u>	<u>6,280,055</u>	<u>3,190,335</u>	<u>3,614,356</u>	<u>5,077,852</u>	<u>24,385,379</u>
Total Electric Utility	<u>\$ 801,379,396</u>	<u>\$ 782,729,128</u>	<u>\$682,087,588</u>	<u>\$668,371,006</u>	<u>\$594,331,154</u>	<u>\$613,648,422</u>
<b>WATER UTILITY</b>						
Urban	\$ 100,893,709	\$ 109,962,989	\$ 91,861,270	\$ 88,970,989	\$ 73,284,637	\$ 79,983,878
Rural	6,934,566	7,413,123	5,581,758	5,860,807	5,200,271	6,440,999
City Utility Departments	0	0	309,925	369,646	286,698	322,100
City General Government Departments	(24,044)	(42,206)	1,086,946	1,206,260	1,065,464	1,286,521
Sales to Other Water Utilities	7,268,410	7,940,351	6,386,790	7,452,052	7,177,235	8,435,906
Water Connections	251,261	207,742	232,980	249,250	259,616	270,584
Customers' Forfeited Discounts and Penalties	263,311	263,506	605,178	630,236	598,582	636,517
Miscellaneous	<u>3,752,784</u>	<u>4,443,174</u>	<u>3,556,202</u>	<u>1,157,918</u>	<u>1,075,847</u>	<u>1,246,025</u>
Total Water Utility	<u>\$ 119,339,997</u>	<u>\$ 130,188,679</u>	<u>\$109,621,049</u>	<u>\$105,897,158</u>	<u>\$ 88,948,350</u>	<u>\$ 98,622,530</u>
<b>WASTEWATER UTILITY</b>						
Urban	\$ 95,886,425	\$ 97,895,552	\$ 91,671,869	\$ 83,179,862	\$ 77,745,986	\$ 76,258,100
Rural	2,701,865	2,630,647	2,228,573	1,862,117	2,172,354	1,989,925
City Utility Departments	7,836	6,670	546,246	501,761	662,706	664,106
City General Government Departments	0	0	41,788	258,645	43,994	48,714
Service to Other Utilities	3,432,715	3,252,372	3,030,741	3,102,116	4,010,258	3,191,700
Wastewater Connections	230,322	190,430	216,338	231,447	241,072	251,256
Customers' Forfeited Discounts and Penalties	261,598	260,173	573,446	539,652	585,706	548,926
Miscellaneous	<u>7,515,192</u>	<u>6,054,111</u>	<u>6,112,737</u>	<u>6,219,036</u>	<u>5,520,010</u>	<u>4,853,869</u>
Total Wastewater Utility	<u>\$ 110,035,953</u>	<u>\$ 110,289,955</u>	<u>\$104,421,738</u>	<u>\$ 95,894,636</u>	<u>\$ 90,982,086</u>	<u>\$ 87,806,596</u>
Interest	<u>\$ 46,742,333</u>	<u>\$ 47,350,612</u>	<u>\$ 30,561,222</u>	<u>\$ 48,345,300</u>	<u>\$ 37,924,320</u>	<u>\$ 31,293,078</u>
<b>TOTAL REVENUE</b>	<u><u>\$1,077,497,679</u></u>	<u><u>\$1,070,558,374</u></u>	<u><u>\$926,691,597</u></u>	<u><u>\$918,508,100</u></u>	<u><u>\$812,185,910</u></u>	<u><u>\$831,370,626</u></u>

**OPERATING STATEMENT**  
**ELECTRIC LIGHT AND POWER SYSTEM AND WATER AND WASTEWATER SYSTEM – (Continued)**

	(Unaudited) 12 Months Ended 12-31-00	As of September 30				
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	
<b><u>EXPENSE</u></b>						
<b>ELECTRIC</b>						
Production	\$194,186,268	\$179,552,519	\$113,394,397	\$147,644,118	\$104,781,995	\$106,264,915
Joint Facilities Production	107,179,308	108,818,365	110,279,402	94,894,787	118,057,789	127,827,485
System Control	4,947,551	5,023,235	4,855,147	5,644,060	4,594,380	4,723,237
Transmission and Distribution	58,479,806	55,876,568	54,803,507	28,676,536	28,773,121	27,932,260
Jobbing and Contract Work	(88,176)	39,213	153,705	(212,629)	524,455	84,577
Customer Accounting and Collection	26,392,397	28,064,894	23,637,699	16,979,134	11,731,914	14,074,658
Customer Services	10,823,067	10,785,566	12,109,810	14,409,267	15,258,610	1,499,284
Administrative and General	<u>28,438,188</u>	<u>31,914,502</u>	<u>23,680,353</u>	<u>24,950,325</u>	<u>24,367,715</u>	<u>21,151,178</u>
Total Electric Utility	<u>\$430,358,409</u>	<u>\$420,074,862</u>	<u>\$342,914,020</u>	<u>\$332,985,598</u>	<u>\$308,089,979</u>	<u>\$303,557,594</u>
<b>WATER</b>						
Purification	\$ 13,977,784	\$ 14,225,476	\$ 12,649,706	\$ 14,457,475	\$ 12,077,872	\$ 12,431,682
Distribution	18,295,372	18,246,648	15,575,024	13,601,407	15,189,496	14,349,046
Customers' Accounting and Collection	5,456,503	5,456,698	3,908,047	3,194,097	3,009,229	3,489,300
Jobbing and Contract Work	50,178	14,214	(27,468)	16,855	17,431	30,877
Design Engineering	1,654,450	1,921,976	1,251,519	1,203,702	629,797	1,041,740
Administrative and General	<u>10,834,373</u>	<u>12,938,784</u>	<u>10,764,449</u>	<u>10,866,801</u>	<u>9,314,654</u>	<u>9,898,132</u>
Total Water Utility	<u>\$ 50,268,660</u>	<u>\$ 52,803,796</u>	<u>\$ 44,121,277</u>	<u>\$ 43,340,337</u>	<u>\$ 40,238,479</u>	<u>\$ 41,240,777</u>
<b>WASTEWATER</b>						
Wastewater Lines	\$ 6,944,353	\$ 7,591,689	\$ 8,562,780	\$ 8,588,828	\$ 6,203,528	\$ 7,022,371
Sewage Treatment Plant	17,494,586	17,115,187	17,633,822	16,041,275	15,730,827	14,769,358
Customers' Accounting and Collection	4,470,963	4,406,215	2,482,971	2,235,435	2,143,126	2,438,384
Jobbing and Contract Work	74,850	68,505	55,906	43,233	11,769	15,927
Design Engineering	2,943,591	1,998,054	2,312,461	1,991,976	3,018,212	2,344,178
Administrative and General	<u>11,466,481</u>	<u>12,382,295</u>	<u>11,842,412</u>	<u>8,711,831</u>	<u>7,685,425</u>	<u>9,018,513</u>
Total Wastewater Utility	<u>\$ 43,394,824</u>	<u>\$ 43,561,945</u>	<u>\$ 42,890,352</u>	<u>\$ 37,612,578</u>	<u>\$ 34,792,887</u>	<u>\$ 35,608,731</u>
<b>TOTAL EXPENSE (1)</b>	<u>\$524,021,893</u>	<u>\$516,440,603</u>	<u>\$429,925,649</u>	<u>\$413,938,513</u>	<u>\$383,121,345</u>	<u>\$380,407,102</u>
<b>NET REVENUE AVAILABLE FOR DEBT SERVICE</b>	<u>\$553,475,786</u>	<u>\$554,117,771</u>	<u>\$496,765,948</u>	<u>\$504,569,632</u>	<u>\$429,064,565</u>	<u>\$450,963,524</u>
Electric Customers	339,428	350,382	363,178	356,282	340,559	332,315
Water Customers	175,874	176,096	173,038	163,263	156,319	153,357
Wastewater Customers	160,609	151,744	159,157	149,663	143,249	140,278

(1) Interest expense, depreciation, amortization and other nonoperating items are not included in total expense.

## DISCUSSION OF OPERATING STATEMENT

### **Austin Energy Revenues**

Variations in total Austin Energy revenues for the period beginning with the fiscal year ("FY") FY96 through FY00 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to the consumer.

### **Water and Wastewater System Revenues**

Variations in Water and Wastewater System revenues for the period FY96 through FY00, were largely attributable to weather and system rate changes.

### **Austin Energy Expenses**

Changes in Austin Energy expenses for the period FY96 through FY00 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories. Joint facilities production expense includes Operating and Maintenance Expenses for Units 1 and 2 of the South Texas Project and Units 1 and 2 of the Fayette Power Project.

### **Water and Wastewater System Expenses**

Changes in Water and Wastewater System expenses for the period FY96 through FY00 were primarily attributable to inflationary increases in the cost of power, and chemicals, along with system growth. Increased costs of compliance with the Safe Drinking Water Act and line maintenance are reflected in FY97.

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**The Electric Light and Power System and Water and Wastewater System – TABLE SEVENTEEN**

	(Unaudited) 12 Months, <u>Ended 12-31-00</u>	<u>2000</u>	<u>As of September 30</u>		
			<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>Plant Cost</b>					
Utility Systems					
Electric	\$2,921,967,900	\$2,842,927,082	\$2,693,237,524	\$2,625,217,308	\$2,572,557,667
Water	1,108,572,183	1,090,911,586	1,003,650,278	893,668,714	821,502,655
Wastewater	<u>1,038,811,878</u>	<u>1,032,885,331</u>	<u>976,681,032</u>	<u>921,580,649</u>	<u>867,001,907</u>
Total Cost	<u>5,069,351,961</u>	<u>\$4,966,723,999</u>	<u>4,673,568,834</u>	<u>4,440,466,671</u>	<u>4,261,062,229</u>
Allowance for Depreciation:					
Electric	1,069,280,916	\$1,048,947,313	972,367,880	895,154,272	818,396,311
Water	247,488,756	242,395,336	220,477,506	202,674,479	182,053,656
Wastewater	<u>309,899,285</u>	<u>304,151,983</u>	<u>280,008,297</u>	<u>256,629,792</u>	<u>230,946,972</u>
Total Depreciation	<u>1,626,668,957</u>	<u>1,595,494,632</u>	<u>1,472,853,683</u>	<u>1,354,458,543</u>	<u>1,231,396,939</u>
Cost after Depreciation	<u>\$3,442,683,004</u>	<u>\$3,371,229,367</u>	<u>\$3,200,715,151</u>	<u>\$3,086,008,128</u>	<u>\$3,029,665,290</u>
<b>City's Equity in the Systems</b>					
Utility Systems	\$5,069,351,961	\$4,966,723,999	\$4,673,568,834	\$4,440,466,671	\$4,261,062,229
Plus: Inventories, Materials and Supplies (1)	32,145,143	32,904,657	32,227,327	31,950,001	30,687,913
Net Construction Assets and Unamortized Bond Issue Cost(2)	<u>123,546,641</u>	<u>126,423,265</u>	<u>145,027,887</u>	<u>129,476,175</u>	<u>134,997,115</u>
	<u>5,225,043,745</u>	<u>5,126,051,921</u>	<u>4,850,824,048</u>	<u>4,601,892,847</u>	<u>4,426,747,257</u>
Less:					
Allowance for Depreciation	1,626,668,957	1,595,494,632	1,472,853,683	1,354,458,543	1,231,396,939
Construction Contract Payable	<u>1,149,032</u>	<u>1,149,032</u>	<u>2,127,799</u>	<u>2,222,064</u>	<u>2,889,429</u>
Total	<u>1,627,817,989</u>	<u>1,596,643,664</u>	<u>1,474,981,482</u>	<u>1,356,680,607</u>	<u>1,234,286,368</u>
Utility Systems, Net	3,597,225,756	3,529,408,257	3,375,842,566	3,245,212,240	3,192,460,889
Revenue Bonds and Other Debt Service (3)	2,891,536,232	2,932,066,283	2,865,320,460	2,818,680,622	2,780,846,233
Less: Bond Retirement and Reserve Funds(4)	<u>161,239,251</u>	<u>161,597,147</u>	<u>160,866,775</u>	<u>169,005,087</u>	<u>160,527,625</u>
Net Debt	<u>2,730,296,981</u>	<u>2,770,469,136</u>	<u>2,704,453,685</u>	<u>2,649,675,535</u>	<u>2,620,318,608</u>
Equity in Utility's Systems	<u>\$ 866,928,775</u>	<u>\$ 758,939,121</u>	<u>\$ 671,388,881</u>	<u>\$ 595,536,705</u>	<u>\$ 572,142,281</u>
Percentage of City's Equity in Utility Systems	24.10%	21.50%	19.89%	18.35%	17.92%

- (1) Does not include fuel oil or coal inventories of approximately \$13,284,417 at September 30, 2000. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.
- (2) Includes investment in municipal utility districts of \$2,107,665.
- (3) Includes Revenue Bonds and Tax and Revenue Bonds of \$2,398,315,745 (net of discounts and inclusive of premiums); Contract Revenue Bonds of \$95,184,611 (net of discounts); Capital Lease Obligation Bonds of \$19,635,000; Water District Bonds of \$789,000; Commercial Paper of \$403,255,427 (net of discounts); General Obligation Bonds of \$4,924,320; and Contractual Obligations of \$9,962,180.
- (4) Includes municipal utility district reserves of \$333,178 that are not included elsewhere in the financial statements.

## LITIGATION

A number of claims against the City, as well as certain other matters of litigation are pending with respect to various matters arising in the normal course of the City's operations. The City Attorney and the City Management are of the opinion that resolution of the claims pending will not have a material effect on the City's financial statements.

### **Electric Light and Power System Litigation**

On October 15, 1990, the four STP owners: City of Austin, City of San Antonio, Houston Lighting & Power Company (HLP), and Central Power and Light Company (CPL) jointly filed a lawsuit against Westinghouse Electric Corporation and two of its employees in the District Court of Matagorda County, Texas, 130<sup>th</sup> Judicial District, Cause of Action No. 90-5-0684A-C. This litigation alleged that Westinghouse knowingly sold the STP owners a nuclear steam supply system containing a steam generator tubing that is susceptible to stress corrosion cracking, that Westinghouse had failed to meet its warranty obligations and that Westinghouse violated the Texas Deceptive Trade Practices Act. A jury trial began in Bay City, Texas in July 1995 and continued until the parties reached a negotiated settlement on December 7, 1995. This settlement, which has been sealed pursuant to an order of the trial court, is viewed by STP owners as providing significant assurances that STP can continue operating economically for many years to come.

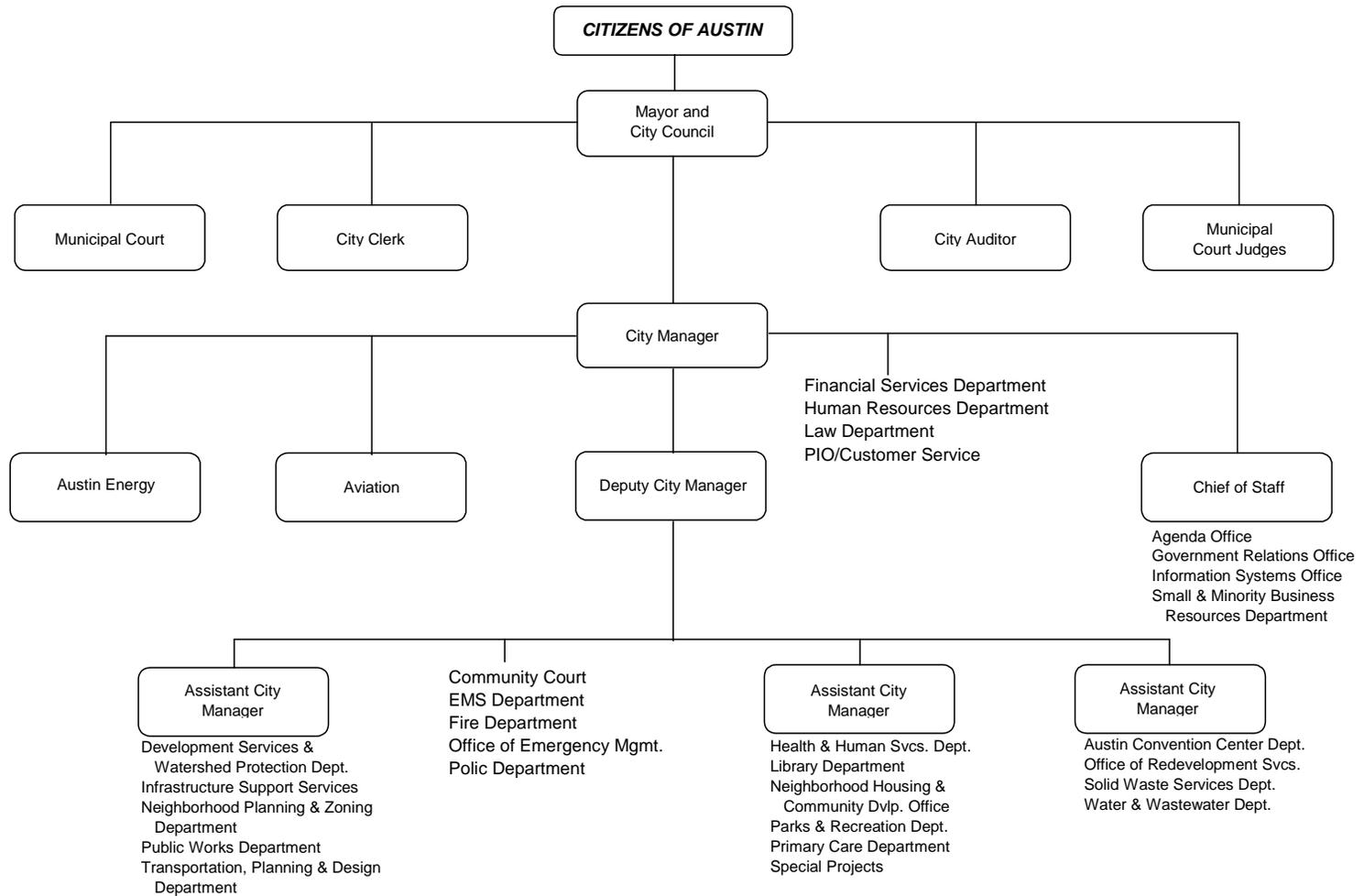
On February 22, 1994, the City of Austin filed a lawsuit in State District Court in Harris County, 162<sup>nd</sup> Judicial District, Cause of Acting No. 94-007946, against HLP. This lawsuit alleged that HLP breached its contractual duties to operate, maintain and manage STP and was negligent in operating the plant. The City contended that these operational and management failures resulted in an extended shut down of both STP units beginning in early February 1993 and lasting well into 1994. Trial began on March 6, 1996, and the case went to jury on April 22, 1996. With the jury apparently deadlocked, Austin and HLP reached a settlement on April 30, 1996. This settlement required HLP to pay Austin \$20,000,000 plus court costs and replace HLP as STP Project Manager by a new non-profit operating company.

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that the settlement of these claims and pending litigation will not have a material adverse effect on the city's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 2000.

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# CITY OF AUSTIN, TEXAS

## Organization Chart



## THE CITY

### **Administration**

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. The City Council is comprised of a Mayor and six council members elected at-large for three year staggered terms.

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Jesus Garza was appointed City Manager on June 22, 1994.

### **City Manager – Jesus Garza**

Mr. Garza received his Masters in Public Affairs from the Lyndon Baines Johnson School of Public Affairs of the University of Texas and a Bachelor of Science degree from the University of Texas at Austin. Mr. Garza served as Acting City Manager and Assistant City Manager for the City of Austin prior to his appointment as City Manager. He previously held positions as Executive Director of the Texas Water Commission and Deputy City Manager of the City of Corpus Christi.

### **Director of Financial and Administrative Service – John Stephens, CPA**

Mr. Stephens received his B.A. and M.A. in Spanish from University of Texas at Arlington, and M.A. in linguistics from University of Michigan – Ann Arbor. He taught Spanish and English as a Second Language for approximately ten years before receiving a M.B.A. from University of Texas – Austin in 1983. Mr. Stephens served as Auditor, Senior Staff Accountant and Controller prior to his appointment as Director of Financial and Administrative Services.

### **Services Provided by the City**

The City's major activities include police and fire protection, emergency medical services, parks and libraries, public health and social services, planning and zoning, general administrative services, solid waste disposal, and maintenance of bridges, streets and storm drains. The City owns and operates several major enterprises including an electric utility system, water and wastewater utility system, an airport and two public event facilities. In addition, the City owns a hospital which is operated by The Daughters of Charity Health Services of Austin under the terms of a long term lease.

### **Employees**

Municipal employees are prohibited from engaging in strikes and collective bargaining under state law. An exception allows fire and police employees to engage in collective bargaining (but not the right to strike) after a favorable vote of the electorate. The voters have not approved collective bargaining for either firemen or policemen. Approximately 15% of the City's employees are members of the American Federation of State, County and Municipal Employees, 8% are members of the American Police Association and 7% are members of the International Association of Fire Fighters.

The City does not have automatic escalators in payroll or in its retirement systems. The retirement systems may grant cost-of-living increases up to 6% for the municipal employees and 6% for police officers and a percentage based on the amount of increase in the Consumer Price Index for the firemen only if recommended by the independent actuary and approved by the retirement boards.

### **Annexation Program**

Chapter 43 of the Texas Local Government Code regulates annexation of territory by the City. Prior to annexing territory, the City must develop a service plan describing the municipal services - police and fire protection, sanitation, provision and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks - to be provided to the annexed area. Generally, those services may not be at a lower level of service than provided in other areas of the City with similar characteristics. The City is not obligated to provide a uniform level of service to all areas of the City where differing characteristics of population, topography, and land use provide a sufficient basis for different service levels. The City may not, however, provide a lower level of service than what was provided prior to the annexation.

If the annexation service plan for an annexation area includes a schedule for the provision of full municipal services, the City has two and one-half years from the date of the annexation to substantially complete the capital improvements necessary to provide services to the area. However, if necessary, the City may propose a longer schedule. A wide range of services – police and fire protection, sanitation, and maintenance of public facilities such as water and wastewater facilities, road, streets, and parks – must

be provided immediately following annexation. Failure to provide municipal services in accordance with the service plan may provide grounds for disannexation of the area and may also result in a refund of taxes and fees collected for services not provided. The City may not reannex for ten years any area that was disannexed for failure to provide services.

It is expected that some of the areas to be annexed will include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes (see “Services Financed by Utility Districts”). Existing utility districts, as well as those that may be created from time to time, are expected to issue bonds for their own improvements.

Such bonds are generally payable from the receipts of ad valorem taxes imposed by the district and, in some cases, are further payable from the net revenues, if any, derived from the operation of its water and sanitary sewer systems. Texas law generally requires that districts be annexed in their entirety. Upon dissolution, the City assumes the district’s outstanding bonds and other obligations and levies and collects on taxable property within the corporate limits of the City ad valorem taxes sufficient to pay principal of and interest on such assumed bonds.

The city also assumes liabilities when it annexes land in Emergency Services Districts (ESD) and that territory is disannexed from the ESD. This liability, however, is limited to a pro-rata share of debt and those facilities directly used to provide service to the area.

The City Charter and the State’s annexation laws provide for two types of annexation. “Full purpose” annexation, discussed above, annexes territory into the City for all purposes, including the assessment and collection of ad valorem taxes on taxable property. The second type of annexation is known as “limited purpose” annexation by which territory may be annexed for the limited purposes of “Planning and Zoning” and “Health and Safety.” Territory so annexed is subject to ordinances achieving these purposes: chiefly, the City’s zoning ordinance, building code, and related ordinances regulating land development. Taxes may not be imposed on property annexed for limited purposes; municipal services are not provided; and residents of the area are restricted to voting only in City elections for City Council and Charter amendments. The City believes that limited purpose annexation is a valuable growth management tool. As noted below, the City annexed over 20,000 acres of territory for limited purposes in 1984 and has developed annual Strategic Annexation Programs since 1987. These programs prioritized areas to be considered for annexation at the end of the calendar year, thereby minimizing the fiscal impact to the City due to annexation.

The following table sets forth (in acres) the annual results of the City of Austin annexations since 1991. Negative numbers reflect disannexations in excess of acreage annexed. The data presented in the table for limited purpose acres has been adjusted. Previously, total limited purpose acres annexed annually were reduced by the number of acres converted from limited to full purpose status. This decrease in the total annual limited purpose acres annexed has been eliminated, along with the net annexation column.

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
1991	2,380	44
1992	960	0
1993	2,795	0
1994	3,057	0
1995	(1,748)	2,770
1996	3,163	0
1997	15,083	0
1998	2,660	1,698
1999	90	588
2000	4,057	4,184

(1) Includes acres converted from limited purpose to full purpose status.

Legislative action required the City to convert the Harris Branch and Moore’s Crossing MUDs from full purpose to limited purpose status in 1995. In 1998, the full purpose reannexation of the Harris Branch MUDs is reflected in the table above.

**Recent Annexation**

Annexations completed in 2000 included several undeveloped tracts and right of ways, the Davenport West area, adjacent to a previously annexed municipal utility district, and the Eubank Acres area in north central Austin. These areas added approximately \$93 million in taxable assessed value and a population of 1,600 to the City of Austin. The Avery Ranch area was annexed for limited purposes in 1999.

Austin MUDs 1, 2, and 3, also known as the Harris Branch MUDs, were converted from limited purpose jurisdiction and reannexed by the City for full purposes in December 1998. This annexation added \$50.4 million in taxable assessed value and a

population of 1,575 to the City of Austin.

Ten municipal utility districts (MUDs) were annexed by the City of Austin in December 1997, adding over \$1.034 billion in taxable assessed value and a population of 22,432 to the City. These MUD annexations were a part of the 1997 annexation plan, which added a total of over \$1.691 billion in taxable assessed value and a population of 29,131 to the City of Austin. Some of the recently annexed areas continue to experience growth along with increased taxable assessed value.

Litigation related to some of the areas annexed in 1997 was settled in 2000. Portions of the Circle C MUDs were included in a Water Quality Protection Zone (WQPZ) which was created just prior to annexation. The Texas Supreme Court has overturned the law under which the WQPZ was created. The Circle C MUDs were also included in the southwest Travis County Water District (SWTCWD) pursuant to a statute passed by the Legislature in 1995. This statute was overturned by an appeals court. An appeal of that decision to the Texas Supreme Court was withdrawn. Pursuant to settlement agreements with certain developers and residents in the Circle C MUDs, remaining challenges to the annexation of the Circle C MUDs have been withdrawn. Consequently, there are no longer any challenges to the 1997 annexations of the Circle C MUDs.

The Circle C MUDs were also included in the Southwest Travis County Water District (SWTCWD) pursuant to a statute passed by the legislature in 1995. The Texas Supreme Court also overturned this statute. Consequently, there are no longer any challenges to the 1997 annexations of the Circle C MUDs.

### **Future Annexation**

In the next few years a number of areas previously annexed for limited purposes will be converted to full purpose status. Areas covered by strategic partnership agreements will also be annexed and areas included in the City's Municipal Annexation Plan will be annexed. The most significant of these identified future annexation areas are shown below:

- Avery Ranch – limited purpose area with conversions beginning in Dec 2000
- Del Valle – limited purpose area with conversion in September 2001
- Springwoods MUD and adjacent areas – annexation in December 2002 (includes assumption of debt for drainage improvements and completion/maintenance of drainage projects)
- Canterbury Trails Annexation Area – December 2002
- Motorola Campus – limited purpose area with conversion in September 2003 (a portion of this area may be converted as soon as September 2001)
- Onion Creek Annexation Area – December 2003
- Anderson Mill MUD and adjacent areas – September 2004

### **Pension Plans**

There are three contributory defined benefit retirement plans for the Municipal, Fire, and Police employees. State law requires the City to make contributions to the funds in an amount at least equal to the contribution of the employee group.

The Police Officers contribute 9.0% and the City contributes 18% of payroll. The Municipal employees and the City each contribute 8.0%. The Firefighters (who are not members of the Social Security System) contribute 11.7% of payroll, the City contributes 20.05%.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund and Firefighter's Fund over 8.5 years and 10.6 years, respectively. The Municipal Employees Fund is fully funded.

In accordance with the Governmental Accounting Standards Board Statement Number 5, the pension benefit obligation for the Municipal Employees Fund as of December 31, 1999, was \$1,044,500. The pension benefit obligation for the Police Officers' Fund as of December 31, 1999, was \$257,850,000. The pension benefit obligation for the Firefighters' Pension Fund as of December 31, 1999, was \$317,223,000. See Note 9 to the City's Financial Statements for additional information on the Pension Plans.

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees. Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these benefits. Post retirement benefits include health insurance and \$1,000 of life insurance for the retired employee only. The City pays either all or a portion of the retiree's health insurance premiums, depending upon the health care plan selected. Retirees may also receive health insurance benefits for dependents eligible under the plan at their own cost.

The City recognizes the cost of providing these benefits to employees and retirees by expensing the City contributions to the Health Benefits Fund in the year in which the contributions are made. Total contributions were \$27,394,366 in 1999 and

\$24,600,422 in 1998. The cost for providing those benefits for 1,930 retirees and 9,020 active employees in 1999 and 1,769 retirees and 8,699 active employees in 1998 is not separable.

## **Insurance**

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses, and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred, but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$12.5 million for claims and damages at the end of fiscal year 1999. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Health Benefits Fund.

## **INVESTMENTS**

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

### **Legal Investments**

Under Chapter 2256, Texas Government Code (The Public Funds Investment Act), the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, is eligible collateral for borrowing from a Federal Reserve Bank and is accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated; (6) commercial paper with a stated maturity of 270 days or less from the date of its issuance that either (a) is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or, (b) is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof; (7) fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas, and secured by obligations described by 1 above (the principal and interest on which are guaranteed by the United States or any of its agencies), pledged with a third party selected or approved by the City, and having a market value of no less than the principal amount of the funds disbursed (the term includes direct security repurchase agreements and reverse security repurchase agreements and the term of any reverse repurchase agreement may not exceed 90 days after the reverse security repurchase agreement is delivered; money received by the City under the terms of a reverse security repurchase agreement may be used to acquire additional authorized investments, but the term of the authorized investment acquired must mature not later than the expiration date stated in the reverse security repurchase agreement); (8) certificates of deposit issued by state and national banks domiciled in Texas that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issues that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the City; (9) certificates of deposit issued by savings and loan associations domiciled in Texas that are (a) guaranteed or insured by the Federal Savings and Loan Insurance Corporation or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates, or in any other manner and amount provided by law for deposits of the City; (10) share certificates issued by a state or federal credit union domiciled in Texas that are (a) guaranteed or insured by the National Credit Union Share Insurance Fund or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates, or in any other manner and amount provided by law for deposits of the City; (11) SEC-regulated, no-load money market mutual funds with a dollar-weighted average stated portfolio maturity of 90 days or less and whose investment objectives include seeking to maintain a stable net asset value of \$1 per share; (12) no-load mutual funds registered with and regulated by the SEC that have a dollar weighted average stated maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; the City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund described in clauses (11) or (12); (13) bonds issued, assumed, or guaranteed by the State of Israel; and (14) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas; Government Act) as amended, whose assets consist exclusively of the obligations that are

described by Section IV, A, 1-9 above. A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service. The City also may invest bond proceeds in a guaranteed investment contract.

State law strictly prohibits investment in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index. In addition, the City is prohibited from investing any portion of bond proceeds, reserves and funds held for debt service in no-load mutual funds.

Investments in collateralized mortgage obligations are strictly prohibited by the City of Austin investment policy. These securities are also disallowed for collateral positions.

**Investment Policies**

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each funds’ investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of that person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority of the City Council or the Director of Financial and Administrative Services.

**Additional Provisions**

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered representative of firms seeking to sell securities to the City to (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; and (5) provide specific investment training for the Treasurer, Chief Financial Officer and Investment Officers.

**Current Investments**

As of March 1, 2001, the City’s investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U.S. Treasury Notes	21.8%
U.S. Treasury Bills	0.1%
U.S. Agencies	38.9%
Commercial Paper	4.6%
Repurchase Agreements	0.0%
Money Market Funds	24.8%
TexasTERM	3.9%
Local Government Investment Pools	5.8%

The dollar weighted average maturity for the combined City investment portfolios is 1.24 years. The City prices the portfolios daily utilizing a market pricing service.

### **TAX EXEMPTION**

The delivery of the Bonds is subject to the opinions of Bond Counsel to the effect that interest on the Series A Bonds and the Series B Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. The form of Bond Counsel's opinions are attached here to as Appendix E.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Supplement subsequent to the issuance of the Bonds. The Supplement contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Issuer as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the Owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Tax Accounting Treatment of Discount and Premium Bonds**

The initial public offering price to be paid for certain maturities of the Bonds (the "Discount Bonds") may be less than the principal amount payable on such Bond at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the principal amount payable at maturity constitutes interest to the initial purchaser of such Discount Bond. A portion of such interest, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from

the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

In the event of the sale or other taxable disposition of a Discount Bond prior to maturity, the amount realized by the owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain maturities of the Bonds may be greater than the amount payable on the Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using each purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors to determine the amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

## **CONTINUING DISCLOSURE OF INFORMATION**

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

### **Annual Reports**

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Systems of the general type included in the main text of the Official Statement within the numbered tables only and in Appendix B. The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year end. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year is October 1 to September 30. Accordingly, it must provide updated information by March 31, 2002 and in each succeeding year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

### **Material Event Notices**

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

### **Availability of Information from NRMSIRs and SID**

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

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512 476-6947.

### **Limitations and Amendments**

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

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

### **Compliance with Prior Undertakings**

The City is in material compliance with all prior undertakings under Rule 15c2-12.

## **OTHER RELEVANT INFORMATION**

### **Ratings**

The Bonds have received unenhanced ratings of "A2" by Moody's Investors Service, Inc. ("Moody's"), "A-" by Standard & Poor's Rating Group ("S&P") and "A+" by Fitch IBCA, Inc. ("Fitch"). The Bonds will be rated "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch as a result of the policy issued by the Insurer (see "Bond Insurance"). An explanation of the significance of such ratings may be obtained from the organization furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or

withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the City nor the Financial Advisor will undertake any responsibility to notify bondholders of any such revisions or withdrawals of rating.

### **Registration and Qualification of Bonds**

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### **Legal Investments and Eligibility to Secure Public Funds in Texas**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER RELEVANT INFORMATION – Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### **Legal Opinions**

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, "Security for the Bonds," "Description of the Bonds" (except the information included therein under the caption "Book-Entry-Only System"), "Tax Exemption," "Continuing Disclosure of Information," "Appendix C" and "Appendix D" to verify that the information relating to the Bonds and the Ordinance contained under such captions in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the Closing occurring. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry Only System.

### **Financial Advisor**

Public Financial Management, Austin, Texas is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Public Financial Management, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

### **Verification of Mathematical Calculations**

The Arbitrage Group, Birmingham, Alabama, a firm of independent certified public accountants, upon delivery of the Series A Bonds, will deliver to the City its report indicating that they have examined the mathematical accuracy of computations prepared by the Financial Advisor relating to (a) the sufficiency of the anticipated receipts from the Federal Securities and on the Series A Bond and (b) language regarding yields.

The report of The Arbitrage Group will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report. The report of The Arbitrage Group will be relied upon by Bond Counsel in rendering their opinion with respect to the exclusion of interest on the Series A Bonds for federal income tax purposes and with respect to the defeasance of the Refunded

Bonds.

**Miscellaneous Information**

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Supplement will also approve the form and content of this Preliminary Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the offering of the Bonds by the Purchasers.

\_\_\_\_\_  
Mayor  
City of Austin, Texas

ATTEST:

\_\_\_\_\_  
City Clerk  
City of Austin, Texas

## APPENDIX A

### GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only. The Bonds are not a general obligation of the City.

#### Life in Austin

Austin is a unique city known for its beauty, its dynamic style, and its diverse community. Located in the heart of the Texas Hill Country, the Austin area is blessed with panoramic views, an abundance of rivers and lakes, and a climate that is conducive to outdoor activity.

Austin is a great place to enjoy the outdoors. With Austin's winter temperatures rarely dipping below freezing and often reaching into the 70's and 80's and with long summers, the city, county, and state parks and recreation facilities are busy year-round.

<u>Austin Weather</u>	
Mean temperature	69
Mean low temperature	58
Mean high temperature	78
Clear days	116
Average rainfall	32"
Average days of sunshine	300

Austin's Parks and Recreation Department (PARC) is acknowledged as one of the finest in the country. For the second consecutive year PARC was a finalist for the national Gold Medal Award given by the National Recreation and Park Association. PARC administers a number of public outdoor recreational facilities, including numerous neighborhood parks, greenbelts, athletic fields, golf courses, tennis courts, a veloway for bicyclists and in-line skaters, miles of hike and bike trails and striped bike lanes, a youth entertainment complex and swimming pools, including renowned Barton Springs, where as many as 300,000 people a year enjoy its constant 68 degree spring-fed water.

Austin is home to a number of outdoor events and festivals, including various art, music, food and wine festivals, races and bicycle rides and nightly flights of the world's largest urban bat colony. A favorite holiday event is the Trail of Lights, a festive, mile-long display of lighted scenes of the holiday season, with over 200,000 visitors in two weeks.

In addition to outdoor recreational opportunities, Austinites can choose from a wide variety of indoor recreational activities. Long recognized as the "live music capital of the world", Austin boasts more than 100 live music venues and is home to the annual South by Southwest (SXSW) music and film festivals. Austin also has a number of museums, art galleries, a new opera facility and a wide variety of restaurants and clubs, especially in the popular Sixth Street and Warehouse District areas.

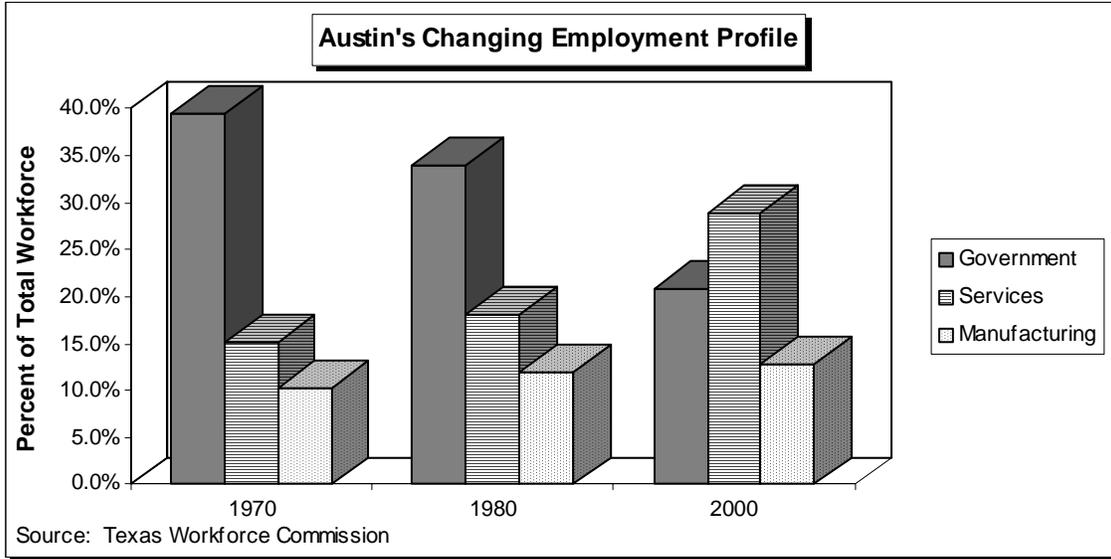
With its seven institutions of higher learning and 90,000 students, education is a significant aspect of life in the Austin area. Access to these institutions, especially the University of Texas at Austin (UT), has attracted many of the high-technology industries that now drive most of the growth in the City's economy. The largest public University in the nation, UT is known as a world-class center of education and research.

Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with 30% of its adults having a college degree and over 88% workforce having some college education. The city may also have the most computer-literate populace in the country. *Yahoo Magazine* rated Austin as one of the top five most wired cities in the nation. *MONEY* magazine selected Austin as one of the "Best Places to Live" in the country.

#### Industry and Business

In 2000, the Austin metropolitan area continued to receive national recognition for its dynamic economy and its quality of life. *Forbes* magazine names Austin the best place to do business and advance your career. *Sales and Marketing Management* magazine named Austin as "One of the Best Places to do Business Next Year".

As the capital of Texas and the home of the University of Texas, Austin has long been considered a government and university town. However, Austin is also one of the premier high-tech communities in the country. Approximately 200 companies in Austin employ people in producing computers or computer peripherals. These companies and various other professional service and low-tech firms make up a key segment of Austin's growing employment base. While government employment is still a stabilizing force in the Austin economy, it now accounts for a much lower percentage of the make-up of Austin's total employment. As the comparison below shows, since 1970, government employment has decreased substantially relative to the other large employment sectors in the Austin area.



The outlook for Austin's high-technology industry remains promising and the City's ability to attract new businesses and individuals remains strong, as Austin is a unique place that offers an abundance of recreational and cultural activities and excellent municipal services. The area's large university student population, primarily at the University of Texas, helps to keep the City intellectually active and provides a valuable resource to companies locating to the area.

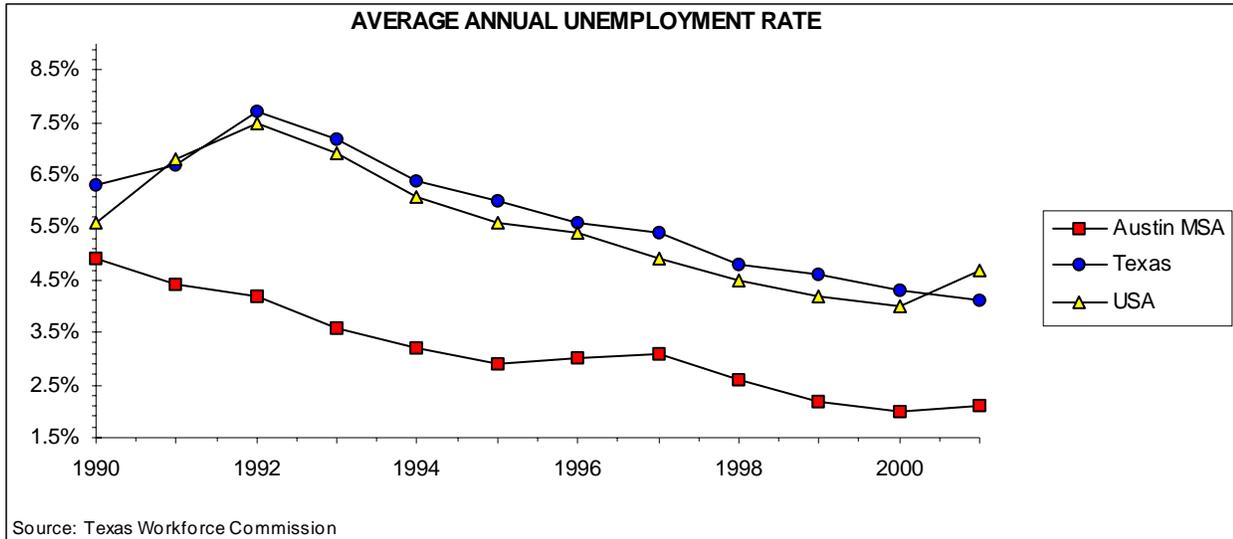
With all the features Austin has to offer, the City enjoys a strong tourism industry, which has a significant impact on the Austin economy. There are more than 13,000 hotel rooms available in the Austin area, and Austin hotels experienced a 76% occupancy rate, up 6% from 1999. The City's existing convention and meeting facilities include the Austin Convention Center, whose expanded facility will open in 2002, Palmer Auditorium and City Coliseum. Other facilities available in Austin include the Erwin Center at the University of Texas and the Texas Exposition and Heritage Center.

**Employment by Industry in the Austin Metropolitan Area (a)**

**Employment Characteristics**

<u>Industrial Classification</u>	<u>1970</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>		<u>4 Months Ending January 31, 2001</u>	
		<u>% of Total</u>		<u>% of Total</u>						
Manufacturing	13,300	10.3%	81,871	13.8%	78,779	12.9%	84,662	12.9%	87,200	12.8%
Government	51,150	39.5%	130,036	21.9%	131,592	21.6%	137,171	20.9%	136,300	20.1%
Trade	26,100	20.2%	128,552	21.6%	137,251	22.5%	150,231	22.9%	153,800	22.7%
Services and Miscellaneous	19,600	15.1%	168,985	28.4%	175,210	28.7%	190,048	28.9%	206,100	30.4%
Finance, Insurance and Real Estate	6,150	4.7%	30,587	5.1%	31,357	5.1%	32,031	4.9%	32,800	4.8%
Contract Construction	8,750	6.8%	33,758	5.7%	35,069	5.8%	39,134	6.0%	38,700	5.7%
Transportation, Communications & Utilities	4,000	3.1%	19,451	3.3%	19,775	3.2%	21,540	3.3%	22,300	3.3%
Mining	<u>450</u>	<u>0.3%</u>	<u>1,308</u>	<u>0.2%</u>	<u>1,221</u>	<u>0.2%</u>	<u>1,353</u>	<u>0.2%</u>	<u>1,600</u>	<u>0.2%</u>
Total	<u>129,500</u>	<u>100.0%</u>	<u>594,548</u>	<u>100.0%</u>	<u>610,254</u>	<u>100.0%</u>	<u>656,170</u>	<u>100.0%</u>	<u>678,800</u>	<u>100.0%</u>

(a) Austin MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically, data contained herein is latest provided. Numbers for 2000 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of March 31, 2000. Source: 2000 Comprehensive Annual Financial Report, Texas Workforce Commission.



**Average Annual Unemployment Rate**

	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
1990	4.9%	6.3%	5.6%
1991	4.4%	6.7%	6.8%
1992	4.2%	7.7%	7.5%
1993	3.6%	7.2%	6.9%
1994	3.2%	6.4%	6.1%
1995	2.9%	6.0%	5.6%
1996	3.0%	5.6%	5.4%
1997	3.1%	5.4%	4.9%
1998	2.6%	4.8%	4.5%
1999	2.2%	4.6%	4.2%
2000	2.0%	4.3%	4.0%
2001 (January)	2.1%	4.1%	4.7%

Note: Information is updated periodically, data contained herein is latest provided.  
 Source: 2000 Comprehensive Annual Financial Report, Texas Workforce Commission.

**City Sales Tax Collections (In Millions)**

<u>Period</u>	<u>Amount</u>								
1-1-97	\$ 5.421	1-1-98	\$ 6.399	1-1-99	\$ 7.335	1-1-00	\$ 8.790	1-1-01	\$ 8.964
2-1-97	10.626	2-1-98	10.708	2-1-99	12.155	2-1-00	12.316	2-1-01	13.362
3-1-97	5.734	3-1-98	6.641	3-1-99	7.318	3-1-00	8.799	3-1-01	8.791
4-1-97	5.848	4-1-98	6.780	4-1-99	7.252	4-1-00	8.119		
5-1-97	7.861	5-1-98	9.155	5-1-99	10.027	5-1-00	11.234		
6-1-97	6.446	6-1-98	7.367	6-1-99	7.900	6-1-00	9.091		
7-1-97	6.013	7-1-98	7.056	7-1-99	7.632	7-1-00	9.314		
8-1-97	8.541	8-1-98	9.587	8-1-99	10.611	8-1-00	11.313		
9-1-97	6.569	9-1-98	7.251	9-1-99	7.916	9-1-00	8.718		
10-1-97	6.967	10-1-98	7.277	10-1-99	7.855	10-1-00	9.356		
11-1-97	8.477	11-1-98	8.623	11-1-99	9.676	11-1-00	11.423		
12-1-97	6.770	12-1-98	7.417	12-1-99	9.239	12-1-00	9.346		

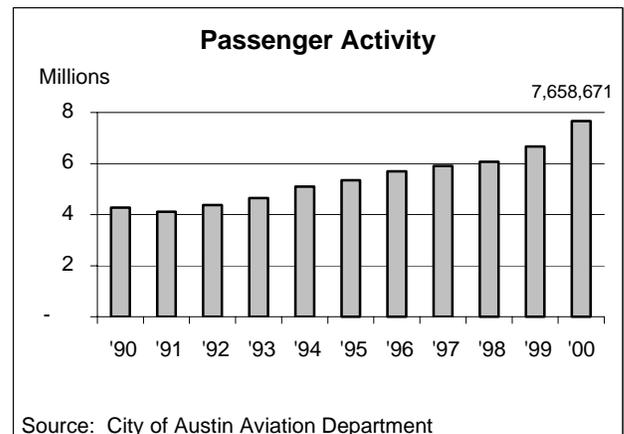
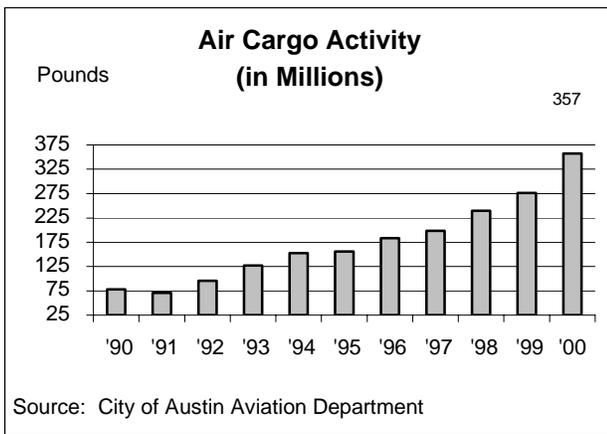
Source: State of Texas Comptroller's Office.

**Ten Largest Employers** (As of September 30, 2000)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
Dell Computer Corporation	Computers	20,800
The University of Texas at Austin	Education and Research	20,277
City of Austin	City Government	10,566
Motorola, Inc.	Electronic Components	10,500
Austin Independent School District	Education	9,417
HEB Grocery	Grocery/Pharmacy	7,500
Seton Medical Center	Hospital	6,756
IBM Corporation	Office Machines	6,500
Internal Revenue Service	Federal Agency	5,800
Advanced Micro Devices	Computers	4,600

Source: 2000 Comprehensive Annual Financial Report.

**Transportation**



**Austin-Bergstrom International Airport**

Prior to May 23, 1999 all passenger activity was out of Robert Mueller Municipal Airport.

Rail facilities are furnished by Union Pacific and Longhorn Railway Company. Amtrak brought passenger trains back to the City in January 1973, as one of the infrequent stops on the Mexico City-Kansas City route. Bus service is provided by Greyhound, and Kerrville and Valley Transit.

On January 19, 1985, the citizens of Austin and several surrounding areas approved the creation of a metropolitan transit authority ("Capital Metro") and adopted an additional one percent sales tax to finance a transit system for the area which was later reduced to three quarters of a percent, effective April 1, 1989. On June 12, 1995, the Capital Metro board approved an one quarter percent increase in the sales tax thus returning to one percent effective October 1, 1995.

Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 9 major airlines: American, America-West, Continental, Delta, Northwest, Southwest, TWA, United and Vanguard. In addition, Austin Express serves Austin as a commuter airline. Direct service is available to major U.S. destinations.

**Growth Indicators**

Austin has experienced considerable growth as evidenced by the following utility connection, building permit and population statistics.

## Population

Year	Austin (1)		Travis County (1)		Texas (2)		United States (2)	
	Population	% Change	Population	% Change	Population	% Change	Population	% Change
1950	132,459	50.6%	160,980	45.0%	7,711,194	20.2%	151,326,000	14.5%
1960	186,545	40.8%	212,136	31.8%	9,579,677	24.2%	179,323,000	18.5%
1970	253,539	35.9%	295,516	39.3%	11,198,655	16.9%	203,302,000	13.4%
1980	345,496	36.3%	419,573	42.0%	14,228,383	27.1%	222,100,000	9.3%
1985	406,584	17.7%	527,120	25.6%	16,370,000	15.1%	238,740,000	7.5%
1986	431,851	6.2%	551,101	4.6%	16,685,000	1.9%	241,078,000	1.0%
1987	444,684	3.0%	563,787	2.3%	16,790,000	0.6%	243,249,000	0.9%
1988	447,582	0.7%	569,700	1.1%	16,841,000	0.3%	247,031,000	1.6%
1989	450,107	0.6%	573,805	0.7%	17,451,000	3.6%	247,732,000	0.3%
1990	450,830	0.2%	576,407	0.5%	16,986,510	-2.7%	249,632,692	0.8%
1991	466,530	3.5%	585,731	1.6%	17,349,000	2.1%	252,177,000	1.0%
1992	474,715	1.8%	594,560	1.5%	17,615,745	1.5%	255,020,000	1.1%
1993	478,254	0.8%	600,427	1.0%	17,805,566	1.1%	257,592,000	1.0%
1994	507,468	6.1%	636,991	6.1%	18,291,000	2.7%	261,212,000	1.4%
1995	523,352	3.1%	656,979	3.1%	18,724,000	2.4%	262,755,000	0.6%
1996	541,889	3.5%	681,654	3.8%	19,128,000	2.2%	265,410,000	1.0%
1997	560,939	3.5%	703,717	3.2%	19,439,337	1.6%	267,792,000	0.9%
1998	608,214	8.4%	725,669	3.1%	19,759,614	1.7%	271,685,044	1.5%
1999	619,038	1.8%	744,857	2.6%	20,044,141	1.4%	272,690,813	0.4%
2000	628,667	1.6%	749,426	0.6%	20,044,141	0.0%	272,690,813	0.0%

(1) All years are estimates from the City's Department of Development and Review based on full purpose area as of December 31. Census years are modified to conform to U.S. Bureau of the Census data. Estimates for 1985 were revised in 1990 based on 1990 Census.

(2) U.S. Bureau of the Census official estimates as of July 31, except for census years; 2000 data available April 2001.

## Connections and Permits

Year	Utility Connections			Building Permits		
	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1990	275,840	137,936	111,114	\$ 309,999,799	\$48,312,493	\$ 358,312,292
1991	281,926	142,721	131,713	327,777,503	33,619,419	361,396,922
1992	286,413	141,210	139,529	435,053,697	5,162,800	440,216,497
1993	291,896	146,396	143,088	607,717,144	70,976,449	678,693,593
1994	298,662	148,148	142,373	840,043,119	19,643,501	859,686,620
1995	306,670	149,867	147,023	870,446,315	11,087,831	881,534,146
1996	319,518	151,757	148,124	1,246,232,619	89,945,847	1,336,178,466
1997	326,816	156,397	156,752	1,023,114,762	2,574,539	1,025,689,301
1998	342,263	168,907	165,274	1,434,660,615	46,722,845	1,481,383,460
1999	348,721	173,038	173,150	1,501,435,229	54,399,189	1,555,834,418
2000	344,134	176,096	172,063	1,797,039,075	34,334,286	1,831,373,361

Source: 2000 Comprehensive Annual Financial Report.

## Wealth and Income Indicators

The Austin MSA compares favorably with both the state and the nation in per capita effective buying income (EBI), and per capita retail sales.

## Effective Buying Income and Retail Sales

Area	Median Household EBI	Per Capita EBI	% of Households by EBI Group*				Per Capita Retail Sales
			A	B	C	D	
City of Austin	\$36,321	\$20,790	26.7%	21.6%	16.3%	35.4%	\$17,601
Austin MSA	39,807	20,239	24.1%	20.2%	16.2%	39.5%	12,404
Texas	35,942	17,121	27.8%	21.1%	16.3%	34.8%	9,510
USA	37,233	17,691	25.8%	21.3%	17.5%	35.4%	9,856

\*Group A \$0 - \$19,999

\*Group B \$20,000 - 34,999

\*Group C \$35,000 - 49,999

\*Group D \$50,000 and over

Source: 2000 Survey of Buying Power, Sales and Marketing Management.

## Housing Units

The average rental rate for a 1,000 square foot apartment in the Austin MSA was \$980 per month during the calendar year 2000, with an occupancy rate of 97.5% in December 2000.

## Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
1990	7,159	\$ 627,287,229	\$ 87,622
1991	7,581	711,123,662	93,803
1992	8,503	887,249,588	104,345
1993	9,926	1,139,100,456	114,759
1994	10,571	1,272,585,426	120,385
1995	11,459	1,439,915,043	125,658
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,583	2,334,200,698	149,791
1999	18,135	2,963,915,274	163,436
2000	17,520	3,403,215,591	194,247

Note: Information is updated periodically, data contained herein is latest provided.

Source: Real Estate Center at Texas A&M University.

## City-Wide Austin Office Occupancy Rate

Year	Occupancy Rate
1990	75.5%
1991	78.9%
1992	82.6%
1993	86.3%
1994	87.9%
1995	88.4%
1996	92.2%
1997	94.7%
1998	93.4%
1999	92.8%
2000	94.5%

Source: Colliers Oxford Commercial Research Services and Trammell Crow Company.

## Education

The Austin Independent School District had an enrollment of 77,658 for the Fall of 2000. This reflects an increase of 1.82% in enrollment from the Spring of 2000. The District includes 102 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,706
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,491
1999/00	76,268	71,583
2000/01 (2 <sup>nd</sup> Six Weeks)	77,658	73,427

Source: Austin Independent School District.

The following institutions of higher education are located in the City: The University of Texas, St. Edward's University, Huston-Tillotson College, Concordia Lutheran College, Austin Presbyterian Theological Seminary, Episcopal Theological Seminary of the Southwest and Austin Community College.

The University of Texas at Austin had an enrollment of 49,996 for the fall semester of 2000 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

## Banking

According to the 2000 spring edition of the Texas Banking Red Book, there are 18 banks and bank branches serving the Austin area.

## Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in the Austin-San Marcos MSA were \$2.1 billion in 1999. There are more than 15,700 hotel rooms available within the Austin Metropolitan Area. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. For the first eleven months of 2000 the occupancy rate for the Austin area was 75.8%, with a downtown average room rate of \$134.97.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy tax collections and revenues of the facility, the Palmer Auditorium with a seating capacity of 5,996 or 60,000 square feet of exhibit space; and City Coliseum which has a seating capacity of 3,600 or 28,000 square feet of exhibit space. Other facilities in Austin include the Frank Erwin Center, a 17,000-seat arena at The University of Texas, the Texas Exposition and Heritage Center and the Austin Opera House. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Opera House has a concert seating capacity of 1,700 and 9,000 square feet of exhibit space.

**APPENDIX B**

**EXCERPTS FROM THE ANNUAL FINANCIAL REPORT**

**APPENDIX C**

**SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS**

**APPENDIX D**

**SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO  
PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS**

**SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO  
PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS**

SECTION : Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service

to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues". Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, as of the date of determination, all such obligations theretofore issued and delivered under their respective ordinances, except:(i) those obligations canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Prior Lien Bonds or Subordinate Lien Bonds for which payment has been duly provided by the City in accordance with the provisions of the ordinance authorizing their issuance; and(iii) those Prior Lien Bonds or Subordinate Lien Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in their authorizing ordinance.

Prior Lien Bonds-shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986A", dated April 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986C", dated November 15, 1986, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (v) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993,(xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (xiv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xviii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, and (xix)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997.

Subordinate Lien Bonds-shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Water, Sewer and Electric Refunding Revenue Bonds, Series 1982", dated March 15, 1982, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (iii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iv) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998", dated August 1, 1998, (v)"City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (vi) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998.

Required Reserve-shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations-shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project-shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems-shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System-means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION: Pledge. (a) Electric Light and Power System. Subject only to the prior lien on and pledge of the Net Revenues of the Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

SECTION : Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

- (1) To pay the respective Maintenance and Operating Expenses thereof,
- (2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,
- (3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and
- (4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien

Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

SECTION : Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

Any Net Revenues remaining in the Electric Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

SECTION : Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Waterworks and Sewer System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the

provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

Any Net Revenues remaining in the Water and Sewer Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

SECTION : Reserve Fund. The City agrees and covenants to maintain at its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the greater of (i) \$85,000,000 or (ii) the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on the date the last series of Prior Lien Bonds or Subordinate Lien Bonds are delivered or incurred, as the case may be. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which may be withdrawn and transferred to the Interest and Redemption Fund required to be maintained for the payment of the Subordinate Lien Bonds during such periods as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, calculated as of the date the last series of Subordinate Lien Bonds were delivered is \$144,803,190, which amount is determined to be the Required Reserve by reason of the issuance of the last series of Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, and is greater than \$85,000,000 and the amount currently calculated to be on deposit to the credit of the Reserve Fund is in excess of \$150,000,000 (the "Current Reserve").

When and so long as the money and investments in the Reserve Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the deficiency in funds occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve.

During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the Interest and Redemption Fund.

SECTION : Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchasers of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

SECTION : Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest

income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

SECTION : Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

SECTION : Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Prior Lien Bonds or Subordinate Lien Bonds are Outstanding, the City agrees to maintain insurance, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in the respective ordinances shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

SECTION : Sale or Lease of Properties. (a) The City, to the extent and in the manner required by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property not necessary or required in the efficient operations of the Systems, either or both, or any equipment not necessary or useful in the operations thereof or which is obsolete, damaged or worn out or otherwise unsuitable for use in the operation of the Systems, either or both. Save and except as hereinafter provided, the proceeds of any sale of properties of the Waterworks and Sewer System shall be deposited in the Water and Sewer Fund and the proceeds of sale of properties of the Electric Light and Power System shall be deposited in the Electric Fund.

(b) The City may, to the event and in the manner permitted by law, sell, lease or otherwise dispose of all or part of its participating interest in the South Texas Project, as approved and authorized at an election held November 3, 1981; provided such sale, lease or other disposition is approved by a majority vote of the City Council of the City with a finding on the part of the City Council that the remaining available capacity of the Electric Light and Power System (including power and energy to be received under contracts) for furnishing power and energy is adequate and sufficient to satisfy current and foreseeable power and energy demands therefor taking into consideration any generating capacity then estimated to become available and that such disposal will not jeopardize the ability of the City to meet the rate covenants herein and in any other ordinance authorizing outstanding obligations secured by a lien on and pledge of the Electric Light and Power System. All proceeds derived from such sale or disposal, net of reasonable and necessary expenses incurred in connection therewith (including attorneys and engineers), shall be deposited in a special escrow account with the City's depository bank and expended only for the purposes of making Capital Additions to the Electric Light and Power System, or for cost effective projects or purposes which reduce the peak demand requirements of the Electric Light and Power System, or for the redemption or purchase (at a price not to exceed par) of outstanding Prior Lien Bonds or Subordinate Lien Bonds, all as shall be determined in the sole discretion and determination of the City Council of the City.

SECTION : Records and Accounts. The City hereby covenants and agrees that so long as any of the Prior Lien Bonds or Subordinate Lien Bonds or any interest thereon remain Outstanding, it

will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113, V.A.T.C.S. The Holders of any Prior Lien Bonds or Subordinate Lien Bonds, or any duly authorized agent or agents of such Holders, shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

SECTION : Deficiencies; Excess Net Revenues. (a) If on any occasion there shall not be sufficient Net Revenues of the Systems to make the required deposits into the Interest and Redemption Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the Systems, or from any other sources available for such purpose.

(b) Subject to making the required deposits to (i) all special funds created for the payment and security of the Prior Lien Bonds (including the Reserve Fund) (ii) all special funds created for the payment and security of the Subordinate Lien Bonds (including the Interest and Redemption Fund) and (iii) all funds or accounts created for the benefit of Separate Lien Obligations, the excess Net Revenues of the Systems, either or both, may be used by the City for any lawful purpose.

SECTION : Final Deposits; Governmental Obligations. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been

made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

SECTION : Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION : Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

**APPENDIX E**  
**FORM OF BOND COUNSEL'S OPINION**

**APPENDIX F**  
**SPECIMEN BOND INSURANCE POLICY**