

**OFFICIAL STATEMENT DATED JANUARY 18, 2001**

Ratings: Moody's: "Aaa"  
 Standard & Poor's: "AAA"  
 Fitch IBCA, Inc.: "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.*

**\$126,700,000**  
**City of Austin, Texas**  
**(Travis and Williamson Counties)**  
**Electric Utility System Revenue Refunding Bonds, Series 2001**

**Dated: January 1, 2001**

**Due: November 15, as shown below**

The bonds offered hereby are the \$126,700,000 City of Austin, Texas, (the "City") Electric Utility System Revenue Refunding Bonds, Series 2001 (the "Bonds"). The Bonds are the first series of "Parity Electric Utility Obligations" issued pursuant to the master ordinance (the "Master Ordinance") and are authorized and being issued in accordance with a supplemental ordinance (the "Supplemental Ordinance"). The Master Ordinance provides for the terms for the issuance of Parity Electric Utility 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 (as hereinafter defined) and Prior Subordinate Lien Obligations (as hereinafter defined) while they remain outstanding. The Master Ordinance provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations currently authorized (as hereinafter defined) 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 Electric Utility Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from, and together with the outstanding Prior Subordinate Lien Bonds, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Electric Utility System as provided in the Master Ordinance and the Supplemental 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 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 January 1, 2001 and shall be payable on May 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.



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**  
 \$57,500,000 Serial Bonds

<u>Maturity</u> <u>(November 15)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>Maturity</u> <u>(November 15)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>
2003	\$ 500,000	5.000%	3.70%	2013	\$3,700,000	5.250%	4.51%*
2004	500,000	5.000%	3.77%	2014	3,900,000	5.250%	4.61%*
2005	500,000	5.000%	3.86%	2015	4,100,000	5.375%	4.71%*
2006	500,000	5.000%	3.93%	2016	4,300,000	5.375%	4.79%*
2007	500,000	5.000%	3.99%	2017	4,600,000	5.375%	4.86%*
2008	500,000	5.000%	4.07%	2018	4,900,000	5.000%	4.99%*
2009	2,900,000	7.250%	4.16%	2019	5,100,000	5.000%	5.04%
2010	3,100,000	7.250%	4.25%	2020	5,400,000	5.000%	5.08%
2011	3,300,000	5.250%	4.29%*	2021	5,700,000	5.000%	5.11%
2012	3,500,000	5.250%	4.41%*				

\* Priced to Call Date.

\$12,500,000 5.00% Term Bonds Due November 15, 2023; Priced to Yield 5.16%  
\$56,700,000 5.00% Term Bonds Due November 15, 2030; Priced to Yield 5.20%  
(Plus Accrued Interest from January 1, 2001)

The initial reoffering yields were supplied to the City by the Purchaser. The initial yields shown above, less the premium, will produce compensation to the Purchasers of approximately \$628,432.

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after November 15, 2011, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on November 15, 2010, 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 opinion 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 February 22, 2001.

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# 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 and Administrative Services
Andrew Martin.....	City Attorney
Shirley A. Brown.....	City Clerk

## BOND COUNSEL

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

## SECURITIES COUNSEL

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

## FINANCIAL ADVISOR

Public Financial Management  
Austin, Texas

## AUDITORS

KPMG, LLP  
Austin, Texas

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Austin, Texas 78767  
(512) 499-2450

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Public Financial Management  
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 Purchasers. 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 Purchasers. 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.

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**OFFICIAL STATEMENT**  
**\$126,700,000**  
**City of Austin, Texas**  
**Electric Utility System Revenue Refunding Bonds, Series 2001**

**INTRODUCTION**

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City") of its \$126,700,000 Electric Utility System Revenue Refunding Bonds, Series 2001 (the "Bonds"). The Bonds are authorized to be issued pursuant to authority conferred by the laws of the State of Texas, a master ordinance of the City Council (the "Master Ordinance") providing the terms upon which Parity Electric Utility Obligations will be issued and the covenant and security provisions related thereto, and a supplemental ordinance of the City Council (the "Supplemental Ordinance") providing for the specific terms relating to the issuance of the Bonds in accordance with the Master Ordinance. A summary of certain provisions of the Master Ordinance is attached hereto as Appendix C. 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 ordinances (collectively, the "Bond Ordinance"), authorizing their issuance while such obligations are outstanding. A summary of certain provisions of the Bond Ordinance is attached hereto as Appendix D. **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance or the Bond Ordinance, as applicable, (see Appendices C and D).** All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

**PLAN OF FINANCING**

The Bonds are being issued to refund on a long term basis \$125,000,000 of Commercial Paper issued for the Electric Utility System. Proceeds of the Bonds will also be used to pay costs of issuance. The Bonds are the first series of Parity Electric Utility Obligations to be issued under the Master Ordinance. The City has determined to discontinue financing for the Electric Light and Power System and the Water and Wastewater System on a combined basis. 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 Electric Utility Obligations or obligations subordinate to the Parity Electric Utility Obligations then Outstanding, and shall be payable only from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility 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 Electric Utility 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.

There are no "Separate Lien Obligations" currently outstanding with respect to the Electric Light and Power System. As noted under "Debt Payable from Systems Revenues" herein approximately \$2.21 billion of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of December 31, 2000 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 Electric Utility System.

**SOURCES AND USES OF FUNDS**

The sources and uses of funds are as follows.

Sources:	
Par Amount of Bonds	\$126,700,000
Premium	<u>244,152</u>
	<u>\$126,944,152</u>
Uses:	
Commercial Paper Refunded	\$125,000,000
Cost of Issuance, including Insurance Premium	<u>1,944,152</u>
	<u>\$126,944,152</u>

## DEBT PAYABLE FROM SYSTEMS REVENUES

(As of December 31, 2000)

<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
<u>Parity Electric Utility Obligations</u>	
The Bonds	\$ 126,700,000
<u>Water &amp; Wastewater System Separate Lien Obligations (a)</u>	
Parity Water & Wastewater Obligations	\$ 100,000,000
Circle "C" MUD No. 3	25,255,000
Circle "C" MUD No. 4	2,625,000
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	\$ 188,000,000
<u>Commercial Paper (b)</u>	\$ 317,577,000
<u>General Obligation Bonds (c)</u>	\$ 13,563,168
<u>Assumed Bonds and Obligations</u>	
Assumed District Bonds (d)	\$ 24,425,251
Contract Tax Obligations (d)	<u>1,410,000</u>
Sub-Total	\$ 25,835,251
TOTAL (e)	<u>\$2,886,168,028</u>

- (a) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only.
- (b) 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 \$125,000,000 of the Tax-Exempt Commercial Paper Program being refunded by the Bonds.** The Commercial Paper Notes and the reimbursement obligation to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Notes 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, the Parity Electric Utility Obligations and the Water/Wastewater Separate Lien Obligations. Pursuant to the City's Financial Policy, Commercial Paper Note proceeds can 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.
- (c) Contractual Obligations and Public Improvement Refunding Bonds payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System.
- (d) Such bonds are payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.
- (e) Does not include Certificates of Participation outstanding of \$11,410,000 and \$7,450,000 issued for subleases for space to house the administrative offices of the Electric Utility and the Water 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 9-30-00	1999	1998	1997	1996
Combined Gross Revenues	\$1,071,222	\$926,692	\$918,508	\$812,186	\$831,371
Combined Maintenance and Operating Expenses	<u>517,018</u>	<u>429,926</u>	<u>413,939</u>	<u>383,121</u>	<u>380,407</u>
Combined Net Revenues	<u>\$ 554,204</u>	<u>\$496,766</u>	<u>\$504,569</u>	<u>\$429,065</u>	<u>\$450,964</u>
Principal and Interest on Revenue Bonds(1)	\$ 236,916	\$231,711	\$234,464	\$229,538	\$230,248
Debt Service Coverage on Revenue Bonds(1)	2.34x	2.14x	2.15x	1.87x	1.96x

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

### Electric Utility System Only (1)

#### Operating Summary (1)

	(000's)				
	Fiscal Year Ended September 30				
	(Unaudited) 12 Months Ended 9-30-00	1999	1998	1997	1996
Gross Revenues	\$821,108	\$703,929	\$705,198	\$621,884	\$635,490
Maintenance and Operating Equipment	<u>420,652</u>	<u>342,914</u>	<u>332,986</u>	<u>308,090</u>	<u>303,558</u>
Net Revenues	<u>\$400,456</u>	<u>\$361,015</u>	<u>\$372,212</u>	<u>\$313,794</u>	<u>\$331,932</u>
Principal and Interest on Prior/Subordinate Lien Revenue Bonds	\$175,053	\$174,131	\$175,645	\$175,930	\$178,983
Debt Service Coverage	2.29x	2.07x	2.12x	1.78x	1.85x

(1) Electric Utility portion only.

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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	The Bonds(b)		Water & Wastewater Separate Lien Obligations	Assumed Bonds and Obligations (c)	Total Combined Utility Systems Requirements
				Principal	Interest			
2001	\$ 172,525,024	\$ 54,799,645	\$ 227,324,669	\$	\$ 2,439,824	\$ 5,680,509	\$ 4,904,073	\$ 240,349,075
2002	197,163,485	33,050,013	230,213,498		6,554,750	17,757,544	3,931,472	258,457,264
2003	191,507,865	12,388,344	203,896,209		6,554,750	18,121,728	3,624,375	232,197,061
2004	214,294,251	12,396,518	226,690,769	500,000	6,542,250	19,797,916	3,641,944	257,172,878
2005	220,482,721	12,437,341	232,920,063	500,000	6,517,250	20,012,333	3,388,750	263,338,396
2006	220,025,934	12,714,598	232,740,532	500,000	6,492,250	20,207,870	3,622,154	263,562,806
2007	220,654,390	15,123,468	235,777,858	500,000	6,467,250	20,319,064	1,786,797	264,850,968
2008	195,328,174	15,113,703	210,441,876	500,000	6,442,250	20,485,041	1,803,605	239,672,772
2009	191,331,574	16,250,039	207,581,613	500,000	6,417,250	20,698,669	1,817,473	237,015,004
2010	188,679,061	15,920,116	204,599,178	2,900,000	6,299,625	20,909,153	1,832,284	236,540,239
2011	189,750,231	16,712,258	206,462,489	3,100,000	6,082,125	7,619,409	1,842,423	225,106,446
2012	184,617,253	17,141,238	201,758,490	3,300,000	5,883,125	7,683,538	1,857,082	220,482,234
2013	180,262,696	17,406,641	197,669,338	3,500,000	5,704,625	7,639,875	1,878,034	216,391,872
2014	193,475,056	18,859,978	212,335,033	3,700,000	5,515,625	7,688,988	1,691,280	230,930,926
2015	129,974,825	30,755,713	160,730,538	3,900,000	5,316,125	7,316,925	1,697,470	178,961,057
2016	111,916,528	31,239,715	143,156,243	4,100,000	5,103,563	7,350,175	1,550,467	161,260,447
2017	105,928,738	21,563,885	127,492,623	4,300,000	4,877,813	7,379,675	1,292,388	145,342,499
2018	83,923,688	21,805,425	105,729,113	4,600,000	4,638,625	7,394,050	880,930	123,242,718
2019	51,639,217	21,129,813	72,769,030	4,900,000	4,392,500	7,394,550	231,957	89,688,037
2020	26,826,434	23,728,400	50,554,834	5,100,000	4,142,500	7,481,800	234,976	67,514,110
2021	23,174,159	23,806,325	46,980,484	5,400,000	3,880,000	7,449,800	237,034	63,947,318
2022	13,622,644	29,843,513	43,466,156	5,700,000	3,602,500	7,506,200	89,569	60,364,425
2023	14,166,181	28,853,025	43,019,206	6,100,000	3,307,500	7,536,200		59,962,906
2024	14,818,419	28,640,038	43,458,456	6,400,000	2,995,000	7,572,200		60,425,656
2025	1,571,703	25,298,938	26,870,641	6,800,000	2,665,000	7,591,700		43,927,341
2026	1,573,031	9,630,775	11,203,806	7,200,000	2,315,000	7,594,700		28,313,506
2027		10,046,013	10,046,013	7,600,000	1,945,000	7,681,200		27,272,213
2028		10,138,313	10,138,313	8,100,000	1,552,500	7,721,300		27,512,113
2029				8,500,000	1,137,500	7,737,800		17,375,300
2030				9,000,000	700,000	7,730,700		17,430,700
2031				9,500,000	237,500			9,737,500

(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) 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.

## SECURITY FOR THE BONDS

### **Pledges of Net Revenues**

*Prior First Lien Obligations/Prior Subordinate Lien Obligations.* . . . The Net Revenues of both the City's Electric Utility System and Water and Wastewater System have been pledged, jointly and severally, (i) on a first lien basis to the payment and security of the Prior First Lien Obligations and (ii) on a second lien basis to the payment and security of the Prior Subordinate Lien Obligations. In the Bond Ordinance authorizing the issuance of the Prior First Lien Obligations and the Prior Subordinate Lien Obligations, the City retained the right to issue "Separate Lien Obligations", which are defined as obligations payable solely from the Net Revenues of either the Electric Utility System or the Water and Wastewater System, but not both, and such payments for their retirement by the terms of the ordinance authorizing their issuance are secured solely by a lien on and pledge of the Net Revenues of the Electric Utility System or the Net Revenues of the Water and Wastewater System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Prior Subordinate Lien Obligations.

*Parity Electric Utility Obligations.* . . . The Bonds are "Separate Lien Obligations" under the terms of the Bond Ordinance, and represent the first issue or series of Separate Lien Obligations of the City's Electric Utility System. The Master Ordinance and the Supplemental Ordinance pledge the Net Revenues of the Electric Utility System to the payment of the "Parity Electric Utility Obligations" (the Bonds and additional parity obligations), and the Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System, subject to the prior claim on and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

Additionally, the Parity Electric Utility Obligations are secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplemental Ordinance and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance. The Supplemental Ordinance provides for the creation and establishment of a Reserve Fund only when the "Pledged Net Revenues" of the System for a Fiscal Year are less than one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. When a Reserve Fund is required to be maintained, the amount to be accumulated is to be based on the amount of the shortfall in the Pledged Net Revenues below 150% of the annual Debt Service Requirements for the Parity Electric Utility Obligations and range from a maximum amount of 50% of the Maximum Annual Debt Service when the Pledged Net Revenues for a Fiscal Year are less than 110% of the annual Debt Service Requirement for such Fiscal Year to a minimum of 10% of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year.

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

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 First Lien Obligations, Prior Subordinate Lien Obligations, 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 (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 First Lien Obligations and Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Prior Subordinate Lien Obligations and all other indebtedness, except Prior First Lien Obligations 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 electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient: (i) to pay all current Operating Expenses; (ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility 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, charges and fees to be revised and adjusted to comply with such rate covenant or obtain a written report from a Utility System Consultant, after a review and study of the operations of the Electric Utility System has been made, concluding that, in their opinion, the rates, charges and fees then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates, charges and fees to comply with the rate covenant described in the immediately preceding paragraph and such adjustments and revisions to electric rates, charges and fees are promptly implemented and enacted in accordance with such Utility System Consultant's report. The City shall be deemed to be in compliance with the rate covenant described in the immediately preceding paragraph 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 Prior First Lien Obligations and Prior Subordinate Lien Obligations**

In accordance with the Bond Ordinance, a reserve fund has been established for the benefit of the Prior First Lien Obligations and Prior Subordinate Lien Obligations (but not the Bonds, or any additional Parity Electric Utility Obligations) and the amount required to be accumulated and maintained in such Reserve Fund shall be 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 First Lien Obligations, and all Prior Subordinate Lien Obligations then outstanding.

If the reserve fund at any time contains less than the Required Reserve, the City is to cure the deficiency within twelve (12) months from the date the deficiency in funds occurred with available Net Revenues of the Electric Light and Power System or the Water and Wastewater System or both, subject to payments required for the payment of principal of and interest on the Prior First Lien Obligations 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 December 31, 2000, the Reserve Fund contained approximately \$164,928,481 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 Obligations.

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

## **No Reserve Fund for Parity Electric Utility Obligations**

The Master Ordinance does not provide for a Reserve Fund for the Parity Electric Utility Obligations. The Supplemental Ordinance, however, provides that a Reserve Fund shall not be required to be established or maintained by the City for the payment of the Parity Electric System Obligations so long as the "Pledged Net Revenues" of the System for a Fiscal Year (the Net Revenues of the System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements for Prior First Lien Obligations and Prior Subordinate Lien Obligations in such Fiscal Year) equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. If for any Fiscal Year such "Pledged Net Revenues" do not exceed 150% of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, the City shall be obligated to establish and maintain on the books of the City a separate fund or account designated as the "Electric Utility System Revenue Obligation Reserve Fund" (the "Reserve Fund"). When a Reserve Fund is required to be established, the Required Reserve Amount to be accumulated and maintained in such Fund shall be determined and redetermined as follows:

(i) ten per cent (10%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year;

(i) twenty per cent (20%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 140% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 130% of the annual Debt Service Requirement for such Fiscal Year;

(i) thirty per cent (30%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 130% of the annual

Debt Service Requirement for such Fiscal Year, but greater than or equal to 120% of the annual Debt Service Requirement for such Fiscal Year;

(i) forty per cent (40%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 120% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 110% of the annual Debt Service Requirement for such Fiscal Year;

(i) fifty per cent (50%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 110% of the annual Debt Service Requirement for such Fiscal Year.

When a Reserve Fund is required, the City may deposit cash to such Fund or acquire and deposit a surety bond to provide the Required Reserve Amount or a combination of such cash and a surety bond. In funding such Required Reserve Amount, or to increase the Required Reserve Amount pursuant to a Supplement, the Required Reserve Amount or increase in the Required Reserve Amount, as applicable, may be funded in up to twelve (12) substantially equal consecutively monthly deposits commencing not later than the month following that receipt of audited financial statements for the System for the preceding Fiscal Year.

### **Issuance of Additional Prior First Lien Obligations and Prior Subordinate Lien Obligations 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.

### **Issuance of Parity Electric Utility Obligations**

Under the Master Ordinance the City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of the Master Ordinance and any Supplement. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing: (i) 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 in the Master Ordinance and Supplement thereof, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility Operations 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, if any, and (ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility 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, exceed one hundred ten percent (110%) of the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the issuance of the then Parity Electric Utility Obligations.

For purposes of clause (ii) in the preceding paragraph, if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the Designated Financial Officer's certificate required above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

In making a determination of Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility 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 Electric Utility System for the period of time covered by such certification based on such change in rates, charges and fees being in effect for the entire period covered.

### **Short-Term Parity Electric Utility Obligations**

The City may issue or incur Parity Electric Utility Obligations issued in the form of commercial paper 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 Electric Utility 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 Electric Utility Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

### **System Fund**

The Master Ordinance recites that 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 Electric Utility Obligations are Outstanding a separate fund or account known and designated as the "Electric Light and Power System Fund" (the "Electric Fund" or "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 Electric Utility 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.

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, and (ii) the special Funds and Accounts for the payment of the Parity Electric Utility Obligations.

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

Any Net Revenues remaining in the System 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.

### **Possible Avoidance of Pledge of Net Revenues in Bankruptcy**

The State of 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 Master Ordinance and Supplemental Ordinance, and other financial covenants of the City made in the Master Ordinance and Supplemental 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, as described above. Moreover, the City is aware that proposed legislation is being drafted and may be introduced for consideration by the Texas Legislature in the legislative session that begins January 1, 2001 to amend Texas law to avoid the results of the adoption of the 1998 UCC revisions mentioned above. No assurance can be given, however, that any such legislation will be adopted by the Texas Legislature, or that, if it is adopted, it can be given legal effect prior to July 1, 2002.

## **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 E 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 September 30, 2000, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,372,337,000 and its total unearned premium reserve was approximately \$693,512,000 in accordance with statutory accounting principles. At September 30, 2000, Financial Security's total shareholder's equity was approximately \$1,383,058,000 and its total net unearned premium reserve was approximately \$571,460,000 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 January 1, 2001, and interest will accrue from their dated date and will be payable on each May 15 and November 15, commencing May 15, 2001, until maturity or earlier redemption. The Bonds will mature on November 15 in the years and in the principal amounts set forth on the cover page hereof. Principal of the Bonds is payable only at maturity, subject only to optional and mandatory redemption as hereinafter described.

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

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

The DTC 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 Bonds

in the aggregate principal amount of such 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 or the Purchasers.

**Optional Redemption**

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after November 15, 2011, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on November 15, 2010, 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”).

**Mandatory Redemption**

The Bonds maturing in the years 2023 and 2030 (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:

Bonds due November 15, 2023		Bonds due November 15, 2030	
<u>Redemption Date (November 15)</u>	<u>Amount</u>	<u>Redemption Date (November 15)</u>	<u>Amount</u>
2022	\$6,100,000	2024	\$6,800,000
2023(a)	\$6,400,000	2025	\$7,200,000
		2026	\$7,600,000
		2027	\$8,100,000
		2028	\$8,500,000
		2029	\$9,000,000
		2030(a)	\$9,500,000

(a) Maturity

The principal amount of the Term Bonds 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 such 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 State Street Bank and Trust Company of Missouri, N.A. 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.

**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 Supplemental 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.

For a more detailed explanation of the various covenants and agreements with the Holders of the Bonds, including provisions for amendments to the Master Ordinance and Supplemental Ordinance, and defeasance of the Bonds, see Appendix C attached hereto.

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## 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 permanent employees as of September 30, 2000. The Water and Wastewater System has 881 full-time permanent employees as of the same date.

### 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	11 Months
Andy Ramirez, P.E.	Vice President Power Production	4 Years 5 Months
Bob Kahn	Vice President Legal Services	8 Years 9 Months*
Elaine Hart Kuhlman, CPA	Vice President Finance	12 Years 7 Months*
Roger Duncan	Vice President of Conservation and Renewables	11 Years 1 Month
John Baker, P.E.	Vice President Customer Care and Marketing	6 Years 9 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 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 Electric Reliability Council of Texas 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 name is "Austin Energy."

**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
<b>Total Capacity</b>			<b>2,540.05</b>	

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 Lower Colorado River Authority (“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 86 MW from two (2) wind power projects and 16 MW from five (5) landfill methane projects.

**Conventional System Improvements**

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

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 the transmission provider in that service area to provide the necessary interconnection. Austin Energy has been designated 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 Fayette to Lost Pines 345 kV Circuits and March 1, 2001 for the Lost Pines to Austrop 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, which are recoverable through TCOS.

In 1995, the Public Utility Commission of Texas (“PUCT”) adopted new rules governing the transmission system in the Electric Reliability Council of Texas (“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 PUCT 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 AE’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	Holman	Lytton Springs
Decker Plant	Holly Plant	Pilot Knob
Garfield		

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 Central Power and Light Company. 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 of 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 will generate at a rate of 4 MW, will be located at the old Austin sanitary landfill on Route 1812. The EDI facilities will be sited at landfills in San Antonio, Houston and Hutchins, Texas. The combined output of the EDI facilities will be 14 MW.

### **ECI Purchase Power Contract**

On January 14, 1998, the City Council authorized the execution of an agreement with Electric Clearinghouse, Inc. (ECI) for the purchase of 50 MW of capacity and associated energy for two years commencing January 1, 1999. The contract also includes two, one-year options to extend, subject to the agreement of both parties. Austin Energy has not exercised its option to extend the contract for the first year of the two year extension option.

## 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>
All Customers*					
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
Residential Customers					
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
General Customers**					
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.

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

**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 will continue to review the effectiveness of the fuel adjustment clause and the impacts of natural gas prices on the fuel adjustment clause.

## **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 of Austin 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.

As of October 2000, 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 transmission and ancillary services, are regulated by the City Council. Ratepayers can appeal rate changes to the Public Utility Commission of Texas (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's opinion and in October 2000 the Court agreed to consider the case. Oral argument was heard on December 6, 2000. The City is waiting for 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 Federal Energy Regulatory Commission 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 of 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. The Electric Reliability Council of Texas (ERCOT) is a stakeholder organization that includes stakeholders from all segments of the Texas' electric market. The Independent System Operator (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 Texas Natural Resources and Conservation Commission 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, Texas, 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 (unaudited). For Fiscal Year 2001, Austin Energy is collecting \$4,958,232 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 SEPTEMBER 30, 2000**  
(Thousands Rounded)

	12 Months Ended 9-30-00	Fiscal Year Ended September 30			
	<u>(Unaudited)</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>INCOME:</b>					
Revenue	\$1,071,222	\$926,692	\$918,508	\$812,186	\$831,371
Operating Expense	<u>517,018</u>	<u>429,926</u>	<u>413,939</u>	<u>383,121</u>	<u>380,407</u>
Balance Available for Debt Service	554,204	496,766	504,569	429,065	450,964
Depreciation and Amortization Expense	<u>130,893</u>	<u>125,279</u>	<u>122,008</u>	<u>114,666</u>	<u>109,273</u>
Earnings Before Interest Expense	423,311	371,487	382,561	314,399	341,691
Interest Incurred on Debt	(183,653)	(177,327)	(193,081)	(194,237)	(195,491)
Other	<u>(2,174)</u>	<u>(9,661)</u>	<u>(6,570)</u>	<u>(2,906)</u>	<u>(132)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a)	<u>\$ 237,484</u>	<u>\$184,499</u>	<u>\$182,910</u>	<u>\$117,256</u>	<u>\$146,068</u>
<b>PERCENTAGES</b>					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>48.26%</u>	<u>46.39%</u>	<u>45.07%</u>	<u>47.17%</u>	<u>45.77%</u>
Balance Available for Debt Service	51.74%	53.61%	54.93%	52.83%	54.23%
Depreciation and Amortization Expense	<u>12.22%</u>	<u>13.52%</u>	<u>13.82%</u>	<u>14.12%</u>	<u>13.14%</u>
Earnings Before Interest Expense	39.52%	40.09%	41.11%	38.71%	41.09%
Interest Incurred on Debt	-17.14%	-19.14%	-21.02%	-23.92%	-23.51%
Other	<u>-0.20%</u>	<u>-1.04%</u>	<u>-0.72%</u>	<u>-0.36%</u>	<u>-0.02%</u>
INCOME BEFORE EXTRAORDINARY GAIN (LOSS) (a) (b) (c)	<u>22.18%</u>	<u>19.91%</u>	<u>19.37%</u>	<u>14.43%</u>	<u>17.56%</u>

(a) Income before transfers to the General Fund and Other Funds, for 12 months ended 9-30-00, 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 \$22,061,771 for twelve months ended September 30, 2000.

(c) There was 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**

	As of September 30				
	<u>2000 (Unaudited)</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>REVENUE</b>					
<b>ELECTRIC UTILITY</b>					
Domestic and Rural Residential	\$ 295,892,039	\$256,617,222	\$252,740,995	\$224,232,524	\$227,156,977
Commercial General	401,544,007	344,147,629	328,596,713	308,508,479	301,859,452
City Utility Departments	13,339,698	12,806,356	13,428,444	12,017,703	11,865,185
Public Street Lighting	5,479,826	4,325,777	4,464,664	4,441,797	4,460,674
City General Government Departments	7,004,565	4,591,923	4,106,805	4,191,198	3,856,689
Sales to Other Utilities (Including Capacity Contract)	50,780,027	51,565,929	56,566,516	31,236,225	35,603,644
Rent from Electric Property	851,352	878,071	870,118	696,701	580,053
Customers' Forfeited Discounts and Penalties	1,557,559	3,964,346	3,982,395	3,928,675	3,880,369
Miscellaneous	<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>\$ 782,729,128</u>	<u>\$682,087,588</u>	<u>\$668,371,051</u>	<u>\$594,331,154</u>	<u>\$613,648,422</u>
<b>WATER UTILITY</b>					
Urban	\$ 109,962,989	\$ 91,861,270	\$ 88,970,989	\$ 73,284,637	\$ 79,983,878
Rural	7,413,123	5,581,758	5,860,807	5,200,271	6,440,999
City Utility Departments	0	309,925	369,646	286,698	322,100
City General Government Departments	(42,206)	1,086,946	1,206,260	1,065,464	1,286,521
Sales to Other Water Utilities	7,940,351	6,386,790	7,452,052	7,177,235	8,435,906
Water Connections	207,742	232,980	249,250	259,616	270,584
Customers' Forfeited Discounts and Penalties	263,506	605,178	630,236	598,582	636,517
Miscellaneous	<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>\$ 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	\$ 97,895,552	\$ 91,671,869	\$ 83,179,862	\$ 77,745,986	\$ 76,258,100
Rural	2,630,647	2,228,573	1,862,117	2,172,354	1,989,925
City Utility Departments	6,670	546,246	501,761	662,706	664,106
City General Government Departments	0	41,788	258,645	43,994	48,714
Service to Other Utilities	3,252,372	3,030,741	3,102,116	4,010,258	3,191,700
Wastewater Connections	190,430	216,338	231,447	241,072	251,256
Customers' Forfeited Discounts and Penalties	260,173	573,446	539,652	585,706	548,926
Miscellaneous	<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>\$ 110,289,955</u>	<u>\$104,421,738</u>	<u>\$ 95,894,636</u>	<u>\$ 90,982,086</u>	<u>\$ 87,806,596</u>
Interest	<u>\$ 48,014,204</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>\$1,071,221,966</u>	<u>\$926,691,597</u>	<u>\$918,508,145</u>	<u>\$812,185,910</u>	<u>\$831,370,626</u>

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

	As of September 30				
	2000 (Unaudited)	1999	1998	1997	1996
<b>EXPENSE</b>					
<b>ELECTRIC (1)</b>					
Production	\$179,552,519	\$113,394,397	\$147,644,118	\$104,781,995	\$106,264,915
Joint Facilities Production	108,818,365	110,279,402	94,894,787	118,057,789	127,827,485
System Control	5,023,235	4,855,147	5,644,060	4,594,380	4,723,237
Transmission and Distribution	56,453,693	54,803,507	28,676,536	28,773,121	27,932,260
Jobbing and Contract Work	39,213	153,705	(212,629)	524,455	84,577
Customer Accounting and Collection	28,064,894	23,637,699	16,979,134	11,731,914	14,074,658
Customer Services	10,785,566	12,109,810	14,409,267	15,258,610	1,499,284
Administrative and General	<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>\$420,651,987</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	\$ 14,225,476	\$ 12,649,706	\$ 14,457,475	\$ 12,077,872	\$ 12,431,682
Distribution	18,246,648	15,575,024	13,601,407	15,189,496	14,349,046
Customers' Accounting and Collection	5,456,698	3,908,047	3,194,097	3,009,229	3,489,300
Jobbing and Contract Work	14,214	(27,468)	16,855	17,431	30,877
Design Engineering	1,921,976	1,251,519	1,203,702	629,797	1,041,740
Administrative and General	<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>\$ 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	\$ 7,591,689	\$ 8,562,780	\$ 8,588,828	\$ 6,203,528	\$ 7,022,371
Sewage Treatment Plant	17,115,187	17,633,822	16,041,275	15,730,827	14,769,358
Customers' Accounting and Collection	4,406,215	2,482,971	2,235,435	2,143,126	2,438,384
Jobbing and Contract Work	68,505	55,906	43,233	11,769	15,927
Design Engineering	1,998,054	2,312,461	1,991,976	3,018,212	2,344,178
Administrative and General	<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>\$ 43,561,945</u>	<u>\$ 42,890,352</u>	<u>\$ 37,612,578</u>	<u>\$ 34,792,887</u>	<u>\$ 35,608,731</u>
<b>TOTAL EXPENSE (2)</b>	<u>\$517,017,728</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>\$554,204,238</u>	<u>\$496,765,948</u>	<u>\$504,569,632</u>	<u>\$429,064,565</u>	<u>\$450,963,524</u>
Electric Customers	350,382	363,178	356,282	340,559	332,315
Water Customers	176,096	173,038	163,263	156,319	153,357
Wastewater Customers	151,744	159,157	149,663	143,249	140,278

(1) Electric operating expenses were reallocated to different categories in September 1995.

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

## 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	Acting 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 City of Rollingwood, the City of Pflugerville and the City of 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. Town Lake, which has a capacity of approximately 3,500 acre-feet, is created by Longhorn Dam. The City further constructed Decker Dam on Decker Creek, a tributary of the Colorado River that joins the river downstream of 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	1981 – 1,626,000 Acre Feet	1990 – 692,300 Acre Feet
1974 – 1,463,000 Acre Feet	1982 – 1,356,000 Acre Feet	1991 – 829,700 Acre Feet
1975 – 3,039,000 Acre Feet	1983 – 587,000 Acre Feet	1992 – 5,419,000 Acre Feet
1976 – 992,600 Acre Feet	1984 – 764,000 Acre Feet	1993 – 978,000 Acre Feet
1977 – 1,956,000 Acre Feet	1985 – 751,000 Acre Feet	1994 – 708,200 Acre Feet
1978 – 885,100 Acre Feet	1986 – 886,500 Acre Feet	1995 – 896,700 Acre Feet
1979 – 867,200 Acre Feet	1987 – 3,399,000 Acre Feet	1996 – 758,300 Acre Feet
1980 – 803,500 Acre Feet	1988 – 834,000 Acre Feet	1997 – 3,013,512 Acre Feet
	1989 – 667,900 Acre Feet	

Using the twenty-five years from 1973-1997, the average flow was 1,402,797 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 (42.8 billion gallons) by the City for the fiscal year ended September 30, 1997.

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 from such lakes. 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. Approximately \$72,000,000 of the \$100,000,000 payment to the LCRA was allocated as a reservation payment which is pending a favorable IRS ruling regarding tax exempt status. That amount was financed through an increase in the Taxable Commercial Paper Program from \$60,000,000 to \$160,000,000. Upon the IRS ruling, the \$72,000,000 will be redeemed on a long-term basis.

### **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. No mandatory water restrictions have been required since the summer of 1986. Several other cities in Texas are under voluntary and mandatory conservation plans as of the date of the Updated Official Statement. 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</u> <u>(Millions of Gallons)</u>	<u>Firm Pumping Capacity</u> <u>(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 1999.

<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	36,126	(5.70)	161
1992	36,984	2.40	169
1993	39,824	7.70	189
1994	39,806	(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)	215

Source: City's Water and Wastewater Utility.

**Projected Water Pumpage**

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>
2000	46,292	223
2001	47,443	229
2002	48,606	235
2003	49,968	241
2004	51,001	247
2005	51,772	253
2006	52,549	259
2007	53,337	265
2008	54,137	271
2009	54,949	277

The capacity of the system is expected to be increased from 227 mgd to 245 mgd by 2000.

Source: City's Water and Wastewater Utility.

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**Information Concerning Water Sales - TABLE TEN**

Fiscal Year Ended September 30

	<u>1999</u>		<u>1998</u>		<u>1997</u>		<u>1996</u>		<u>1995</u>	
	<u>Average</u> <u>Customers</u>	<u>Thousand</u> <u>Gallons</u>								
Thousand Gallons Pumped		46,679,391(1)		46,668,512(1)		42,802,212		45,835,430		39,541,897
Less: Sales to Other Water Utilities		<u>3,146,201</u>		<u>3,797,257</u>		<u>3,662,066</u>		<u>4,397,220</u>		<u>3,458,003</u>
Thousands Gallons to System		<u>43,533,190</u>		<u>42,871,255</u>		<u>39,140,146</u>		<u>41,438,210</u>		<u>36,083,894</u>
Water Sales:										
Urban	159,625	35,594,247	152,545	36,026,412	143,177	30,219,525	140,110	32,597,080	137,435	29,292,003
Rural	<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>	<u>10,957</u>	<u>1,709,970</u>
	170,232	37,446,247	162,676	37,995,351	154,316	32,007,460	151,290	34,754,182	148,392	31,001,973
City Departments	<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>	<u>466</u>	<u>561,096</u>
Total Sales to Ultimate Consumer	<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	<u>148,858</u>	31,563,069
Used by Water Utility		1,422,526		1,418,185		48,299		1,404,264		1,335,535
Loss and Unaccounted For		<u>4,044,864</u>		<u>2,751,736</u>		<u>6,524,813</u>		<u>4,545,460</u>		<u>3,185,290</u>
Thousands Gallons to System		<u>43,533,190</u>		<u>42,871,255</u>		<u>39,140,147</u>		<u>41,438,210</u>		<u>36,083,894</u>
Maximum Daily Consumption		204,746		206,371		190,919		205,170		191,305
Average Daily Consumption in Thousands of Gallons		119,269		117,455		107,233		113,124		98,860

(1) Pumpage includes the Davenport WTP estimate provided by ST Environmental Services.

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**Large Water Customers - TABLE ELEVEN**

**Water and Wastewater Utility  
Large Water Customers  
Five Year Comparative Data (1995 - 1999)**

Fiscal Year Ended September 30  
(Gallons in Thousands)

	<u>1999</u>		<u>1998</u>		<u>1997</u>		<u>1996</u>		<u>1995</u>	
	<u>Gallons</u>	<u>Revenue</u>								
Motorola, Inc. (1)	1,781,016	\$3,854,519	1,904,313	\$3,926,799	1,894,879	\$3,918,062	1,887,195	\$4,036,279	1,640,673	\$3,645,501
Advanced Micro Devices	1,186,752	2,570,155	1,250,741	2,583,860	1,151,306	2,384,265	1,114,446	2,384,586	904,760	2,010,875
University of Texas (2)	908,424	2,055,888	824,213	1,783,840	824,049	1,766,841	909,263	2,002,578	738,460	1,656,721
Travis County Water Control and Improvement District No. 10	699,180	1,415,804	737,810	1,508,855	579,175	998,887	754,505	1,380,363	537,982	901,106
Wells Branch Municipal Utility District	544,046	1,106,798	559,016	1,012,516	463,043	851,317	482,172	827,891	372,745	598,785
Anderson Mill Municipal Utility District	510,713	871,792	542,058	899,308	467,978	799,344	485,628	802,936	509,011	804,454
Samsung	353,927	767,700	363,761	811,784	48,002	90,861	0	0	0	0
North Austin Municipal Utility District	297,789	622,179	323,138	657,591	276,784	557,003	285,922	546,217	219,282	372,953
Lost Creek Municipal Utility District	282,637	600,415	320,721	654,622	237,423	496,763	321,987	659,613	252,385	485,030
Shady Hollow MUD	<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>199,871</u>	<u>424,430</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>	<u>5,375,169</u>	<u>\$10,899,855</u>

(1) Totals for Motorola, Inc. include their east Austin plant site and their west Austin plant site.

(2) Totals for the University of Texas at Austin are city-wide for 1996 and 1999. Previous years include the central area campus only.

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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.

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.

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.

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 2,300 miles of wastewater lines and mains were approximately \$6.2 million during FY 1996-97.

**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	6.3
1990	22,935	(0.4)
1991	25,002	9.0
1992	30,126	20.5
1993	26,794	(11.1)
1994	25,259	(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

**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>
2000	32,059
2001	33,051
2002	34,051
2003	35,168
2004	36,119
2005	36,782
2006	37,481
2007	38,193
2008	38,919
2009	39,658

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 \$607.8 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 \$512.7 million additional Parity Water/Wastewater Obligations and (2) the application of \$95.1 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 inside City districts were all created by the 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.

**Water Service Rates Effective November 1, 1999 - 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)	\$3.27	5/8 3/4	\$ 0.63 0.95	\$ 0.61 0.92
Wholesale Customer Account Charge (\$/Month)	\$2.50	1 1 ¼ 1 ½ 2 3 4 6 8 10 12	1.58 1.95 3.15 5.04 9.45 15.75 31.50 50.40 98.47 140.67	1.53 1.89 3.05 4.88 9.15 15.25 30.50 48.80 95.34 136.21

**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 - 2,900 Gallons	\$1.33	\$1.95
2,901 - 6,900 Gallons	2.13	2.76
6,901 - 14,900 Gallons	2.93	3.43
14,901 - over Gallons	4.25	4.25
Multifamily	\$2.40	\$2.27
Commercial	\$2.38	\$2.25
Large Volume/Industrial	\$2.17	N/A

- (1) Wholesale unit charges vary between \$1.42 and \$2.66 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.

**Wastewater Service Rates Effective November 1, 1999 – TABLE FIFTEEN**

**Customer Account Charge**

Customer Account Charge (\$/month)	<u>Inside City</u> \$3.90	<u>Outside City</u> \$3.90	<u>Wholesale Customers</u> \$1.63
------------------------------------	------------------------------	-------------------------------	--------------------------------------

**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	\$1.79	\$2.30
2,001 - Over Gallons	3.77	4.51
Multifamily	3.86	3.86
Commercial	3.95	3.95
Large Volume/Industrial	3.29	N/A

Wholesale unit charges vary between \$2.57 and \$2.95 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

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

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

	Fiscal Year Ended September 30				
	1999	1998	1997	1996	1995
<b><u>Average Monthly Bill Per Customer - Water</u></b>					
Inside City (Urban)					
Residential	\$ 23.50	\$ 24.38	\$ 19.84	\$ 23.49	\$ 20.51
Multi-Family	306.97	287.39	268.40	282.59	266.65
Commercial	166.96	167.04	141.46	155.37	144.21
Industrial	90,525.34	90,635.15	90,714.07	96,335.85	61,887.33
City Departments	315.39	273.08	309.89	286.16**	232.72
Outside City (Rural)					
Residential	33.95	37.50	28.83	37.62	30.00
Multi-Family	168.54	181.26	205.62	233.76	211.77
Commercial	127.26	136.67	112.24	129.24	119.33
Average Monthly Bill					
Above Customers	48.23	49.24	43.02	48.35	43.24
Sales to Other Water Utilities*	31,045.89	30,633.76	22,886.99	27,037.64	19,425.83
Average Monthly Bill					
All Customers	\$51.32	\$52.99	\$46.86	\$52.97	\$46.63
<b><u>Average Monthly Use in 1000 Gallons - Water</u></b>					
Inside City (Urban)					
Residential	8.25	8.84	7.41	8.75	7.64
Multi-Family	125.51	123.52	115.50	122.10	115.04
Commercial	67.58	71.32	60.41	65.75	61.47
Industrial	41,787.88	43,884.04	43,817.22	44,968.85	27,821.28
City Departments	147.32	130.30	139.17	141.15	100.55
Outside City (Rural)					
Residential	9.87	11.11	8.74	11.10	8.78
Multi-Family	71.81	77.44	88.03	100.55	88.24
Commercial	54.05	58.24	47.36	54.99	48.11
Average Monthly Use					
Above Customers	18.62	19.79	17.57	19.52	17.39
Sales to Other Water Utilities*	15,422.55	15,821.91	11,737.39	14,093.65	11,080.52
Average Monthly Use					
All Customers	20.15	21.73	19.54	21.93	19.32
<b><u>Average Revenue Per 1000 Gallons - Water</u></b>					
Inside City (Urban)					
Residential	\$2.85	\$2.76	\$2.68	\$2.68	\$2.68
Multi-Family	2.45	2.33	2.32	2.31	2.32
Commercial	2.47	2.34	2.34	2.36	2.35
Industrial	2.17	2.07	2.07	2.14	2.22
City Departments	2.14	2.10	2.23	2.03	2.31
Outside City (Rural)					
Residential	3.44	3.37	3.30	3.39	3.42
Multi-Family	2.35	2.34	2.34	2.32	2.40
Commercial	2.35	2.35	2.37	2.35	2.48
Average Revenue					
Above Customers	2.59	2.49	2.45	2.48	2.49
Sales to Other Water Utilities*	2.01	1.94	1.95	1.92	1.75
Average Revenue					
All Customers	2.55	2.44	2.40	2.42	2.41

\* Includes all wholesale customers.

\*\* Several UT campus accounts activated.

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

	Fiscal Year Ended September 30				
	1999	1998	1997	1996	1995
<b>Average Monthly Bill Per Customer - Wastewater</b>					
Inside City (Urban)					
Residential	\$ 19.82	\$ 18.21	\$ 18.27	\$ 18.90	\$ 18.27
Multi-Family	413.23	379.55	370.09	372.98	356.85
Commercial	191.99	176.54	167.14	167.02	166.33
Industrial	118,340.25	119,765.31	114,209.91	107,515.00	79,873.52
City Departments	169.76	217.44	236.69	218.40**	397.85
Outside City (Rural)					
Residential	23.50	21.62	21.48	22.25	21.83
Multi-Family	295.60	305.84	381.17	367.83	377.87
Commercial	634.63	490.90	436.06	406.82	401.50
Average Monthly Bill					
Above Customers	50.14	47.80	47.41	47.77	46.38
Sales to Other Utilities*	23,816.54	21,793.24	22,026.20	17,731.62	17,389.57
Average Monthly Bill					
All Customers	\$51.66	\$49.43	\$49.73	\$49.68	\$48.34
<b>Average Monthly Use in 1000 Gallons - Wastewater</b>					
Inside City (Urban)					
Residential	5.24	5.10	5.11	5.30	5.14
Multi-Family	106.47	102.36	99.78	100.54	96.46
Commercial	47.68	45.90	43.24	43.48	46.30
Industrial	36,108.57	38,260.31	36,485.28	34,346.18	25,548.31
City Departments	50.10	65.96	78.37	63.98	171.90
Outside City (Rural)					
Residential	5.26	5.18	5.16	5.36	5.17
Multi-Family	75.88	82.27	102.80	99.14	98.27
Commercial	160.33	129.87	115.24	107.42	101.93
Average Monthly Use					
Above Customers	13.25	13.31	13.18	13.26	13.20
Sales to Other Wastewater Utilities*	8,919.36	8,780.43	8,064.18	6,530.35	6,656.57
Average Monthly Use					
All Customers	13.81	13.97	14.03	13.97	13.95
<b>Average Revenue Per 1000 Gallons - Wastewater</b>					
Inside City (Urban)					
Residential	\$3.79	\$3.57	\$3.57	\$3.57	\$3.55
Multi-Family	3.88	3.71	3.71	3.71	3.70
Commercial	4.03	3.85	3.87	3.84	3.59
Industrial	3.28	3.13	3.13	3.13	3.13
City Departments	3.39	3.30	3.02	3.41	2.31
Outside City (Rural)					
Residential	4.47	4.17	4.16	4.15	4.22
Multi-Family	3.90	3.72	3.71	3.71	3.85
Commercial	3.96	3.78	3.78	3.79	3.94
Average Revenue					
Above Customers	3.79	3.59	3.60	3.60	3.51
Sales to Other Utilities*	2.67	2.48	2.73	2.72	2.61
Average Revenue					
All Customers	3.74	3.54	3.54	3.56	3.46

\* Includes all wholesale customers.

\*\* Several UT campus accounts activated.

## 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 FY95 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 FY95 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**

	As of September 30				
	<u>2000 (Unaudited)</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
<b>Plant Cost</b>					
Utility Systems					
Electric	\$2,842,927,082	\$2,693,237,524	\$2,625,217,308	\$2,572,557,667	\$2,486,095,321
Water	1,090,771,042	1,003,650,278	893,668,714	821,502,655	776,444,397
Wastewater	<u>1,030,331,178</u>	<u>976,681,032</u>	<u>921,580,649</u>	<u>867,001,907</u>	<u>842,267,292</u>
Total Cost	<u>4,964,029,302</u>	<u>4,673,568,834</u>	<u>4,440,466,671</u>	<u>4,261,062,229</u>	<u>4,104,807,010</u>
Allowance for Depreciation:					
Electric	1,048,947,313	972,367,880	895,154,272	818,396,311	745,058,632
Water	242,395,336	220,477,506	202,674,479	182,053,656	165,534,650
Wastewater	<u>304,151,983</u>	<u>280,008,297</u>	<u>256,629,792</u>	<u>230,946,972</u>	<u>209,687,758</u>
Total Depreciation	<u>1,595,494,632</u>	<u>1,472,853,683</u>	<u>1,354,458,543</u>	<u>1,231,396,939</u>	<u>1,120,281,040</u>
Cost after Depreciation	<u>\$3,368,534,670</u>	<u>\$3,200,715,151</u>	<u>\$3,086,008,128</u>	<u>\$3,029,665,290</u>	<u>\$2,984,525,970</u>
<b>City's Equity in the Systems</b>					
Utility Systems	\$4,964,029,302	\$4,673,568,834	\$4,440,466,671	\$4,261,062,229	\$4,104,807,010
Plus: Inventories, Materials and Supplies (1)	32,904,657	32,227,327	31,950,001	30,687,913	31,374,457
Net Construction Assets and Unamortized Bond Issue Cost(2)	<u>129,117,962</u>	<u>145,027,887</u>	<u>129,476,175</u>	<u>134,997,115</u>	<u>113,231,834</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>	<u>4,249,413,301</u>
Less:					
Allowance for Depreciation	1,595,494,632	1,472,853,683	1,354,458,543	1,231,396,939	1,120,281,040
Construction Contract Payable	<u>1,149,032</u>	<u>2,127,799</u>	<u>2,222,064</u>	<u>2,889,429</u>	<u>3,272,515</u>
Total	<u>1,596,643,664</u>	<u>1,474,981,482</u>	<u>1,356,680,607</u>	<u>1,234,286,368</u>	<u>1,123,553,555</u>
Utility Systems, Net	3,529,408,257	3,375,842,566	3,245,212,240	3,192,460,889	3,125,859,746
Revenue Bonds and Other Debt Service (3)	2,932,066,283	2,865,320,460	2,818,680,622	2,780,846,233	2,743,087,222
Less: Bond Retirement and Reserve Funds(4)	<u>161,213,007</u>	<u>160,866,775</u>	<u>169,005,087</u>	<u>160,527,625</u>	<u>160,900,333</u>
Net Debt	<u>2,770,853,276</u>	<u>2,704,453,685</u>	<u>2,649,675,535</u>	<u>2,620,318,608</u>	<u>2,582,186,889</u>
Equity in Utility's Systems	<u>\$ 758,554,981</u>	<u>\$ 671,388,881</u>	<u>\$ 595,536,705</u>	<u>\$ 572,142,281</u>	<u>\$ 543,672,857</u>
Percentage of City's Equity in Utility Systems	21.49%	19.89%	18.35%	17.92%	17.39%

- (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 \$403,255,425 (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.

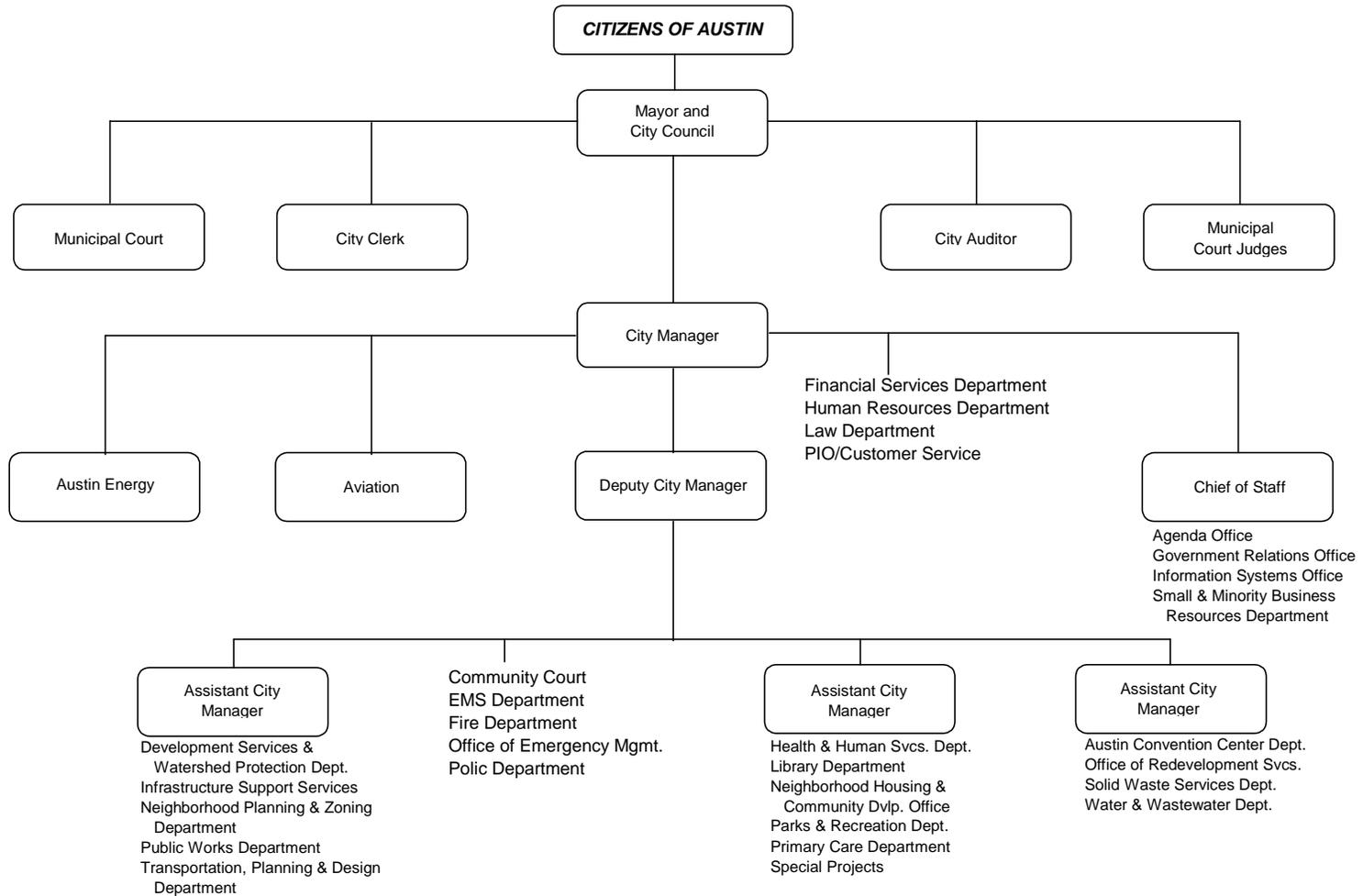
On February 22, 1994, the City of Austin filed a lawsuit in State District Court in Harris County, 162<sup>nd</sup> Judicial District, Cause of Acting No. 94-007946, against HLP. This lawsuit alleged that HLP breached its contractual duties to operate, maintain and manage STP and was negligent in operating 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, (unaudited).

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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 Corpus Christi.

### **Director of Finance and Administrative Services – 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 Services Department.

### **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. Those services may not be at a lower level of service than provided in the area immediately prior to annexation, but 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 four and one-half years to substantially complete the capital improvements necessary to provide services to the area. 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 others which 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 "Sanitation and Health Protection." 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. The City 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 current results of the City's annexation program.

<u>Calendar Year</u>	<u>Areas Fully Annexed(1)</u>	<u>Limited Purpose Annexations (2)</u>	<u>Net Annexation</u>
1982	585	2,579	3,164
1983	3,739	1,860	5,599
1984	16,183	20,096	36,279
1985	15,502	11,158	26,660
1986	8,480	8,095	16,575
1987	(9,317)	2,420	(6,897)
1988	3,310	(6,734)	(3,424)
1989	(1,602)	(12,629)	(14,231)
1990	729	(973)	(244)
1991	2,270	(1,334)	937
1992	957	786	616
1993	271(3)	(1,227)	(956)
1994	3,057	(735)	2,322
1995(4)	(1,748)	2,185	437
1996	2,501	(1,241)	1,260
1997	13,473	(1,337)	12,136
1998	2,409(5)	(411)	1,998
1999	164	648	812

- (1) Represents areas which will be taxed and fully serviced by the City.
- (2) Represents areas controlled for planning and zoning purposes, without the benefit of City services or the imposition of ad valorem taxation.
- (3) Includes dissolution of 2,476 full purpose acres. (Five inactive MUDs were dissolved in 1993.)
- (4) Includes conversion of Harris Branch and Moore's Crossing MUDs from full purpose to limited purpose due to State legislation.
- (5) Includes full purpose reannexation of Harris Branch MUDs.

The numbers in the table above represent net totals of annexation activity. The City sustained a net loss of area each year from 1987 through 1990. This loss was due to changes in the State annexation legislation which affected all Texas cities, and required the City to deannex several large tracts. With the exception of 1997, the City has pursued a less aggressive annexation policy. The Texas legislature in 1987, 1989 and 1999 enacted statutes limiting the City's ability to annex territory for full and limited purposes. Proposed annexations will comply with the terms of the new law.

**Recent Annexation**

Ten MUDs were annexed by the City in December, 1997 (see "COMBINED WATER AND WASTEWATER UTILITY INFORMATION – Services Financed by Utility Districts"), adding \$1,034,973,522 in taxable assessed valuation 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 \$1,691,362,381 in taxable assessed valuation and a population of 29,131 to the City of Austin. Some of the annexed areas continue to experience high levels of growth and increased taxable assessed valuation. Capital projects required to provide City services to some of the annexed areas are under construction.

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 valuation and a population of 1,575 to the City.

There is ongoing litigation related to some of the areas annexed in 1997. Portions of the Circle C MUDs were included in a Water Quality Protection Zone (WQPZ) which was created just prior to annexation. The law under which the WQPZ was created (Texas Water Code 26.179) purports to prohibit annexation of any of the territory in a WQPZ. If effective, this provision might have the effect of nullifying the annexation of those MUDs. However, the City challenged the constitutionality of the WQPZ laws in two separate lawsuits. A Travis County district court has declared the statute unconstitutional. A Hays County District Court ruling upheld the statute and voided the annexation of the Circle C MUDs included in the WQPZ. Both cases are on appeal. However, pursuant to a settlement agreement with certain developers in the Circle C MUDs, the challenge to the annexation of the Circle C MUDs based on their inclusion in a WQPZ has been withdrawn, regardless of the outcomes in these cases.

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 City challenged the constitutionality of this statute. A Travis County district judge struck down the statute as unconstitutional, and the court of appeals affirmed this ruling. The case is now pending in the Texas Supreme Court. If the Supreme Court were to reverse and uphold the statute, then the annexation of the Circle C MUDs would be invalid. This case is the only remaining challenge to the validity of the annexation of the Circle C MUDs.

**Future Annexation**

The City will continue to review and evaluate annexation options, including the possibility of Strategic Partnership Agreements allowed under the Texas Local Government Code 43.0751, for various MUDs. Included among these MUDs are the following.

<u>Municipal Utility District</u>	<u>Population</u>	<u>Assessed Value(1) (1997 Certification)</u>	<u>Property Tax(2) Revenue Impact</u>
Anderson Mill	12,800	\$ 393,071,063	\$2,101,747
Wells Branch	13,000	431,651,683	2,308,037
Shady Hollow	5,500	151,816,421	811,761
Springwoods	5,600	178,876,252	956,499
North Austin MUD No. 1	<u>7,920</u>	<u>316,726,390</u>	<u>1,693,533</u>
TOTALS	44,820	\$1,472,141,809	\$7,871,577

- (1) Assessed value includes homestead value exempted by three of the MUDs, that are not exempted by the City, of \$94,319,419.
- (2) Calculated using the approved 1997-98 City property tax rate of \$0.5401 per \$100 valuation and a 99% collection rate.

Anderson Mill MUD cannot be annexed prior to September 2004 under time requirements related to a Strategic Partnership Agreement between the City and the MUD.

Shady Hollow MUD cannot be annexed prior to December 2000 under its consent agreement.

Springwoods MUD cannot be annexed prior to December 2002 under the terms of an amendment to its consent agreement negotiated with the City during the 1997 annexation program.

North Austin MUD No. 1, as a part of the 1997 annexation program, will be offered the option of a Strategic Partnership Agreement prior to future annexation by the City.

### **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, 1997, was \$832,140,000. The pension benefit obligation for the Police Officers' Fund as of December 31, 1997, was \$222,703,000. The pension benefit obligation for the Firefighters' Pension Fund as of December 31, 1997, was \$279,472,000. 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, (excluding bond proceeds, no more than 80% of the City's monthly average fund balance may be invested in money market mutual funds and excluding bond proceeds, 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); and (12) 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.

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.

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 December 31, 2000, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U.S. Treasury Notes	27.2%
U.S. Treasury Bills	0.1%
U.S. Agencies	47.0%
Commercial Paper	5.3%
Repurchase Agreements	0.0%
Money Market Funds	7.5%
Local Government Investment Pools	12.9%

The dollar weighted average maturity for the combined City investment portfolios is 1.28 years. The City prices the portfolios daily utilizing a market pricing service.

## TAX EXEMPTION

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the 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 Opinion is attached hereto 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 Supplemental Ordinance subsequent to the issuance of the Bonds. The Supplemental Ordinance 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.

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 Bonds 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 (the "Premium 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.

## **OTHER RELEVANT INFORMATION**

### **Ratings**

The Bonds have received unenhanced ratings of "A3" 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 Financial Security Assurance Inc. Insurance Policy. An explanation of the significance of such ratings may be obtained from the company 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 (V.T.C.A., Government Code, Chapter 1201) provides the Bonds are negotiable instruments, investment securities to which V.T.C.A., Business and Commerce Code, Chapter 8 applies and legal and authorized investments for insurance companies, fiduciaries or trustees and sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. For the Bonds to be an eligible investments for municipalities, political subdivisions or public agencies of Texas, the Public Funds Investment Act, V.T.C.A., Government Code, Chapter 2256, provides a rating of "A" or its equivalent as to investment quality must be assigned by a national rating agency. The Texas Finance Code also contains provisions that, subject to the prudent investor standard, provide for the Bonds to be legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. Furthermore, the Bonds are eligible to secure the deposits of any public funds of the State of Texas, 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," and "Appendix B" to verify that the information relating to the Bonds and the Supplemental 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.

## **Continuing Disclosure of Information**

In the Supplemental Ordinance, 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 restricted to Electric (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 ending in or after 2000. 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, 2001 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 any 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 to NRMSIRs and any SID only. 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 compliance with all prior undertakings under Rule 15c2-12.

**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.

**Forward Looking Statements**

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involved judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

This Official Statement, and the execution and delivery of this Official Statement will be authorized by the City Council on January 18, 2001.

\_\_\_\_\_  
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. In 1999, PARC was a finalist for the national Gold Medal Award given by the National Recreation and Park Association as one of the best parks and recreation departments in the nation. Also, the Texas Recreation and Parks Society presented to Austin PARC the Gold Medal Award for Excellence. The city has a number of public outdoor recreational facilities, including 23 greenbelts, 88 athletic fields, 77 neighborhood parks, 5 golf courses, 106 tennis courts, a 3.1 mile veloway for bicyclists and inline skaters, 44 miles of hike and bike trails and 70 miles of striped bike lanes, one youth entertainment complex, and 47 swimming pools, including renowned Barton Springs, where as many as 300,000 people a year enjoy its constant 68 degree spring-fed water. Austin's weather and geography are conducive to bicycling. Riders come from across the nation to train here, including Austin resident Lance Armstrong, the current Tour de France winner.

Austin is home to a number of outdoor events and festivals, including the Motorola Marathon, Capitol 10,000 Race, the Annual Texas Hill Country Wine and Food Festival, the Pecan Street Festival, the Annual Spam-O-Rama where hundreds of devotees of Spam converge for cooking and sculpting contests, and the 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 30 lighted scenes of the holiday season.

In addition to outdoor recreational opportunities, Austinites can choose from a wide variety of indoor recreational activities. Austin has long been recognized as the "live music capital of the world" with more than 100 live music venues nightly offering a complete range of musical styles. The annual South by Southwest (SXSW) music and film festivals attract professionals and fans from across the country. Austin also has a number of museums and art galleries to choose from and has a wide variety of restaurants and bars offering all types of food and drink, especially in the popular Sixth Street area and the developing Warehouse District.

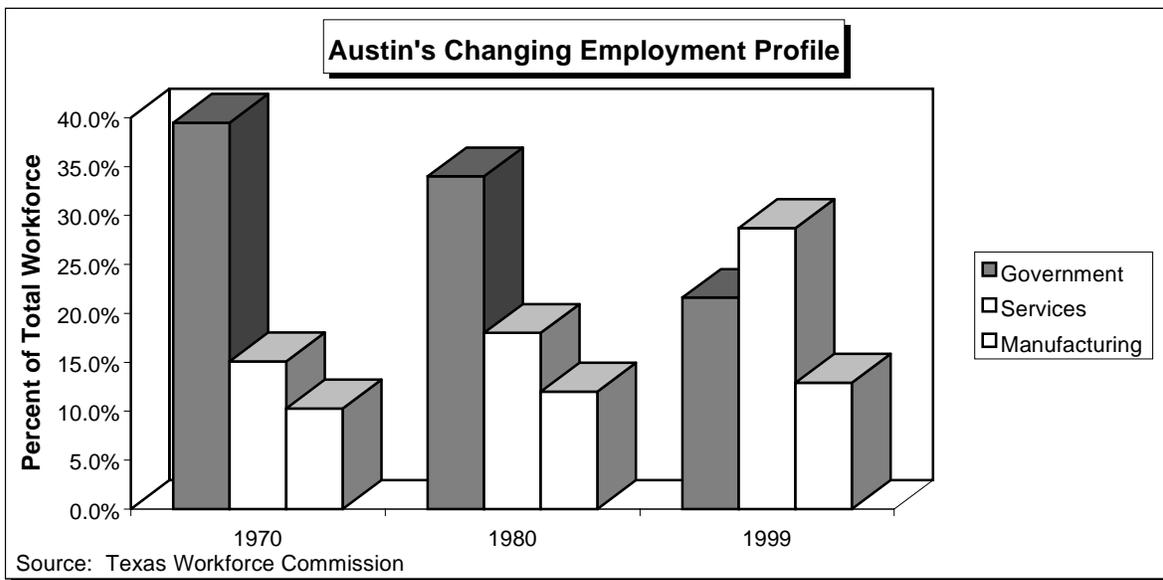
With its seven institutions of higher learning, education is a significant aspect of life in the Austin area. Access to these institutions, especially the University of Texas at Austin (UT), has attracted many of the high-technology industries that now drive most of the growth in the city's economy. For example, *Success* magazine ranked the UT Graduate School of Business first among the nation's best programs for entrepreneurship. With this program, UT supports high-tech start-ups through the Austin Technology Incubator. The University's academic programs and professional schools rank high among the top programs and schools in the country. *U.S. News & World Report* ranks UT in the top thirteen national public universities with six graduate schools and 37 graduate programs in the top ten nationally. The *Public Accounting Report* ranks UT's graduate accounting program first nationally.

Among U.S. cities with a population over 250,000, Austin is one of the most highly educated cities, with 35% of its adults having 16 or more years of schooling. The city may also have the most computer-literate populace in the country. *Yahoo Magazine* rated Austin as the second-most wired city in the nation and The Benchmark Company noted that 68% of Austin households have computers and 77% of these computer households use email. *MONEY* magazine selected Austin as the number two place in the country to live.

**Industry and Business**

In 1999, the Austin metropolitan area continued to receive national recognition for its dynamic economy and its quality of life. *FORTUNE* magazine ranks Austin third in “The Best City for Business” category. Dun & Bradstreet’s *Business Start-Ups* magazine ranked the Austin area as the top metropolitan area for high-tech small businesses.

As the capital of Texas and the home of the UT, Austin has long been considered a government and university town. However, Austin is also one of the premier high-tech communities in the country. During 1999, Austin experienced nine initial public offerings (IPOs), with a combined market capitalization of \$12 billion. Approximately 30 venture capital firms are in Austin; the largest firm has over \$3.6 billion of capital under management. Venture capital funding in 1999 far out-stripped the 1998 level. About 70 percent of all new startups in town are software or internet companies and most venture capital goes to these types of companies. Austin has approximately 1,800 technology companies of all kinds employing 110,000+ people, with a number of other associated professional service and low-tech firms. These companies make up a key segment of Austin’s growing employment base. A frequent-used measure of innovation is the number of patents issued in a city; the Austin area ranks second after San Jose in patents issued per capita. 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 very 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 of more than 100,000, half of them at the University of Texas, help keep the city intellectually active and provide 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 63% occupancy rate. The City’s existing convention and meeting facilities include Palmer Auditorium, the City Coliseum and Austin Convention Center, with the Center’s expansion to open in 2002. 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)

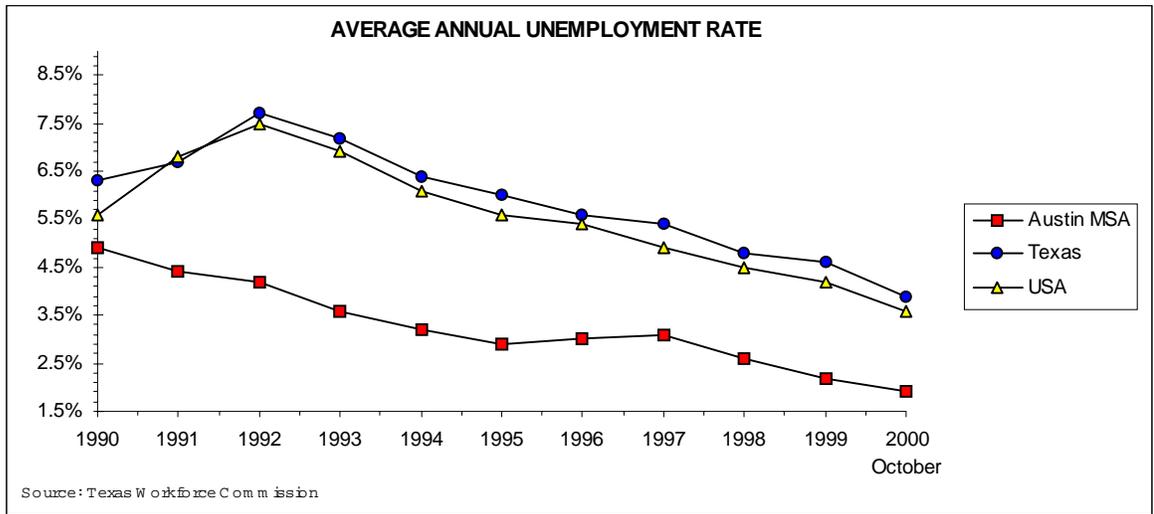
### Employment Characteristics

<u>Industrial Classification</u>	<u>1970</u>	<u>% of Total</u>	<u>1997</u>	<u>% of Total</u>	<u>1998</u>	<u>% of Total</u>	<u>1999</u>	<u>% of Total</u>	<u>10 Months Ended October 31, 2000 (b)</u>	<u>% of Total</u>
Manufacturing	13,300	10.3%	75,485	13.5%	81,871	13.8%	78,779	12.9%	86,500	12.8%
Government	51,150	39.5%	127,151	22.7%	130,036	21.9%	131,592	21.6%	140,600	20.8%
Trade	26,100	20.2%	121,548	21.8%	128,552	21.6%	137,251	22.5%	150,800	22.3%
Services and Miscellaneous	19,600	15.1%	156,173	27.9%	168,985	28.4%	175,210	28.7%	197,100	29.2%
Finance, Insurance and Real Estate	6,150	4.7%	29,083	5.2%	30,587	5.1%	31,357	5.1%	35,500	5.3%
Contract Construction	8,750	6.8%	29,954	5.4%	33,758	5.7%	35,069	5.8%	39,900	5.9%
Transportation, Communications & Utilities	4,000	3.1%	18,501	3.3%	19,451	3.3%	19,775	3.2%	23,900	3.5%
Mining	<u>450</u>	<u>0.3%</u>	<u>1,224</u>	<u>0.2%</u>	<u>1,308</u>	<u>0.2%</u>	<u>1,221</u>	<u>0.2%</u>	<u>1,300</u>	<u>0.2%</u>
Total	<u>129,500</u>	<u>100.0%</u>	<u>559,119</u>	<u>100.0%</u>	<u>594,548</u>	<u>100.0%</u>	<u>610,254</u>	<u>100.0%</u>	<u>675,600</u>	<u>100.0%</u>

(a) Information is updated periodically, data contained herein is latest provided. Numbers for 1999 are an estimate based on Texas Workforce Commission, Bureau of Labor Statistics and U.S. Department of Labor data as of March 30, 1999.

(b) Subject to revision.

Source: 1999 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 (October)	1.9%	3.9%	3.6%

Note: Information is updated periodically, data contained herein is latest provided.  
 Source: 1999 Comprehensive Annual Financial Report, Texas Workforce Commission.

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

<u>Period</u>	<u>Amount</u>								
1-1-96	\$5.790	1-1-97	\$ 5.421	1-1-98	\$ 6.399	1-1-99	\$ 7.335	1-1-00	\$ 8.790
2-1-96	9.213	2-1-97	10.626	2-1-98	10.708	2-1-99	12.155	2-1-00	12.316
3-1-96	6.393	3-1-97	5.734	3-1-98	6.641	3-1-99	7.318	3-1-00	8.799
4-1-96	5.945	4-1-97	5.848	4-1-98	6.780	4-1-99	7.252	4-1-00	8.119
5-1-96	7.425	5-1-97	7.861	5-1-98	9.155	5-1-99	10.027	5-1-00	11.234
6-1-96	6.262	6-1-97	6.446	6-1-98	7.367	6-1-99	7.900	6-1-00	9.091
7-1-96	6.041	7-1-97	6.013	7-1-98	7.056	7-1-99	7.632	7-1-00	9.314
8-1-96	7.932	8-1-97	8.541	8-1-98	9.587	8-1-99	10.611	8-1-00	11.313
9-1-96	6.456	9-1-97	6.569	9-1-98	7.251	9-1-99	7.916	9-1-00	8.718
10-1-96	5.796	10-1-97	6.967	10-1-98	7.277	10-1-99	7.855	10-1-00	9.356
11-1-96	7.524	11-1-97	8.477	11-1-98	8.623	11-1-99	9.676	11-1-00	11.423
12-1-96	6.060	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.

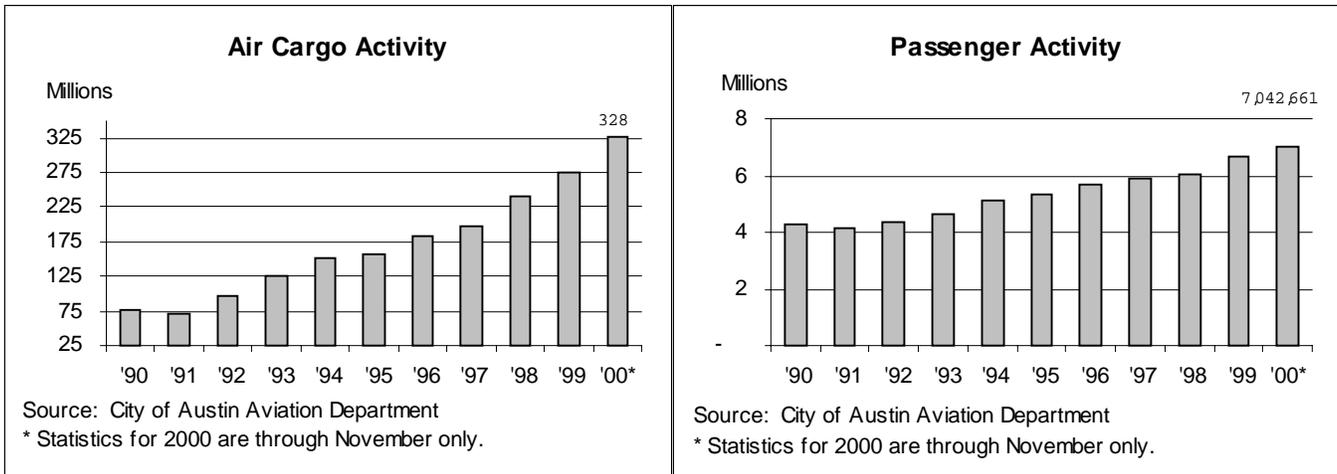
**Ten Largest Employers (As of September 30, 1999)**

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
The University of Texas at Austin	Education and Research	20,277
Dell Computer Corporation	Computers	19,500
City of Austin	City Government	10,995
Motorola, Inc.	Electronic Components	10,500
Austin Independent School District	Education	9,417
HEB Grocery	Grocery/Pharmacy	7,500
IBM Corporation	Office Machines	7,500
Seton Medical Center	Hospital	6,756
Internal Revenue Service	Federal Agency	5,800
Advanced Micro Devices	Computers	4,300

Source: 1999 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 all 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%

(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.

(2) U.S. Bureau of the Census official estimates as of July 31, except for census years.

## 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

Source: 1999 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 \$930 per month during the first quarter of 2000, with an occupancy rate of 96.7%.

## 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	18,189	2,969,343,472	163,249
2000 (October)	15,755	3,106,373,297	197,167

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 (2 <sup>nd</sup> Quarter)	96.3%

Source: Colliers Oxford Commercial Research Services.

## 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**

## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and  
Members of the City Council,  
City of Austin, Texas:

We have audited the general purpose financial statements of the City of Austin, Texas ("City") as of and for the year ended September 30, 1999, as listed in the accompanying table of contents under "General Purpose Financial Statements" and the following individual fund supporting financial statements included in Exhibit F-1, Exhibit F-2, and Exhibit F-3: Electric Fund Balance Sheet, Electric Fund Statement of Revenues, Expenses, and Changes in Retained Earnings, Electric Fund Statement of Cash Flows, Water and Wastewater Fund Balance Sheet, Water and Wastewater Fund Statement of Cash Flows, Airport Fund Balance Sheet, Airport Fund Statement of Revenues, Expenses, and Changes in Retained Earnings, and Airport Fund Statement of Cash Flows. These general purpose financial statements and individual fund supporting financial statements listed above are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements and individual fund supporting financial statements listed above based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements and individual fund supporting financial statements listed above are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements and individual fund supporting financial statements listed above. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and the presentation of the individual fund supporting financial statements listed above. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Austin, Texas as of September 30, 1999, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the individual fund supporting financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds as of September 30, 1999, and the results of operations and the cash flows of such funds for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the individual fund supporting financial statements referred to in the first paragraph. The accompanying combining and individual fund financial statements, other than those referred to in the first paragraph, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Austin, Texas. Such information, other than those individual fund supporting financial statements referred to in the first paragraph, has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

**KPMG LLP**

*Martinez, Mendoza & Garcia, LLP*

Austin, Texas  
February 18, 2000

**ALL FUND TYPES AND ACCOUNT GROUPS  
 COMBINED BALANCE SHEET  
 September 30, 1999  
 With comparative totals for September 30, 1998**

	<b>Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>
<b>ASSETS AND OTHER DEBITS</b>				
Current assets:				
Cash	\$ 85,523	5,300	--	--
Pooled investments and cash	37,561,650	48,462,665	--	115,535,763
Investments, at fair value	--	759,132	7,790,649	--
Working capital advances	--	--	--	--
Cash and investments held by trustee	--	--	--	--
Receivables, net of allowances:				
Property taxes	4,300,904	--	3,118,879	--
Accounts and other receivables	24,526,901	7,298,542	--	1,109,877
Receivables from other governments	--	14,990,409	--	--
Due from other funds	--	14,473,235	--	8,950,171
Inventories, at cost	1,113,719	--	--	--
Real property held for resale	--	1,318,700	--	--
Other assets	78,529	771,337	--	1,050,165
<b>Total current assets</b>	<b>67,667,226</b>	<b>88,079,320</b>	<b>10,909,528</b>	<b>126,645,976</b>
Restricted assets:				
Revenue bond current debt service account	--	--	--	--
Revenue bond future debt service account	--	--	--	--
Revenue bond retirement reserve account	--	--	--	--
Tax and revenue bond debt service account	--	--	--	--
Construction account	--	--	--	--
Construction account due from other funds	--	--	--	--
Construction account advances to other funds	--	--	--	--
Decommissioning account	--	--	--	--
Capital improvement account	--	--	--	--
Operating reserve account	--	--	--	--
Hotel occupancy tax account	--	--	--	--
Renewal and replacement account	--	--	--	--
Investments and cash held by trustee	--	--	--	--
Nuclear fuel inventory acquisition account	--	--	--	--
Mueller disposition account	--	--	--	--
Customer and escrow deposits	--	--	--	--
Other restricted accounts	--	--	--	--
<b>Total restricted assets</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
Fixed assets, at cost:				
Property, plant and equipment	--	--	--	--
Less accumulated depreciation	--	--	--	--
<b>Net property, plant and equipment</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
Investment in municipal utility districts	--	--	--	--
Advances to other funds	--	--	--	--
Other long-term assets	--	--	--	--
Deferred costs and expenses, net of amortization	--	--	--	--
Other debits:				
Amount available in debt service funds	--	--	--	--
Amount to be provided for accrued compensated absences	--	--	--	--
Amount to be provided for retirement of long-term debt	--	--	--	--
<b>Total assets</b>	<b>\$ 67,667,226</b>	<b>88,079,320</b>	<b>10,909,528</b>	<b>126,645,976</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF AUSTIN, TEXAS**  
**Exhibit A-1**

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long- Term Debt	1999	1998
40,600	22,475	--	--	--	153,898	152,927
132,213,100	47,005,798	8,241,401	--	--	389,020,377	340,078,393
--	--	--	--	--	8,549,781	9,947,650
3,081,418	--	--	--	--	3,081,418	3,867,194
--	268,564	--	--	--	268,564	234,786
--	--	--	--	--	7,419,783	6,818,518
119,242,619	581,812	--	--	--	152,759,751	134,424,569
--	--	5,627	--	--	14,996,036	15,975,886
45,988	--	--	--	--	23,469,394	21,892,359
49,953,529	1,819,348	--	--	--	52,886,596	45,468,311
--	--	--	--	--	1,318,700	1,065,241
11,614,720	1,711	--	--	--	13,516,462	19,182,673
316,191,974	49,699,708	8,247,028	--	--	667,440,760	599,108,507
115,018,400	--	--	--	--	115,018,400	104,832,101
205,440,280	--	--	--	--	205,440,280	156,547,474
167,412,168	--	--	--	--	167,412,168	175,635,855
--	--	--	--	--	--	100,265
390,321,664	3,602,295	--	--	--	393,923,959	346,799,195
384,424	--	--	--	--	384,424	384,424
653,146	--	--	--	--	653,146	1,037,571
53,655,752	--	--	--	--	53,655,752	49,332,878
14,950,917	--	--	--	--	14,950,917	17,706,677
17,509,286	--	--	--	--	17,509,286	12,255,351
1,989,916	--	--	--	--	1,989,916	1,466,403
11,197,233	--	--	--	--	11,197,233	5,842,437
24,657,907	--	--	--	--	24,657,907	24,745,878
31,366,762	--	--	--	--	31,366,762	31,424,932
22,507	--	--	--	--	22,507	608,543
15,879,334	--	--	--	--	15,879,334	14,426,120
11,079,341	--	--	--	--	11,079,341	2,360,770
1,061,539,037	3,602,295	--	--	--	1,065,141,332	945,506,874
5,672,689,526	57,440,876	--	599,381,342	--	6,329,511,744	5,868,006,024
(1,650,864,797)	(23,311,692)	--	--	--	(1,674,176,489)	(1,527,312,375)
4,021,824,729	34,129,184	--	599,381,342	--	4,655,335,255	4,340,693,649
2,431,398	--	--	--	--	2,431,398	2,746,428
--	--	--	--	--	--	19,101
1,450,616	--	--	--	--	1,450,616	532,854
632,572,463	31,619	--	--	--	632,604,082	586,455,800
--	--	--	--	7,869,714	7,869,714	7,269,980
--	--	--	--	43,555,353	43,555,353	42,658,185
--	--	--	--	519,978,303	519,978,303	500,027,010
6,036,010,217	87,462,806	8,247,028	599,381,342	571,403,370	7,595,806,813	7,025,018,388

(continued)

**ALL FUND TYPES AND ACCOUNT GROUPS  
 COMBINED BALANCE SHEET  
 September 30, 1999  
 With comparative totals for September 30, 1998**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>				
Current liabilities:				
Accounts payable	\$ 4,552,024	4,716,021	--	8,564,220
Accrued payroll	12,312,527	898,645	--	--
Accrued compensated absences	2,083,912	186,944	--	--
Claims payable	--	--	--	--
Construction contracts payable	--	--	--	--
Contract revenue bonds payable	--	--	--	--
Due to other governments	--	--	--	--
Due to other funds	--	14,473,235	--	8,877,286
Interest payable on other debt	--	--	--	--
General obligation bonds payable and other tax supported debt	--	--	--	--
Water improvement district bonds payable	--	--	--	--
Capital lease obligations payable	--	--	--	--
Other liabilities	6,324,991	39,742,315	3,039,814	2,426,946
<b>Total current liabilities</b>	<b>25,273,454</b>	<b>60,017,160</b>	<b>3,039,814</b>	<b>19,868,452</b>
Liabilities payable from restricted assets:				
Accounts and retainage payable	--	--	--	--
Due to other funds	--	--	--	--
Accrued interest payable	--	--	--	--
General obligation bonds and other tax supported debt payable	--	--	--	--
Revenue bonds payable within one year	--	--	--	--
Decommissioning expense payable	--	--	--	--
Nuclear fuel expense payable	--	--	--	--
Other liabilities	--	--	--	--
<b>Total liabilities payable from restricted assets</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
Long-term obligations, net of current portion:				
Accrued compensated absences	--	--	--	--
Claims payable	--	--	--	--
Construction contracts payable	--	--	--	--
Contract revenue bonds payable, net of discount	--	--	--	--
Advances from other funds	--	--	--	--
Loans payable	--	--	--	--
Capital appreciation bond interest payable	--	--	--	--
Commercial paper notes payable	--	--	--	--
Revenue notes payable	--	--	--	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	--	--	--	--
Revenue bonds payable, net of discount and inclusive of premium	--	--	--	--
Water improvement district bonds payable	--	--	--	--
Capital lease obligations payable	--	--	--	--
Decommissioning assessment payable	--	--	--	--
Accrued landfill closure and postclosure costs	--	--	--	--
Deferred revenue and other credits	--	--	--	--
<b>Total liabilities</b>	<b>\$ 25,273,454</b>	<b>60,017,160</b>	<b>3,039,814</b>	<b>19,868,452</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF AUSTIN, TEXAS**  
**Exhibit A-1**  
**(Continued)**

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long- Term Debt	1999	1998
41,519,489	5,155,609	72,741	--	--	64,580,104	42,763,163
9,025,047	3,462,917	--	--	--	25,699,136	21,653,298
11,878,802	4,590,566	--	--	--	18,740,224	18,476,341
--	10,979,227	--	--	--	10,979,227	13,071,737
109,776	--	--	--	--	109,776	204,041
6,245,000	--	--	--	--	6,245,000	5,695,000
493,009	--	1,459,792	--	--	1,952,801	2,553,434
30,825	399,587	72,885	--	--	23,853,818	21,090,651
4,120,244	116,905	--	--	--	4,237,149	5,692,090
2,664,569	1,521,534	--	--	--	4,186,103	4,204,430
307,000	--	--	--	--	307,000	332,000
1,965,001	--	--	--	--	1,965,001	1,848,919
10,102,907	491,165	2,910,886	--	--	65,039,024	55,758,004
88,461,669	26,717,510	4,516,304	--	--	227,894,363	193,343,108
38,345,426	--	--	--	--	38,345,426	39,469,941
--	--	--	--	--	--	1,186,132
67,868,043	--	--	--	--	67,868,043	59,296,239
3,576,237	--	--	--	--	3,576,237	4,194,973
99,460,312	--	--	--	--	99,460,312	101,808,872
53,655,752	--	--	--	--	53,655,752	48,827,308
31,366,762	--	--	--	--	31,366,762	31,424,932
24,364,975	--	--	--	--	24,364,975	23,032,303
318,637,507	--	--	--	--	318,637,507	309,240,700
6,130,910	1,745,806	--	--	43,555,353	51,432,069	50,298,296
--	8,693,100	--	--	--	8,693,100	6,629,290
2,018,023	--	--	--	--	2,018,023	2,018,023
95,149,775	--	--	--	--	95,149,775	101,359,940
30,825	622,321	--	--	--	653,146	1,056,672
--	--	--	--	10,219,164	10,219,164	--
109,775,116	--	--	--	--	109,775,116	98,328,153
333,147,181	--	--	--	--	333,147,181	294,412,023
28,000,000	--	--	--	--	28,000,000	28,000,000
66,269,779	7,175,497	--	--	517,628,853	591,074,129	570,342,464
2,856,361,074	--	--	--	--	2,856,361,074	2,707,378,996
789,000	--	--	--	--	789,000	1,076,000
19,634,999	--	--	--	--	19,634,999	21,599,999
2,255,362	--	--	--	--	2,255,362	2,791,495
6,467,381	--	--	--	--	6,467,381	6,224,517
5,874,230	--	--	--	--	5,874,230	6,833,287
3,939,002,831	44,954,234	4,516,304	--	571,403,370	4,668,075,619	4,400,932,963

(continued)

**ALL FUND TYPES AND ACCOUNT GROUPS  
 COMBINED BALANCE SHEET  
 September 30, 1999  
 With comparative totals for September 30, 1998**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>				
<b>Continued</b>				
Equity and other credits:				
Contributions from municipality	\$ --	--	--	--
Contributions from State and Federal governments	--	--	--	--
Contributions in aid of construction	--	--	--	--
Contributions from the private sector	--	--	--	--
Investment in general fixed assets	--	--	--	--
Retained earnings:				
Reserved for renewal and replacement	--	--	--	--
Reserved for passenger facility charge	--	--	--	--
Unreserved	--	--	--	--
Fund balances:				
Reserved for encumbrances	7,172,887	4,945,721	--	24,370,546
Reserved for inventories and prepaid items	1,192,248	--	--	--
Reserved for notes receivable	--	4,251,828	--	--
Reserved for real property held for resale	--	1,318,700	--	--
Reserved for nonexpendable trust	--	--	--	--
Unreserved:				
Designated for emergency reserve	16,427,669	--	--	--
Designated for contingency reserve	823,127	--	--	--
Designated for future use	--	17,913,537	--	--
Designated for debt service	--	--	7,869,714	--
Designated for purposes of trust	--	--	--	--
Undesignated	16,777,841	(367,626)	--	82,406,978
<b>Total equity and other credits</b>	<b>42,393,772</b>	<b>28,062,160</b>	<b>7,869,714</b>	<b>106,777,524</b>
<b>Total liabilities, equity and other credits</b>	<b>\$ 67,667,226</b>	<b>88,079,320</b>	<b>10,909,528</b>	<b>126,645,976</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF AUSTIN, TEXAS**  
**Exhibit A-1**  
**(Continued)**

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	1999	1998
55,850,644	39,703,676	--	--	--	95,554,320	85,065,559
161,926,221	--	--	--	--	161,926,221	142,919,642
386,775,077	--	--	--	--	386,775,077	352,178,607
4,175,344	--	--	--	--	4,175,344	4,175,344
--	--	--	599,381,342	--	599,381,342	544,122,002
10,808,822	--	--	--	--	10,808,822	5,842,437
7,734,879	--	--	--	--	7,734,879	116,638
1,469,736,399	2,804,896	--	--	--	1,472,541,295	1,295,220,571
--	--	--	--	--	36,489,154	45,689,146
--	--	--	--	--	1,192,248	1,180,762
--	--	--	--	--	4,251,828	3,421,204
--	--	--	--	--	1,318,700	1,065,241
--	--	76,374	--	--	76,374	76,374
--	--	--	--	--	16,427,669	14,838,623
--	--	--	--	--	823,127	164,110
--	--	--	--	--	17,913,537	17,445,371
--	--	--	--	--	7,869,714	7,269,980
--	--	3,654,350	--	--	3,654,350	3,518,868
--	--	--	--	--	98,817,193	99,774,946
2,097,007,386	42,508,572	3,730,724	599,381,342	--	2,927,731,194	2,624,085,425
6,036,010,217	87,462,806	8,247,028	599,381,342	571,403,370	7,595,806,813	7,025,018,388

**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
Year ended September 30, 1999  
With comparative totals for year ended September 30, 1998**

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>
<b>REVENUES</b>			
Taxes	\$ 215,885,594	27,681,233	61,110,663
Franchise fees	19,671,043	--	--
Fines, forfeitures and penalties	16,205,548	2,913,042	--
Licenses, permits and inspections	17,252,024	--	--
Charges for services/goods	11,533,686	27,246,653	--
Intergovernmental revenues	--	47,046,315	--
Property owners' participation and contributions	--	--	--
Contributions to trusts	--	--	--
Interest and other	6,361,863	4,867,939	2,650,911
<b>Total revenues</b>	<b>286,909,758</b>	<b>109,755,182</b>	<b>63,761,574</b>
<b>EXPENDITURES</b>			
Current, including capital outlay in the General Fund of \$4,690,224			
Administration	7,849,862	48,172,947	--
Urban growth management	9,129,217	--	--
Public safety	173,962,836	--	--
Public services and utilities	11,098,958	--	--
Public health	40,677,762	--	--
Public recreation and culture	40,929,063	--	--
Social services management	8,627,050	--	--
Nondepartmental expenditures	49,142,610	--	--
Special projects	--	50,487,877	--
Capital outlay for construction	--	--	--
Debt service:			
Principal retirement	--	--	24,035,716
Interest, commissions and other	--	--	42,250,601
<b>Total expenditures</b>	<b>341,417,358</b>	<b>98,660,824</b>	<b>66,286,317</b>
Excess (deficiency) of revenues over expenditures	(54,507,600)	11,094,358	(2,524,743)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds of refunding bonds	--	--	--
Payment to escrow agent	--	--	--
Proceeds from issuance of general obligation bonds and other tax supported debt	--	--	--
Operating transfers in	74,204,480	19,904,286	3,124,477
Operating transfers out	(26,592,055)	(29,585,870)	--
<b>Total other financing sources (uses)</b>	<b>47,612,425</b>	<b>(9,681,584)</b>	<b>3,124,477</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(6,895,175)	1,412,774	599,734
Fund balances at beginning of year	49,288,947	25,702,818	7,269,980
Residual equity transfer in	--	946,568	--
<b>Fund balances at end of year</b>	<b>\$ 42,393,772</b>	<b>28,062,160</b>	<b>7,869,714</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF AUSTIN, TEXAS**  
**Exhibit A-2**

Capital Projects	Fiduciary Fund Type	Totals (Memorandum Only)	
	Expendable Trust	1999	1998
--	--	304,677,490	268,180,688
--	--	19,671,043	16,861,639
--	--	19,118,590	17,102,535
--	--	17,252,024	15,540,712
--	--	38,780,339	47,675,239
7,381,511	--	54,427,826	57,631,450
2,162,768	--	2,162,768	963,557
--	181,787	181,787	364,574
8,001,456	140,206	22,022,375	30,608,920
17,545,735	321,993	478,294,242	454,929,314
--	--	56,022,809	53,070,744
--	--	9,129,217	8,380,122
--	19,900	173,982,736	162,769,492
--	14,110	11,113,068	10,178,503
--	5,203	40,682,965	37,075,226
--	147,298	41,076,361	36,151,770
--	--	8,627,050	8,204,845
--	--	49,142,610	41,130,459
--	--	50,487,877	48,909,943
79,970,838	--	79,970,838	54,683,419
--	--	24,035,716	22,570,196
--	--	42,250,601	40,751,170
79,970,838	186,511	586,521,848	523,875,889
(62,425,103)	135,482	(108,227,606)	(68,946,575)
--	--	--	103,705,974
--	--	--	(103,705,974)
39,245,000	--	39,245,000	35,229,000
32,807,262	--	130,040,505	117,048,438
(11,437,273)	--	(67,615,198)	(54,710,285)
60,614,989	--	101,670,307	97,567,153
(1,810,114)	135,482	(6,557,299)	28,620,578
108,587,638	3,518,868	194,368,251	165,747,673
--	--	946,568	--
106,777,524	3,654,350	188,757,520	194,368,251

**GENERAL FUND, SPECIAL REVENUE FUNDS AND DEBT SERVICE FUND  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL-BUDGET BASIS  
 Year ended September 30, 1999**

	General Fund			Annually Budgeted Special Revenue Funds		
	Actual- Budget Basis	Budget	Variance -- Favorable (Unfavorable)	Actual- Budget Basis	Budget	Variance -- Favorable (Unfavorable)
	<b>REVENUES</b>					
Taxes	\$ 215,885,594	212,489,763	3,395,831	--	--	--
Franchise fees	19,671,043	16,314,191	3,356,852	--	--	--
Fines, forfeitures and penalties	16,205,548	13,333,296	2,872,252	--	--	--
Licenses, permits and inspections	17,252,024	14,026,012	3,226,012	--	--	--
Charges for services/goods	11,533,686	12,984,913	(1,451,227)	--	--	--
Interest and other	6,361,863	6,957,810	(595,947)	54,341,816	54,547,803	(205,987)
<b>Total revenues</b>	<b>286,909,758</b>	<b>276,105,985</b>	<b>10,803,773</b>	<b>54,341,816</b>	<b>54,547,803</b>	<b>(205,987)</b>
<b>EXPENDITURES</b>						
Administration	7,863,049	7,819,132	(43,917)	45,673,027	48,413,556	2,740,529
Urban growth management	8,972,646	9,190,265	217,619	--	--	--
Public safety	172,250,810	173,263,457	1,012,647	--	--	--
Public services and utilities	10,895,628	11,106,298	210,670	--	--	--
Public health	40,795,856	41,880,650	1,084,794	--	--	--
Public recreation and culture	40,275,130	40,275,625	495	--	--	--
Social services management	9,084,438	9,087,548	3,110	--	--	--
Nondepartmental expenditures	7,266,565	7,071,708	(194,857)	--	--	--
Principal redemption	--	--	--	--	--	--
Interest and other	--	--	--	--	--	--
Fees and commissions	--	--	--	--	--	--
<b>Total expenditures</b>	<b>297,404,122</b>	<b>299,694,683</b>	<b>2,290,561</b>	<b>45,673,027</b>	<b>48,413,556</b>	<b>2,740,529</b>
Excess (deficiency) of revenues over expenditures	(10,494,364)	(23,588,698)	13,094,334	8,668,789	6,134,247	2,534,542
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	74,204,480	74,704,479	(499,999)	19,089,286	19,434,039	(344,753)
Operating transfers out	(70,378,262)	(70,977,287)	599,025	(29,653,005)	(29,362,199)	(290,806)
<b>Total other financing sources (uses)</b>	<b>3,826,218</b>	<b>3,727,192</b>	<b>99,026</b>	<b>(10,563,719)</b>	<b>(9,928,160)</b>	<b>(635,559)</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(6,668,146)	(19,861,506)	13,193,360	(1,894,930)	(3,793,913)	1,898,983
Fund balances at beginning of year	47,260,969	25,046,853	22,214,116	10,227,519	10,227,519	--
Residual equity transfers in	--	--	--	946,568	--	946,568
<b>Fund balances at end of year</b>	<b>\$ 40,592,823</b>	<b>5,185,347</b>	<b>35,407,476</b>	<b>9,279,157</b>	<b>6,433,606</b>	<b>2,845,551</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF AUSTIN, TEXAS**  
**Exhibit A-3**

Debt Service Fund			Totals (Memorandum Only)		
Actual- Budget Basis	Budget	Variance -- Favorable (Unfavorable)	Actual- Budget Basis	Budget	Variance -- Favorable (Unfavorable)
61,110,663	60,891,419	219,244	276,996,257	273,381,182	3,615,075
--	--	--	19,671,043	16,314,191	3,356,852
--	--	--	16,205,548	13,333,296	2,872,252
--	--	--	17,252,024	14,026,012	3,226,012
--	--	--	11,533,686	12,984,913	(1,451,227)
2,650,911	3,139,994	(489,083)	63,354,590	64,645,607	(1,291,017)
63,761,574	64,031,413	(269,839)	405,013,148	394,685,201	10,327,947
--	--	--	53,536,076	56,232,688	2,696,612
--	--	--	8,972,646	9,190,265	217,619
--	--	--	172,250,810	173,263,457	1,012,647
--	--	--	10,895,628	11,106,298	210,670
--	--	--	40,795,856	41,880,650	1,084,794
--	--	--	40,275,130	40,275,625	495
--	--	--	9,084,438	9,087,548	3,110
--	--	--	7,266,565	7,071,708	(194,857)
30,744,613	30,802,819	58,206	30,744,613	30,802,819	58,206
45,052,931	46,411,761	1,358,830	45,052,931	46,411,761	1,358,830
9,564	10,000	436	9,564	10,000	436
75,807,108	77,224,580	1,417,472	418,884,257	425,332,819	6,448,562
(12,045,534)	(13,193,167)	1,147,633	(13,871,109)	(30,647,618)	16,776,509
12,645,268	13,244,437	(599,169)	105,939,034	107,382,955	(1,443,921)
--	--	--	(100,031,267)	(100,339,486)	308,219
12,645,268	13,244,437	(599,169)	5,907,767	7,043,469	(1,135,702)
599,734	51,270	548,464	(7,963,342)	(23,604,149)	15,640,807
7,269,980	7,532,542	(262,562)	64,758,468	42,806,914	21,951,554
--	--	--	946,568	--	946,568
7,869,714	7,583,812	285,902	57,741,694	19,202,765	38,538,929

**ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS  
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
RETAINED EARNINGS/FUND BALANCES  
Year ended September 30, 1999  
With comparative totals for year ended September 30, 1998**

	<b>Proprietary Fund Types</b>	
	<b>Enterprise</b>	<b>Internal Service</b>
<b>REVENUES</b>		
Electric services	\$ 682,087,588	--
Water and wastewater services	214,042,787	--
User fees and rentals	150,555,862	--
Billings to departments	--	132,745,737
Employee contributions	--	15,426,960
Operating revenues from other governments	15,837,556	--
Other operating revenues	--	3,207,926
Operating revenues	<u>1,062,523,793</u>	<u>151,380,623</u>
<b>EXPENSES</b>		
Electric operations	342,914,020	--
Water and wastewater operations	87,011,629	--
Other enterprise operations	110,775,915	--
Internal service operations	--	145,410,566
Depreciation	151,399,557	2,027,606
Total operating expenses	<u>692,101,121</u>	<u>147,438,172</u>
<b>Operating income (loss) before nonoperating revenues (expenses) and operating transfers</b>	<u>370,422,672</u>	<u>3,942,451</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and other revenues	44,448,200	522,956
Interest on revenue bonds and other debt	(211,260,728)	(441,622)
Interest capitalized during construction	18,601,484	--
Amortization of bond issue costs	(1,337,185)	(3,520)
Other nonoperating expense	(11,259,504)	(233,980)
Total nonoperating revenues (expenses)	<u>(160,807,733)</u>	<u>(156,166)</u>
Costs to be recovered in future years	39,701,954	--
Income (loss) before operating transfers	<u>249,316,893</u>	<u>3,786,285</u>
Operating transfers:		
Operating transfers in	18,872,385	--
Operating transfers out	(81,232,692)	(65,000)
<b>Net income (loss)</b>	<u>186,956,586</u>	<u>3,721,285</u>
Add depreciation transferred to contributions	2,904,185	--
Net increase in retained earnings/fund balances	<u>189,860,771</u>	<u>3,721,285</u>
Retained earnings/fund balances at beginning of year	1,302,096,035	(916,389)
Residual equity transfers out	(3,676,706)	--
<b>Retained earnings/fund balances at end of year</b>	<u><u>\$ 1,488,280,100</u></u>	<u><u>2,804,896</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF AUSTIN, TEXAS**  
**Exhibit A-4**

Fiduciary Fund Type	Totals (Memorandum Only)	
Nonexpendable Trust	1999	1998
--	682,087,588	668,371,051
--	214,042,787	201,791,794
--	150,555,862	126,190,892
--	132,745,737	135,107,376
--	15,426,960	13,864,121
--	15,837,556	9,075,130
--	3,207,926	2,909,283
--	1,213,904,416	1,157,309,647
--	342,914,020	332,985,598
--	87,011,629	80,952,915
--	110,775,915	92,853,875
--	145,410,566	141,200,585
--	153,427,163	149,232,315
--	839,539,293	797,225,288
--	374,365,123	360,084,359
--	44,971,156	86,769,567
--	(211,702,350)	(225,081,178)
--	18,601,484	10,976,299
--	(1,340,705)	(1,089,046)
--	(11,493,484)	(13,883,127)
--	(160,963,899)	(142,307,485)
--	39,701,954	18,774,460
--	253,103,178	236,551,334
--	18,872,385	18,268,624
--	(81,297,692)	(80,606,777)
--	190,677,871	174,213,181
--	2,904,185	6,989,092
--	193,582,056	181,202,273
76,374	1,301,256,020	1,120,053,747
--	(3,676,706)	--
76,374	1,491,161,370	1,301,256,020

**ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS  
 COMBINED STATEMENT OF CASH FLOWS  
 Year ended September 30, 1999  
 With comparative totals for year ended September 30, 1998**

**CITY OF AUSTIN, TEXAS  
 Exhibit A-5**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust (1)	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 1,038,451,695	150,725,782	--	1,189,177,477	1,131,128,777
Cash payments to suppliers for goods and services	(325,783,269)	(47,822,994)	--	(373,606,263)	(418,558,797)
Cash payments to employees for services	(165,567,960)	(64,942,304)	--	(230,510,264)	(203,896,171)
Cash payments to claimants/beneficiaries	--	(29,952,116)	--	(29,952,116)	(26,205,411)
Cash received from other governments	15,065,464	--	--	15,065,464	7,108,832
Taxes collected and remitted to other governments	(15,493,225)	--	--	(15,493,225)	(14,482,333)
<b>Net cash provided by operating activities</b>	<b>546,672,705</b>	<b>8,008,368</b>	<b>--</b>	<b>554,681,073</b>	<b>475,094,897</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Operating transfers in	18,872,385	--	--	18,872,385	18,268,624
Operating transfers out	(81,232,692)	(65,000)	--	(81,297,692)	(80,606,777)
Residual equity transfers out	(3,676,706)	--	--	(3,676,706)	--
Interest paid on revenue notes and other debt	(214,826)	--	--	(214,826)	(150,611)
Decrease in deferred assets	1,471,681	--	--	1,471,681	316,085
Contributions from private sector	--	--	--	--	400,000
Loans to other funds	--	--	--	--	(452,832)
Loans from other funds	--	--	--	--	444,049
Loan repayments (to) from other funds	57,580	--	--	57,580	45,939
Contributions from municipality	--	--	--	--	165,939
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(64,722,578)</b>	<b>(65,000)</b>	<b>--</b>	<b>(64,787,578)</b>	<b>(61,569,584)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from long-term debt issues	298,253,871	3,055,000	--	301,308,871	103,660,000
Principal paid on long-term debt	(117,233,111)	(1,462,271)	--	(118,695,382)	(110,167,650)
Proceeds from the sale of fixed assets	118,266	--	--	118,266	646,685
Purchased interest received	1,239,217	--	--	1,239,217	9,491
Interest paid on revenue bonds and other debt	(185,117,739)	(437,584)	--	(185,555,323)	(190,949,304)
Acquisition and construction of capital assets	(374,705,375)	(9,226,069)	--	(383,931,444)	(325,812,054)
Contributions from municipality	722	7,200,000	--	7,200,722	7,246,983
Contributions from State and Federal governments	22,621,652	--	--	22,621,652	23,532,213
Contributions in aid of construction	31,433,414	--	--	31,433,414	29,308,543
Bond discounts, premiums, and issuance costs	1,066,057	(9,583)	--	1,056,474	8,126,919
Bonds issued for advanced refundings of debt	251,759,512	--	--	251,759,512	309,351,591
Cash paid for bond refundings/defeasances	(277,375,826)	--	--	(277,375,826)	(340,312,964)
Proceeds from municipal utility district reserves	--	--	--	--	18,205,377
Cash paid for nuclear fuel inventory	(11,218,838)	--	--	(11,218,838)	(4,937,020)
<b>Net cash used by capital and related financing activities</b>	<b>\$ (359,158,178)</b>	<b>(880,507)</b>	<b>--</b>	<b>(360,038,685)</b>	<b>(472,091,190)</b>

(continued)

- (1) Nonexpendable trust fund cash and cash equivalents of \$76,374 are reported on the balance sheet with all trust and agency funds' pooled investments and cash of \$7,381,704 at October 1, 1998 and \$8,241,401 at September 30, 1999.
- (2) Cash and cash equivalents includes \$278,113,315 and \$632,122 in enterprise and internal service funds' restricted accounts, respectively at October 1, 1998 and \$449,418,667 and \$3,602,295 in enterprise and internal service funds' restricted accounts, respectively at September 30, 1999.

The accompanying notes are an integral part of the financial statements.

**ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS  
 COMBINED STATEMENT OF CASH FLOWS  
 Year ended September 30, 1999  
 With comparative totals for year ended September 30, 1998**

**CITY OF AUSTIN, TEXAS  
 Exhibit A-5  
 (Continued)**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust (1)	1999	1998
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investment securities	\$ (1,045,826,116)	--	--	(1,045,826,116)	(1,487,708,756)
Proceeds from sale and maturities of investment securities	1,076,492,695	--	--	1,076,492,695	1,515,008,283
Interest on investments	57,480,393	443,862	--	57,924,255	58,355,766
Reverse repurchase agreement income	3,887,698	79,094	--	3,966,792	13,720,642
Reverse repurchase agreement expense	(3,584,034)	(73,973)	--	(3,658,007)	(13,346,681)
<b>Net cash provided by investing activities</b>	<b>88,450,636</b>	<b>448,983</b>	<b>--</b>	<b>88,899,619</b>	<b>86,029,254</b>
Net increase in cash and cash equivalents	211,242,585	7,511,844	--	218,754,429	27,463,377
Cash and cash equivalents, October 1, 1998 (2)	370,429,782	43,387,288	76,374	413,893,444	386,430,067
<b>Cash and cash equivalents, September 30, 1999 (2)</b>	<b>581,672,367</b>	<b>50,899,132</b>	<b>76,374</b>	<b>632,647,873</b>	<b>413,893,444</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
Operating income	370,422,672	3,942,451	--	374,365,123	360,084,359
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	151,399,557	2,027,606	--	153,427,163	149,232,315
Allowance for uncollectible accounts	(1,029,597)	--	--	(1,029,597)	(4,525,367)
Amortization	11,633,240	--	--	11,633,240	12,788,895
Change in assets and liabilities:					
Decrease in working capital advances	785,776	--	--	785,776	75,065
Increase in accounts receivable	(14,151,045)	(269,799)	--	(14,420,844)	(13,602,036)
Decrease in receivable from other governments	30,234	--	--	30,234	39,661
Decrease in due from other funds	59,437	98,940	--	158,377	98,987
Increase in inventory	(7,361,866)	(92,417)	--	(7,454,283)	(6,889,284)
Decrease in prepaid expenses and deferred costs	1,717,497	48,797	--	1,766,294	3,753,894
Decrease in other regulatory assets	295,342	--	--	295,342	317,067
Increase (decrease) in accounts payable	18,520,027	2,299,123	--	20,819,150	(21,277,179)
Increase in accrued payroll and compensated absences	2,201,922	860,978	--	3,062,900	1,534,803
Decrease in deferred revenue	(902,202)	(483,982)	--	(1,386,184)	(3,474,652)
Decrease in decommissioning assessment payable	(524,104)	--	--	(524,104)	--
(Increase) decrease in unrecovered fuel revenue	2,594,276	--	--	2,594,276	(6,289,042)
Increase (decrease) in accrued landfill closure costs	242,864	--	--	242,864	(2,415,863)
Decrease in claims payable	--	(28,700)	--	(28,700)	(3,845,109)
Decrease in due to other governments	(590,012)	--	--	(590,012)	(1,029,031)
Decrease in due to other funds	--	(89,133)	--	(89,133)	(389,155)
Decrease in advance from other funds	--	(347,369)	--	(347,369)	(273,037)
Increase in other liabilities	11,284,365	41,873	--	11,326,238	11,968,752
Increase (decrease) in customer deposits	44,322	--	--	44,322	(789,146)
<b>Total adjustments</b>	<b>176,250,033</b>	<b>4,065,917</b>	<b>--</b>	<b>180,315,950</b>	<b>115,010,538</b>
<b>Net cash provided by operating activities</b>	<b>\$ 546,672,705</b>	<b>8,008,368</b>	<b>--</b>	<b>554,681,073</b>	<b>475,094,897</b>

(continued)

The accompanying notes are an integral part of the financial statements.

**ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS  
 COMBINED STATEMENT OF CASH FLOWS  
 Year ended September 30, 1999  
 With comparative totals for year ended September 30, 1998**

**CITY OF AUSTIN, TEXAS  
 Exhibit A-5  
 (Continued)**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust (1)	1999	1998
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>					
Increase in deferred assets/expenses	\$ 32,837,454	4,804	--	32,842,258	28,120,041
Unamortized bond discounts, premiums, and issue costs on advance refundings	(5,140,112)	--	--	(5,140,112)	(2,746,775)
(Increase) decrease in capital appreciation bond interest payable	(11,456,168)	--	--	(11,456,168)	20,811,869
Fixed assets contributed from other funds	--	426,708	--	426,708	1,723,396
Increase in contributed facilities	23,644,591	--	--	23,644,591	24,522,078
Net increase (decrease) on fair value of investment	(12,858,194)	--	--	(12,858,194)	8,637,970
Amortization of bond discounts, premiums, and issue costs	(3,714,723)	(149)	--	(3,714,872)	(6,327,221)
Amortization of deferred loss on refundings	(606,823)	(3,370)	--	(610,193)	(600,160)
Loss on disposal of assets	(9,999,114)	(160,008)	--	(10,159,122)	(536,446)
Costs to be recovered in future years	39,701,954	--	--	39,701,954	18,774,460
Loss on extinguishment of debt	(17,278,873)	--	--	(17,278,873)	(17,275,264)
Due to other funds for fixed assets	(5,312)	--	--	(5,312)	(92,477)
Contributions from other funds	\$ 1,450,616	--	--	1,450,616	6,145,267

The accompanying notes are an integral part of the financial statements.

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## **1 -- REPORTING ENTITY**

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government, with a City Council composed of a Mayor and six Councilmembers, all of whom are elected at large for three-year staggered terms.

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the City.

The City's major activities or functions include police and fire protection, emergency medical services, parks and libraries, public health and social services, planning and zoning, and general administrative services. In addition, the City owns and operates certain major enterprise activities, including an electric utility system, water and wastewater utility system, airport, convention center, and other enterprise activities. These activities are included in the accompanying financial statements.

### **Blended Component Units**

The Austin Housing Finance Corporation (AHFC) and Austin Industrial Development Corporation (AIDC) are legally separate entities from the City. AHFC and AIDC serve all the citizens of Austin and are governed by a board composed of the City Councilmembers. The activities are reported in the Housing Assistance Fund and Austin Industrial Development Corporation Fund, special revenue funds.

### **Related Organizations**

The City Council appoints certain members of the board of the Capital Metropolitan Transit Authority, but the City's accountability for this organization does not extend beyond making the appointments. In addition, City Councilmembers appoint themselves as members of the board of the ABIA (Austin-Bergstrom International Airport) Development Corporation; their function on this board is ministerial rather than substantive. The City has no financial accountability for these two entities.

The City retirement plans (described in Note 9) and the City of Austin Deferred Compensation Plan for City employees are not included in the City's reporting entity.

## **2 -- SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the City relating to the funds and account groups included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) in its publication GASB Statement 1 entitled *Authoritative Status of NCGA Pronouncements and AICPA Industry Auditing Guide*, and all subsequent GASB statements, interpretations, concept statements, and technical bulletins; the National Council on Governmental Accounting (NCGA) in the publication entitled *Governmental Accounting, Auditing, and Financial Reporting*, including NCGA Statements 1 through 7 and interpretations thereof; and by the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*. The following represent the more significant accounting and reporting policies and practices used by the City.

### **Audit**

The Charter of the City of Austin requires an annual audit by an independent certified public accountant.

### **Basis of Presentation**

The accounts of the City are organized and operated on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund balances or retained earnings, revenues, and expenditures or expenses. The various funds are grouped by category and type in the financial statements. The City maintains the following fund types within three broad fund categories and the account groups:

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

**Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those, if any, which should be accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is on determination of financial position and changes in financial position rather than on determination of net income. The following governmental fund types are maintained by the City:

**General Fund** -- The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law, ordinance, or contractual agreement to other funds are accounted for in this fund.

**Special Revenue Funds** -- Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. There are four major groups of funds within the special revenue funds, in addition to the Housing Assistance Fund. Of these groups, three account for the activities related to grant programs and one accounts for activities for which expenditures are legally restricted. The groups are: Federal grant funds (both direct and indirect funds), State grant funds, other special revenue grant funds, and other special revenue funds.

**Debt Service Funds** -- The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, related costs and certain loans. The two debt service funds are as follows:

General Obligation Debt Service Fund  
HUD Section 108 Loan

**Capital Project Funds** -- Capital project funds are used to account for financial resources for the acquisition or construction of major capital facilities (other than those reported within proprietary funds and trust funds). Capital projects are funded primarily by general obligation debt, other tax supported debt, interest income, and other intergovernmental revenues.

In 1981, the City Council passed an ordinance that requires the establishment of a separate fund for each bond proposition approved in each bond election. These separate funds are grouped by year and by bond election date. There are eight major groups of funds within the capital projects funds that account for the activities related to various capital improvement projects as follows:

Prior to 1984: funds authorized prior to 1981;  
funds authorized August 29, 1981, for street and drainage, fire stations,  
traffic signals and emergency medical service projects;  
funds authorized September 11, 1982, for various purposes;  
funds authorized October 22, 1983, for Jollyville Road Improvements;  
1984: funds authorized September 8, 1984, for various purposes;  
1985: funds authorized January 19, 1985, for cultural arts;  
funds authorized July 26, 1985, for parks and recreation;  
funds authorized September 26, 1985, for art in public places;  
funds authorized December 14, 1985, for various purposes;  
1987: funds authorized September 3, 1987, for street improvements;  
1992: funds authorized August 10, 1992, for various purposes;  
1997: funds authorized May 3, 1997, for radio trunking;  
1998: funds authorized November 3, 1998, for various purposes; and  
Other: other funds established for various purposes.

**Proprietary Funds**

Proprietary funds are used to account for the City's ongoing organizations and activities that are similar to those found in the private sector. The measurement focus is on capital maintenance and on determination of net income, financial position, and changes in financial position.

**2 -- SIGNIFICANT ACCOUNTING POLICIES, continued**

**Enterprise Funds** -- Enterprise funds are used to account for operations: (1) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City's enterprise funds are the following:

<b>Fund</b>	<b>Accounts For</b>
Electric System	Activities of the City-owned electric utility
Water and Wastewater System	Activities of the City-owned water and wastewater utility
Hospital	Activities related to the lease of City-owned Brackenridge Hospital
Solid Waste Services	Solid waste collection and disposal activities
Airport	Operations of the Robert Mueller Municipal Airport and construction and operations of the Austin-Bergstrom International Airport
Convention Center	Operations of the Convention Center, Palmer Auditorium, and the City Coliseum
Drainage	Drainage management activities
Transportation	Street maintenance activities
Performance Contracting	Energy conservation products and service activities; fund closed to Electric fund in 1999
Golf	Public golf courses
Parks and Recreation	City-sponsored softball and recreation programs

**Internal Service Funds** -- Internal service funds are used to account for the financing of goods or services provided by one department or agency to other City departments or agencies or to other governmental units on a cost-reimbursement basis. The City maintains eight internal service funds as follows:

<b>Fund</b>	<b>Accounts For</b>
Fleet Maintenance Fund	Maintenance costs of City-owned vehicles and related revenues
Support Services Fund	Activities of the City's support service departments
Employee Benefits Fund	Activities related to the health, dental, and life insurance costs of City employees
Liability Reserve Fund	Coverage of the City's major claims liabilities
Workers' Compensation Fund	Workers' compensation costs
Radio Communication Fund	Radio communication services for City departments and area agencies
Infrastructure Support Services Fund	Activities for support services for the following four departments: Development, Review and Inspection Services; Planning, Environmental and Conservation Services; Public Works and Transportation; and Drainage Utility
Capital Projects Management Fund	Activities for management of the City's capital improvement projects

**Fiduciary Funds**

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. Fiduciary funds include expendable and nonexpendable trust funds and agency funds.

**Expendable Trust Funds** -- Expendable trust funds are accounted for in essentially the same manner as governmental funds. The measurement focus is on determination of changes in financial position rather than on net income.

**Nonexpendable Trust Funds** -- These funds are accounted for in the same manner as proprietary funds, with the measurement focus on determination of net income and capital maintenance.

**Agency Funds** -- Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

**2 -- SIGNIFICANT ACCOUNTING POLICIES, continued**

**Account Groups**

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term liabilities. The following are the account groups maintained by the City:

*General Fixed Assets Account Group* -- This account group accounts for all fixed assets of the City other than those accounted for in the proprietary funds.

*General Long-Term Debt Account Group* -- This account group accounts for and provides control over all long-term liabilities other than those accounted for in the proprietary funds, including unmatured general obligation bonds.

**Basis of Accounting**

Basis of accounting refers to the time at which revenues and expenditures (governmental funds) or expenses (proprietary funds) are recognized in the accounts and reported in the financial statements.

Governmental funds, expendable trust funds, and agency funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, certain revenues are recorded when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt, which is recognized when due. This exception is in conformity with generally accepted governmental accounting principles. Agency funds use the modified accrual basis of accounting to recognize assets and liabilities.

Property tax revenues are recognized when they become available in accordance with GASB Interpretation No. 5, *Property Tax Revenue Recognition in Governmental Funds*. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (within 60 days). Tax collections expected to be received after the 60-day availability period are reported as deferred revenue. Sales taxes are also recognized when they become available in accordance with GASB Statement No. 22, *Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds*.

Mixed drink taxes and certain franchise fees are recorded when susceptible to accrual, i.e., both measurable and available. Money collected for licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earnings on investments) is recorded as revenue when received because it is generally not measurable until then.

In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual grant programs are used for guidance. For most of the City's grants, money must be expended for the specific purpose or project before any amounts will be paid to the City. For all grants, revenues are recognized based upon the expenditures recorded.

Investment earnings are recorded on the accrual basis in all funds; unrealized gains or losses on investments are also recognized in all funds.

Proprietary funds and nonexpendable trust funds use the accrual basis of accounting, under which revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

Revenues in the Electric Fund, Water and Wastewater Fund, Solid Waste Services Fund, Drainage Fund, and Transportation Fund are recognized as they are billed to customers on a cyclical basis. Electric rates include a fixed rate and a fuel recovery cost-adjustment factor that allows recovery of coal, gas, purchased power, and other fuel costs. Unbilled revenues are recorded if actual fuel costs differ from amounts billed to customers, and any over-collections or under-collections are applied to the cost-adjustment factor, which is revised annually.

**2 -- SIGNIFICANT ACCOUNTING POLICIES, continued**

Revenues for the airport fund are recognized as they are billed to customers. Effective November 1, 1993, the Airport Fund began to charge each enplaned passenger a \$3 passenger facility charge, as allowed by the Federal Aviation Administration. Airport Fund 1999 operating revenues included passenger facility charges of \$8,851,841. These funds were approved by the FAA for debt service payments for the Austin-Bergstrom International Airport.

Revenues for the Convention Center are recognized as they are billed to customers upon completion of events held at the Convention Center facilities.

**Rates**

The Texas Public Utility Commission has jurisdiction over electric utility transmission rates. The City Council has jurisdiction over all other electric utility rates and over all water and wastewater utility rates and other services. The Council's determination of water and wastewater utility rates and electric utility rates is based on the cost of operations and a debt service coverage approach.

**Budget**

In accordance with the City Charter, the City adheres to the following procedures in establishing its operating budgets:

- (1) At least thirty days prior to the beginning of the new fiscal year, the City Manager submits a proposed budget to the City Council. The budget represents the financial plan for the new fiscal year and includes proposed expenditures and the means of financing them.
- (2) Public hearings are conducted on the budget.
- (3) The budget is legally enacted by the City Council no later than the twenty-seventh day of the last month of the old fiscal year, through passage of an appropriation ordinance and tax levying ordinance.
- (4) The City Manager has the authority to transfer appropriation balances from one expenditure account to another within a single office, department, or agency of the City. The City Council must approve amendments to the budget and transfers of appropriations from one office, department, or agency to another. The budgetary data presented in these financial statements have been revised for amendments authorized during the year. A reconciliation of original to amended budget for the General Fund is presented in Note 3.
- (5) Formal budgetary control through the accounting system is employed as a management control device during the year for the General Fund, certain non-grant special revenue funds, debt service funds and proprietary funds. Management control for the operating budget is maintained at the office, department or agency level. Formal budgetary control through the accounting system is employed as a management control device in the special revenue grant funds and capital projects funds for the life of the related grants or projects.
- (6) Annual budgets are legally adopted for the General Fund, certain special revenue funds, debt service funds, certain trust funds, and proprietary funds. Budgets for the grant-related special revenue funds are established pursuant to the terms of the related grant awards. A comparison of budget to actual is presented in the financial statements for all governmental funds that adopt annual budgets. A comparison of budget to actual for other fund types is prepared for budget purposes, but is not legally required and is not presented in the financial statements.

Capital project fund appropriations are increased on an annual basis through the budgetary process. However, the budgets are not binding on an annual basis. Rather, budgets are long-range and are used for planning purposes. Accordingly, no comparison of budget to actual is presented in the financial statements for such funds.

- (7) The City Charter does not permit a deficiency of anticipated revenues over appropriations. If at any time during the fiscal year the City Manager determines that available revenues plus beginning fund balance will be less than total appropriations for the year, he or she shall reconsider the work programs of the departments and agencies and revise them to prevent deficit spending. Expenditures may not legally exceed budgeted activities at the departmental level.

**2 -- SIGNIFICANT ACCOUNTING POLICIES, continued**

(8) At the close of each fiscal year, any unencumbered appropriation balances (appropriation less current year expenditures and encumbrances) in the General Fund and certain special revenue funds lapse or revert to the undesignated fund balance. In the proprietary funds, unencumbered appropriations also lapse but do not revert to fund balance for accounting purposes because of the differences in methods of accounting. Unencumbered appropriation balances in the grant-related special revenue funds and capital projects funds do not lapse at year end.

Certain differences exist between the basis of accounting used for budgetary purposes (budget basis) and that used for reporting in accordance with generally accepted accounting principles (GAAP basis). These differences, as well as other information regarding budgetary control, are described in Note 3.

**Encumbrances**

Encumbrances represent commitments for unperformed (executory) contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded to reserve appropriations, is used in the governmental funds.

Encumbrances outstanding at year end are reported as reservations of fund balance and do not constitute GAAP-basis expenditures or liabilities, since the commitments will be honored during the subsequent year.

For budgetary purposes, unencumbered appropriations lapse at year end. Encumbrances outstanding at year end and the related appropriation are available for expenditure in subsequent years. For governmental funds, encumbrances constitute the equivalent of expenditures for budgetary purposes and accordingly, the accompanying financial statements present comparisons of actual results to the budgets for governmental funds on a budget-basis (see Note 3).

**Pooled Investments and Cash**

Cash balances of all City funds (except for certain funds shown in Note 6 as having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of U.S. government obligations and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that incur a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

**Investments**

The City adopted Governmental Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (see Note 6) as of October 1, 1997. GASB Statement 31 requires certain investments to be reported at fair value. The fair value is based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments at fair value as of September 30, 1999.

**Inventories**

Inventories are valued at cost, which is determined as follows:

<b>Fund</b>	<b>Inventory Valuation Method</b>
General Fund	Average cost (predominantly); some first-in, first-out
Electric Fund	
Fuel oil and coal	Last-in, first out
Other inventories	Average cost
All other funds	Average cost

Inventories for all funds use the consumption method and record expenditures when issued. Inventories reported in the General Fund are offset by a fund balance reserve, which indicates they do not represent "available spendable resources."

**2 -- SIGNIFICANT ACCOUNTING POLICIES, continued**

**Property, Plant and Equipment -- Proprietary Funds**

Property, plant and equipment owned by the proprietary funds are stated at historical cost. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of fixed assets are capitalized. Interest paid on long-term debt in the enterprise funds is capitalized when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by the bond proceeds issued to fund the project. Depreciation of plant and equipment classified by functional components is provided by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Electric Fund and Water and Wastewater Fund:	
Plant	30-50 years
Improvements to grounds	30-50 years
Transmission and distribution system	12-50 years
Other machinery and equipment	7-30 years
Vehicles	7 years
Other Enterprise Funds and Internal Service Funds:	
Buildings and improvements	40 years
Improvements to grounds	15 years
Machinery and equipment	7-12 years
Vehicles	7 years

Depreciation of completed but unclassified fixed assets is provided by the straight-line method, using a composite rate.

The City is accelerating the depreciation of two generating stations that will be retired before the end of their estimated useful life. The increase to Electric Fund 1999 depreciation expense for this accelerated depreciation is \$560,093.

The City accelerated the depreciation of buildings and improvements at Robert Mueller Municipal Airport to reflect the 1999 closure of Mueller Airport and the opening of the Austin-Bergstrom International Airport. The increase to Airport Fund 1999 depreciation expense for this accelerated depreciation is approximately \$7 million. In addition, the City has recorded capitalized interest in the Airport Fund of \$18,601,484, related to construction of Austin-Bergstrom International Airport.

When the City retires or otherwise disposes of proprietary fund fixed assets (other than debt-financed assets of the utility funds), it recognizes a gain or loss on the disposal of the assets.

Federal, State or local grant funds that are restricted to purchasing property, plant, and equipment and contributions in aid of construction are recorded as equity contributions when received. Depreciation on contributed assets is recorded as an expense in the statement of operations and then transferred to the related contribution accounts. Contributions of funds from the municipality are recorded as equity contributions when received.

**General Fixed Assets**

General fixed assets have been acquired for general governmental purposes. Assets purchased or constructed are recorded as expenditures in the governmental funds and capitalized at historical cost in the General Fixed Assets Account Group. Contributed fixed assets are recorded in the General Fixed Assets Account Group at estimated fair market value at the time received.

The City does not capitalize public domain general fixed assets (infrastructure) and, accordingly, no such assets are recorded in the General Fixed Assets Account Group. Infrastructure consists of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Such assets normally are immovable and are of value only to the City. Therefore, the responsibility for stewardship for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets. No interest has been capitalized on general fixed assets.

**2 -- SIGNIFICANT ACCOUNTING POLICIES, continued**

**Long-Term Debt**

The debt service for general obligation bonds and other general obligation debt issued to fund general government capital projects is paid from tax revenues and interfund transfers. Such general obligation debt is recorded in the General Long-Term Debt Account Group.

The debt service for general obligation bonds and other general obligation debt issued to fund proprietary fund capital projects is normally paid from net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principles and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds that have been issued to fund capital projects of certain enterprise funds are to be repaid from net revenues of these funds. Such debt is recorded in the funds.

The City defers and amortizes gains or losses that its proprietary funds realize on refundings of debt and reports both the new debt liability and the related deferred amount on the funds' balance sheets. The City recognizes gains or losses on debt defeasance when funds from current operations are used.

**Compensated Absences**

All full-time employees accumulate vacation benefits in varying annual amounts up to a maximum allowable accumulation of six weeks. All full-time employees earn sick leave benefits at a rate of twelve days per year; these benefits may be accumulated without limit. Upon termination, an employee is reimbursed for all accumulated vacation days. If the terminating employee was employed prior to October 1, 1986 and leaves in good standing, reimbursement is also made for all accrued sick leave up to ninety days. Certain employees are also allowed to accumulate credit for compensatory time in lieu of overtime pay up to 120 hours. Compensatory time accrued by employees is taken into consideration when calculating accrued compensated absence liabilities. Compensated absence liabilities include employment-related taxes.

For governmental funds, the estimated current portion of the accrued vacation and sick pay liability is recorded as an expenditure and liability in the General Fund, or special revenue fund, with the non-current portion of the liability recorded in the General Long-Term Debt Account Group. The current portion is estimated based on amounts paid to terminating employees during the most recent fiscal year. Actual vacation and sick benefits paid during the year are recorded as expenditures in the governmental funds.

For proprietary funds, vacation and sick pay are recorded as an expense and related liability in the year earned. The current portion is estimated based on an analysis of the historical use of benefits by the employees.

**Risk Management**

The City is exposed to employee-related risks for health benefits and workers' compensation, as well as to various risks of loss related to torts, including medical malpractice; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. The City continues to be self-insured for liabilities for most health benefits, third-party and workers' compensation claims.

The City purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bond, and airport operations. In addition, the City purchases a broad range of insurance coverage for contractors working at selected capital improvement project sites. The City does not participate in a risk pool. The City complies with GASB Statement 10, *Accounting and Reporting for Risk Financing and Related Insurance Issues* (see Note 21).

**2 -- SIGNIFICANT ACCOUNTING POLICIES, continued**

**Pension Plans**

It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see Note 9).

**Federal and State Grants, Entitlements and Shared Revenues**

Grants, entitlements and shared revenues may be accounted for within any of the seven fund types. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the proper fund type in which to record the related transactions. Grants, entitlements and shared revenues received for activities normally recorded in a particular fund type may be accounted for in that fund type, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally recorded in other governmental funds are accounted for within these special revenue fund groups: Federal grant funds, State grant funds, and other special revenue grant funds. Capital grants restricted for capital acquisitions or construction, other than those associated with proprietary type funds, are accounted for in the applicable capital projects funds. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenditures at the discretion of the City are recognized in the applicable proprietary fund. Grant money restricted for acquisition or construction of capital assets is recorded as contributed equity in the applicable proprietary fund.

**Intergovernmental Revenues, Receivables and Liabilities**

Intergovernmental revenues and related receivables arise primarily through funding received from Federal and State grants. These revenues and receivables are earned through expenditure of money for grant purposes. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local governmental units.

**Transactions Between Funds**

During the course of normal operations, the City has numerous transactions between funds. Short-term advances between funds are accounted for in the pooled investments and cash accounts. Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.

Nonrecurring or nonroutine transfers of equity between funds are treated as residual equity transfers and are reported as additions to or deductions from the fund balance of governmental funds. Residual equity transfers to proprietary funds are treated as contributed capital, and such transfers from proprietary funds are reported as reductions of retained earnings or contributed capital as appropriate in the circumstances. All other legally authorized transfers are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

**Comparative Data**

Comparative data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data, (i.e., presentation of prior year totals by fund type) have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

**Reclassifications and Restatements**

Certain comparative data have been reclassified or restated to present them in a manner consistent with the current year's financial statements.

**2 -- SIGNIFICANT ACCOUNTING POLICIES, continued**

**Total Columns on Combined Financial Statements**

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. No consolidating or other eliminations of interfund balances or transactions were made in arriving at the totals. Such data are not comparable to a consolidation.

**Deferred Items**

The City's utility systems are reported in accordance with Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*. Certain utility expenses that do not currently require funds are deferred to future periods in which they are intended to be recovered by rates. Likewise, certain credits to income are deferred to periods in which they are matched with related costs. These expenses or credits include changes in fair value in accordance with GASB Statement 31. Deferred expenses will be recovered in these future periods by setting rates sufficient to provide funds for the related debt service requirements. If rates being charged will not recover deferred expenses, the deferred expenses will be subject to write off.

Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues and expenses. Under a bill passed by the Texas Legislature in 1999, municipally owned utilities such as the City's utility system have the option of offering retail competition after January 1, 2002. City management has not made a decision to enter into retail competition, as allowed by State law, thus the effects of entering retail competition are uncertain and do not warrant a change in accounting policy.

**Statement of Cash Flows**

For purposes of the statement of cash flows, the City considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, and all amounts included in pooled investment and cash accounts.

**Landfill Closure and Postclosure Care Costs**

The City reports municipal solid waste landfill costs in accordance with GASB Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. The liability for landfill closure and postclosure costs is reported in the Solid Waste Services Fund, an enterprise fund.

**Governmental Accounting Standards Board (GASB) Statement 20**

In accordance with GASB Statement 20, the City is required to follow all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, including FASB Statement 71, unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to follow FASB pronouncements issued subsequent to that date.

**3 -- BUDGET BASIS REPORTING**

**a -- General**

The City of Austin prepares its annual operating budget on a basis (budget basis) that differs from generally accepted accounting principles (GAAP basis). In order to provide a meaningful comparison of actual results with the budget, the Combined Statement of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual-Budget Basis for the General Fund, certain special revenue funds, and debt service funds present the actual and budget amounts in accordance with the City's budget basis.

**3 -- BUDGET BASIS REPORTING, continued**

**b -- Reconciliation of GAAP Basis and Budget Basis Amounts**

The primary differences between GAAP and budget reporting for the General Fund are the reporting of encumbrances, the recording of compensated absences on the accrual basis (GAAP), as opposed to the cash basis (budget), and the reporting of certain operating transfers. The differences for those special revenue funds that have a legally adopted annual budget are the reporting of encumbrances and the recording of payroll and compensated absences on the accrual basis (GAAP), as opposed to the cash basis (budget). General Fund accrued payroll is recorded at the department level on the accrual basis and in nondepartmental expenditures on the actual-budget basis. Adjustments necessary to convert the excess of revenues and other sources over expenditures and other uses on a GAAP basis to a budget basis for the General Fund and these special revenue funds are provided as follows:

	<u>General Fund</u>	<u>Special Revenue Funds (1)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	\$ (6,895,175)	1,412,774
Adjustment:		
Less: Excess revenues and other sources over expenditures and other uses for nonbudgeted funds - GAAP basis	--	(1,964,680)
Adjusted excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	(6,895,175)	(551,906)
Other adjustments:		
Increase (decrease) due to net compensated absences accrual	(517,603)	55,167
Decrease due to outstanding encumbrances established in 1999	(5,998,272)	(4,469,700)
Increase due to payments against prior year encumbrances	6,742,904	3,071,509
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	<u>\$ (6,668,146)</u>	<u>(1,894,930)</u>

(1) The special revenue funds that have legally adopted budgets are Aviation Asset Forfeiture; Balcones Canyonlands Conservation Plan; Child Safety; Disproportionate Share; Energy Conservation Rebates and Incentives; Environmental Remediation; Federally Qualified Health Center; Fee Waiver; Health and Human Services Travis County Reimbursed Fund; Hotel-Motel Occupancy Tax; Municipal Court Building Security; Neighborhood Housing and Conservation; One Texas Center; PARD Cultural Projects; Planning, Environmental and Conservation Services; Police Federal Seized Funds; Police Seized Money; Public Improvement District; Strategic Planning Investment; Telecommunity; and Tourism and Promotion.

Within the General Fund, the Municipal Court expenditures exceeded appropriations by \$43,917. In addition, the nondepartmental expenditures line reported expenditures in excess of appropriations of \$194,857. This area represents fund-wide costs not budgeted within individual departments.

The Municipal Court Building Security Fund and the Energy Conservation Rebates and Incentive Fund, budgeted special revenue funds, reported expenditures in excess of appropriations of \$1,878 and \$395,978, respectively. These funds did not report deficit fund balances.

Although the debt service funds are prepared on a budget basis, no differences exist between GAAP basis and budget basis fund balance for these funds except for the amount of enterprise-related and certain departmental-related debt payments (\$9,520,791) budgeted as operating transfers.

**3 -- BUDGET BASIS REPORTING, continued**

**c -- Budget Amendments**

The original budget of the General Fund was amended several times during 1999. The following table compares original to amended budgets:

	<b>Original Budget</b>	<b>Amendments Increase (Decrease)</b>	<b>Amended Budget</b>
<b>REVENUES</b>			
Taxes	\$ 212,483,666	6,097	212,489,763
Franchise fees	16,307,400	6,791	16,314,191
Fines, forfeitures and penalties	13,333,296	--	13,333,296
Licenses, permits and inspections	13,918,512	107,500	14,026,012
Charges for services/goods	11,992,881	992,032	12,984,913
Interest and other	5,824,876	1,132,934	6,957,810
Total revenues	<u>273,860,631</u>	<u>2,245,354</u>	<u>276,105,985</u>
<b>EXPENDITURES</b>			
Administration	7,819,132	--	7,819,132
Urban growth management	8,929,054	261,211	9,190,265
Public safety	171,841,558	1,421,899	173,263,457
Public services and utilities	11,091,767	14,531	11,106,298
Public health:			
Physician stipend/Charity care	10,495,146	--	10,495,146
Medical Assistance Program-			
hospital contracted services/patient services	5,439,657	409,243	5,848,900
Other public health	25,860,347	(323,743)	25,536,604
Public recreation and culture	39,738,219	537,406	40,275,625
Social services management	9,087,548	--	9,087,548
Nondepartmental expenditures	7,071,708	--	7,071,708
Total expenditures	<u>297,374,136</u>	<u>2,320,547</u>	<u>299,694,683</u>
<b>TRANSFERS</b>			
Operating transfers in	72,008,619	2,695,860	74,704,479
Operating transfers out	(66,428,509)	(4,548,778)	(70,977,287)
Total transfers	<u>5,580,110</u>	<u>(1,852,918)</u>	<u>3,727,192</u>
Deficiency of revenues and other sources over expenditures and other uses	<u>\$ (17,933,395)</u>	<u>(1,928,111)</u>	<u>(19,861,506)</u>

The amended budget is presented in the accompanying financial statements. The General Fund budget includes other requirements, which are presented here in the nondepartmental category. The amended budget for these nondepartmental requirements includes the following: tuition reimbursement (\$85,000), accrued payroll (\$1,701,200) and expenses for workers' compensation (\$2,285,508) and liability reserve (\$3,000,000).

**3 -- BUDGET BASIS REPORTING, continued**

There were budget amendments to the following special revenue funds during 1999:

	Original Budget	Amendments Increase (Decrease)	Amended Budget
<b>REVENUES</b>			
Planning, Environmental and Conservation Services	\$ 8,835,144	(7,481,032)	1,354,112
Public Improvement District	--	978,082	978,082
<b>EXPENDITURES</b>			
Planning, Environmental and Conservation Services	10,591,139	(7,127,135)	3,464,004
Public Improvement District	--	1,051,540	1,051,540
<b>OPERATING TRANSFERS IN</b>			
Planning, Environmental and Conservation Services	2,622,365	(65,817)	2,556,548
Public Improvement District	--	137,734	137,734
<b>OPERATING TRANSFERS OUT</b>			
Planning, Environmental and Conservation Services	1,229,603	(782,947)	446,656

During fiscal year 1999, the General Obligation Debt Service Fund had one budget amendment. The amendment increased other revenue and principal retirement by \$75,792.

**4 -- DEFICITS IN FUND BALANCE AND RETAINED EARNINGS**

At September 30, 1999, the funds below reported deficits in fund balance or fund equity. Management intends to recover these deficits through future operating revenues, transfers or future debt issues.

	Deficit Fund Balance		Deficit Retained Earnings
<b>Special Revenue Funds:</b>		<b>Enterprise Funds:</b>	
Austin Transportation Study	\$ 48,011	Parks and Recreation	\$ 209,117
Fiscal Surety--Land Development	267,475	<b>Internal Service Funds:</b>	
<b>Capital Projects Funds:</b>		Employee Benefits Fund	6,599,358
Library	90,804	Liability Reserve Fund	683,032
Energy improvements--city facilities	70,646		
Parks/Old Bakery	256,288		
Police facilities	13,785		
Cultural arts and land	526,699		
Drainage and flood control	2,819,271		
Traffic signals	1,575,218		
Parks and recreation facilities	417,074		
Build Austin	877,301		
Central City Entertainment Center	39,822		
Watershed Protection	7,686,415		
Tanglewood park	64,197		
City Hall, plaza, parking garage	494,405		
Interest income fund	2,022,150		

**5 -- POOLED INVESTMENTS AND CASH**

The following summarizes the amounts of pooled investments and cash by fund type at September 30, 1999:

	<b>Pooled Investments and Cash</b>	
	<b>Unrestricted</b>	<b>Restricted</b>
General Fund	\$ 37,561,650	--
Special Revenue Funds	48,462,665	--
Capital Projects Funds	115,535,763	--
Enterprise Funds:		
Electric	45,208,827	99,216,087
Water and Wastewater	34,611,568	81,109,570
Hospital	24,971,787	7,500,000
Solid Waste Services	9,860,194	16,559,607
Airport	2,508,955	49,606,544
Convention Center	7,274,063	134,426,927
Other	7,777,706	27,640,793
Internal Service Funds	47,005,798	3,602,295
Fiduciary Funds	8,241,401	--
Subtotal pooled investments and cash	<u>389,020,377</u>	<u>419,661,823</u>
Total pooled investments and cash	<u>\$ 808,682,200</u>	

**6 -- INVESTMENTS AND DEPOSITS**

**INVESTMENTS**

Chapter 2256, Texas Government Code (The Public Funds Investment Act) and the City of Austin Investment Policy, authorize the City to invest in the following:

- (1) obligations of the U.S. Treasury or its agencies and instrumentalities;
- (2) direct obligations of the State of Texas;
- (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
- (4) obligations of states, agencies, counties, or cities rated A or better by a national investment rating firm;
- (5) certificates of deposit that are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or its successor, or secured by obligations described in (1) through (4) above, and having a market value of at least the principal amount of the certificates;
- (6) fully collateralized direct and reverse repurchase agreements. State statutes require that securities underlying repurchase agreements must have a market value of at least 100% of the repurchase agreement's cost. Money received by the City under the terms of a reverse security repurchase agreement may be used to acquire additional authorized securities, but the term of the authorized security acquired must mature not later than the expiration date stated in the reverse security repurchase agreement;
- (7) bankers acceptances accepted by a domestic bank maturing in 270 days or less from the date of its issuance and is rated at least A-1, P-1 by a national investment rating firm;
- (8) commercial paper with a stated maturity of 270 days or less from the date of its issuance and is either (a) rated not less than A-1, P-1 by at least two national investment rating firms, or (b) is rated at least A-1, P-1 by one national investment rating firm 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;
- (9) SEC-regulated, no load money market mutual funds with a dollar weighted average portfolio maturity of 90 days or less, whose assets consist exclusively of securities described in (1) through (8) above and whose investment objectives include seeking to maintain a stable net asset value of \$1 per share;
- (10) local government investment pools, such as the Texas Local Government Investment Pool, organized in accordance with Chapter 791, Texas Government Code (The Interlocal Cooperation Act), whose assets consist of the obligations described in (1) through (8) 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; and

**6 -- INVESTMENTS AND DEPOSITS, continued**

(11) Share certificates issued by state or federal credit unions domiciled in Texas that are guaranteed or issued by the National Credit Union Share Insurance Fund or its successor, or secured by obligations described under (1) through (4) above having a market value of at least the principal amount of the certificates.

The City uses GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires that governmental entities should report investments at fair value on the balance sheet, and that all investment income, including changes in the fair value of investments, should be reported as revenue in the operating statement. The change in investment value is reported on the balance sheet in either pooled investments and cash for investment pool participants, or in investments, for those funds which hold their own investments; the revenue is reported on the income statement in interest income.

The City participates in the Texas Local Government Investment Pool (TexPool), which is an external investment pool. The State Comptroller of Public Accounts maintains oversight responsibility for TexPool. This responsibility includes the ability to influence operations, designation of management, and accountability for fiscal matters. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB Statement 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the City's position in TexPool is the same as the value of TexPool shares.

State statutes permit the City to enter into certain reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the term to maturity of the investments is the same as the term of the reverse repurchase agreement. It is the City's policy to require a margin call at 1% or \$100,000, whichever is less, above the value of the underlying investments sold. The average amount of investments outstanding during the year was \$123 million. The maximum amount outstanding during 1999 was \$328 million. At year end, the City did not have any reverse repurchase agreements.

The City's investments (with exceptions noted above) are categorized below to give an indication of the level of risk (Category 1-lowest level of risk to Category 3-highest level of risk) assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City's agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the City's trust department or agent, but not in the City's name.

	Category			Fair Value
	1	2	3	
<u>Investments</u>				
Obligations of the U.S. government and its agencies	\$ 894,496,256	--	--	894,496,256
Commercial paper	59,970,000	--	--	59,970,000
	<u>954,466,256</u>	--	--	<u>954,466,256</u>
<u>Investments held by trustee</u>				
Obligations of the U.S. government and its agencies	51,927,202	--	--	51,927,202
	<u>1,006,393,458</u>	--	--	<u>1,006,393,458</u>
<u>Investments not categorized</u>				
Money market mutual funds				28,181
Texas Local Government Investment Pool (TexPool)				406,198,727
Total investments				<u>\$ 1,412,620,366</u>

**6 -- INVESTMENTS AND DEPOSITS, continued**

Investments owned by the various funds of the City at September 30, 1999, are as follows:

Description	Yields	Fair Value	Change in Fair Value
<b>NON-POOLED INVESTMENTS</b>			
Obligations of the U.S. government and its agencies	5.09% - 11.10%	\$ 379,980,511	(12,906,644)
Texas Local Government Investment Pool	5.33%	<u>227,233,357</u>	--
Total non-pooled investments		<u>607,213,868</u>	<u>(12,906,644)</u>
<b>POOLED INVESTMENTS</b>			
Money market mutual funds	5.00%	28,181	--
Obligations of the U.S. government and its agencies	5.18% - 5.59%	566,442,947	(6,836,281)
Commercial paper	5.30%	59,970,000	--
Texas Local Government Investment Pool	5.33%	<u>178,965,370</u>	--
Total pooled investments		<u>805,406,498</u>	<u>(6,836,281)</u>
<b>TOTAL ALL INVESTMENTS</b>		<u>\$ 1,412,620,366</u>	<u>(19,742,925)</u>

**DEPOSITS**

The September 30, 1999, carrying amount of deposits is as follows:

Cash		
Unrestricted	\$	153,898
Cash held by trustee		
Unrestricted		268,564
Restricted		24,657,907
Pooled cash		<u>3,631,540</u>
Total deposits	\$	<u>28,711,909</u>

All bank balances were either insured or collateralized with securities held by the City or by its agent in the City's name.

**7 -- PROPERTY TAXES**

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 1998, upon which the 1999 levy was based, was \$32,458,349,755.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 1999, 98.89% of the current tax levy (October 1, 1998) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statute. The statutes provide for a property tax code, county-wide appraisal districts, a State property tax board, and certain exemptions from taxation, such as intangible personal property, household goods, and family-owned automobiles.

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District. The appraisal district is required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may require more frequent reviews of appraised values at its own expense. The Travis Central Appraisal District has chosen to review the value of property every two years. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

**7 -- PROPERTY TAXES, continued**

The City is authorized to set tax rates on property within the City limits. However, if the effective tax rate, excluding tax rates for bonds, certificates of obligation, and other contractual obligations, and adjusted for new improvements and revaluation, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate increase to no more than 8%.

Through a contractual arrangement, Travis County bills and collects property taxes for the City, as well as for several other governmental entities. The City is permitted by Article II, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Under the City Charter, a limit on taxes levied for general governmental services, exclusive of payments of principal and interest on general obligation long-term debt, has been established at \$1.00 per \$100 assessed valuation. A practical limitation on taxes levied for debt service of \$1.50 per \$100 of assessed valuation is established by State Statute and City Charter limitations.

The tax rate to finance general governmental purposes, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 1999, was \$.3265 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$.6735 per \$100 assessed valuation, and could levy approximately \$218,606,985 in additional taxes from the assessed valuation of \$32,458,349,755 before the legislative limit is reached.

**8 -- FIXED ASSETS**

Components of the City's fixed assets at September 30, 1999, are summarized as follows (in thousands of dollars):

	Electric Fund	Water & Wastewater Fund	Hospital Fund	Solid Waste Services Fund	Airport Fund	Convention Center Fund	Other Enterprise Funds	Internal Service Funds	General Fixed Assets	Total
Land and land rights	\$ 33,179	69,113	759	10,462	58,412	26,081	2,694	485	168,994	370,179
Buildings and improvements	547,068	1,212,511	74,017	1,152	84,263	80,575	11,039	3,530	174,723	2,188,878
Machinery and equipment	1,848,562	454,733	4	15,360	15,549	3,079	16,428	19,903	71,189	2,444,807
Completed assets not classified	159,026	118,990	7	12,945	480,993	3,801	8,651	28,226	--	812,639
Total plant in service	2,587,835	1,855,347	74,787	39,919	639,217	113,536	38,812	52,144	414,906	5,816,503
Less accumulated depreciation	(972,368)	(500,486)	(29,142)	(22,745)	(96,139)	(20,647)	(9,338)	(23,312)	--	(1,674,177)
Net property, plant and equipment in service	1,615,467	1,354,861	45,645	17,174	543,078	92,889	29,474	28,832	414,906	4,142,326
Construction in progress	52,799	124,984	--	9,792	59,135	4,580	19,323	5,297	184,475	460,385
Nuclear fuel, net of amortization	19,970	--	--	--	--	--	--	--	--	19,970
Plant held for future use	32,654	--	--	--	--	--	--	--	--	32,654
Total property, plant and equipment	\$ 1,720,890	1,479,845	45,645	26,966	602,213	97,469	48,797	34,129	599,381	4,655,335

The following table summarizes the changes in components of the General Fixed Assets Account Group for the year ended September 30, 1999:

	Land	Buildings	Improvements Other Than Buildings	Machinery and Equipment	Construction in Progress	Total
Balance, September 30, 1998	\$ 166,258,157	141,767,680	32,951,402	73,865,427	129,279,336	544,122,002
Additions	--	--	--	--	58,090,651	58,090,651
Retirements	--	(4,200)	--	(2,786,880)	(19,892)	(2,810,972)
Completed construction	2,735,817	--	8,296	1,161,484	(3,905,597)	--
Transfers from other funds	--	--	--	(1,050,946)	1,030,607	(20,339)
Balance, September 30, 1999	\$ 168,993,974	141,763,480	32,959,698	71,189,085	184,475,105	599,381,342

**8 -- FIXED ASSETS, continued**

The City does not capitalize public domain general fixed assets. This accounting policy affects only the General Fixed Asset Account Group. During 1999, the City did not capitalize completed infrastructure assets amounting to \$29,721,705.

Construction in progress includes various capital projects that are funded primarily by general obligation and revenue bonds. The General Fixed Asset Account Group includes as construction-in-progress certain completed capital projects in service at September 30, 1999, which have not been unitized or capitalized pending classification to the proper fixed asset in-service categories. In all other funds, completed construction unclassified is included in property, plant and equipment.

The City anticipates the need for numerous additional utility-related projects over the next several years. However, the City has no formal commitments to projects other than those currently under construction. Estimated unfunded future expenditures for capital projects will be funded from operations, issuance of additional general obligation or revenue bonds, or from alternative methods of financing.

**9 -- RETIREMENT PLANS**

**a -- Description**

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are City-wide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 1998. Membership in the plans at December 31, 1998 is as follows:

	City Employees	Police Officers	Fire Fighters	Total (Memorandum Only)
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	2,789	236	317	3,342
Current employees	6,311	1,159	840	8,310
Total	9,100	1,395	1,157	11,652

Each plan provides service retirement, death, disability and withdrawal benefits. State law governs benefit and contribution provisions. Amendments may be made by the Legislature of the State of Texas.

Financial reports that include financial statements and supplementary information for each plan are publicly available at the locations shown below.

Plan	Address	Telephone
Employees' Retirement and Pension Fund	418 E. Highland Mall Blvd. Austin, Texas 78752	(512)458-2551
Police Officers' Retirement and Pension Fund	P.O. Box 684808 Austin, Texas 78768-4808	(512)416-7672
Fire Fighters' Relief and Retirement Fund	3301 Northland Drive, Suite 215 Austin, Texas 78731	(512)454-9567

**9 -- RETIREMENT PLANS, continued**

**b – Funding Policy**

	<b>City of Austin Employees' Retirement and Pension Fund</b>	<b>City of Austin Police Officers' Retirement and Pension Fund</b>	<b>Fire Fighters' Relief and Retirement Fund</b>
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	7.0%	9.0%	11.70 %
City's contribution (percent of earnings)	7.0% (1)	18.0%	20.05%

(1) The City contributes two-thirds of the cost of prior service benefit payments.

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary of each plan has certified that the contribution commitment by the participants and the City provide an adequate financing arrangement. Contributions for fiscal year ended September 30, 1999, are as follows (in thousands):

	<b>City Employees</b>	<b>Police Officers</b>	<b>Fire Fighters</b>	<b>Total (Memorandum Only)</b>
City	\$ 17,513	8,907	7,722	34,142
Employees	17,513	4,452	4,506	26,471
Total contributions	<u>\$ 35,026</u>	<u>13,359</u>	<u>12,228</u>	<u>60,613</u>

**c – Annual Pension Cost and Net Pension Obligation**

The City's annual pension cost of \$34,142,000 for fiscal year ended September 30, 1999, was equal to the City's required and actual contributions. Three-year trend information is as follows (in thousands):

	<b>City Employees</b>	<b>Police Officers</b>	<b>Fire Fighters</b>	<b>Total (Memorandum Only)</b>
City's Annual Pension Cost (APC):				
1997	\$ 15,287	6,850	6,270	28,407
1998	15,589	7,766	7,492	30,847
1999	17,513	8,907	7,722	34,142
Percentage of APC contributed:				
1997	100%	100%	100%	N/A
1998	100%	100%	100%	N/A
1999	100%	100%	100%	N/A
Net Pension Obligation:				
1997	\$ --	--	--	--
1998	--	--	--	--
1999	--	--	--	--

**9 -- RETIREMENT PLANS, continued**

Actuarial valuations of the plans are performed every two years. Actuarial updates are done in each year following the full valuation. The latest actuarial valuations were completed as of December 31, 1997. The actuarial cost method and significant assumptions underlying the actuarial calculations are as follows:

	<u>City Employees</u>	<u>Police Officers</u>	<u>Fire Fighters</u>
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	4.25%	4%	5.5%
Projected Annual Salary Increases	4.75% to 14.75%	6.6% average	7%
Post retirement benefit increase	None	None	5% effective January 1, 1999 and 5% each January thereafter through 2004
Assumed Rate of Return on Investments	8%	8%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	0 years	26.3 years	8.3 years

**d – Trend Information (Unaudited)**

Information pertaining to the latest actuarial valuations for each Plan is as follows (in thousands):

<u>Valuation Date, December 31st</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (Excess)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Percentage of Unfunded Actuarial Accrued Liability (Excess) to Covered Payroll</u>
City Employees						
1993	\$ 579,100	541,200	(37,900)	107.0%	235,200	(16.1%)
1995	707,300	623,000	(84,300)	113.5%	221,000	(38.1%)
1997	856,423	832,140	(24,283)	102.9%	219,208	(11.1%)
Police Officers						
1993	97,093	106,127	9,034	91.5%	34,550	26.1%
1995	127,572	164,865	37,293	77.4%	36,211	103.0%
1997	168,602	222,703	54,101	75.7%	47,189	114.6%
Fire Fighters						
1993	\$ 175,612	193,343	17,731	90.8%	29,018	61.1%
1995	213,403	236,994	23,591	90.0%	32,496	72.6%
1997	268,241	279,472	11,231	96.0%	35,130	32.0%

**10 -- SELECTED REVENUES**

**a – Tobacco settlement revenues**

During 1999, the City of Austin participated in the Agreement Regarding Disposition of Tobacco Settlement Proceeds filed on July 24, 1998, in the case *The State of Texas v. The American Tobacco Co., et al.* Under the terms of the agreement, a political subdivision may receive a pro rata share of the annual distribution of settlement proceeds paid to the State of Texas. The total settlement amount for political subdivisions is approximately \$2.3 billion. Of this amount, \$450 million will be deposited into a lump sum account and distributed to local entities. The remainder of the settlement, approximately \$1.8 billion, will be deposited into a permanent account, and local entities will receive interest earnings from the investments of the account.

The first distribution payment from the lump sum account occurred in January 1999, with the distribution based on the population of each entity in the 1990 federal census. The total amount distributed to local entities was approximately \$300 million. The City received proceeds of approximately \$8.1 million for 1999; the proceeds are reported in the Hospital Operating Fund. Beginning in 2000, the annual distribution of settlement proceeds will be based on each entities' unreimbursed health care expenditures, as defined in the settlement agreement. The total distribution amount from the lump sum account is estimated to be \$100 million in 2000 and \$50 million in 2001. Income earned in the permanent account will also be included in the 2000 settlement amount, and will be the sole source of payments in subsequent years.

**b – Rental revenues**

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin to operate City-owned Brackenridge Hospital. This lease agreement qualifies as an operating lease for accounting purposes. Hospital Fund 1999 revenues included minimum lease payments of \$1,864,764.

The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. Airport Fund 1999 revenues included minimum concession guarantees of \$10,054,516.

The following is a schedule by year of minimum future rentals on noncancelable operating leases up to a term of ten years as of September 30, 1999.

<b>Fiscal Year Ended September 30</b>	<b>Hospital Fund</b>	<b>Airport Fund</b>
2000	\$ 1,864,764	6,734,381
2001	1,864,764	6,885,687
2002	1,864,764	6,875,946
2003	1,864,764	6,823,437
2004	1,864,764	6,196,222
Thereafter	39,160,044	20,926,468
Totals	<u>\$ 48,483,864</u>	<u>54,442,141</u>

**11 -- GENERAL LONG-TERM DEBT**

**a -- General Obligation Debt -- Capital Projects Funding**

Capital projects funds are used to account for the acquisition and construction of general fixed assets. Capital projects are funded primarily by the issuance of general obligation debt, other tax supported debt, interest income and intergovernmental revenues.

General obligation debt is collateralized by the full faith and credit of the City and is reported as an obligation of the General Long-Term Debt Account Group (GLTDAG), except as described below. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies, and is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. General obligation debt issued to fund fixed assets of proprietary funds is reported as an obligation of these proprietary funds, although the funds are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the proprietary funds to meet the debt service requirements.

As described in Note 7, State Statute and the City Charter establish a practical limitation of \$1.50 per \$100 of assessed valuation on the debt service tax rate levied to service general obligation debt, including interest. The tax rate to finance the payment of principal and interest on general obligation long-term debt for the year ended September 30, 1999, was \$.1877 per \$100 assessed valuation. At September 30, 1999, allowable taxes related to debt service (assuming the rate of \$1.50 per \$100 assessed valuation) are approximately \$486,875,246, providing potential additional taxes for debt service of \$425,950,924 from the assessed valuation of \$32,458,349,755.

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The City is in compliance with all limitations and restrictions.

**11 -- GENERAL LONG-TERM DEBT, continued**

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and tax notes outstanding at September 30, 1999, including those reported in certain proprietary funds:

	Date Issued	Original Issue	Amount Outstanding at September 30, 1999	Aggregate Interest Requirements at September 30, 1999	Interest Rates Of Debt Outstanding at September 30, 1999	Maturity Dates Of Serial Debt
		\$	\$	\$	%	
Series 1985A	October, 1985	229,048,455	3,012,221 (2)	8,162,779 (1)	8.25	9/1/2000
Series 1990A&B	January, 1990	122,368,632	28,784,353 (3)	9,135,748 (1)	6.00 - 7.00	9/1/2000-2005
Series 1990C	November, 1990	25,000,000	1,060,000	70,490 (1)	6.65	9/1/2000
Series 1991A	November, 1991	25,000,000	2,810,000	412,031 (1)	5.88 - 8.88	9/1/2000-2002
Assumed MUD Debt	December, 1991	1,995,000	850,000	323,700 (7)	6.02 - 6.40	2/1/2000-2006
Series 1992	May, 1992	114,856,765	76,025,000 (5)	20,189,773 (1)	5.70 - 6.25	3/1/2000-2008
Series 1992	October, 1992	52,490,000	9,500,000	1,847,250 (1)	5.40 - 7.25	9/1/2000-2003
Series 1992	October, 1992	5,405,000	1,000,000	144,675 (1)	5.30 - 5.75	9/1/2000-2003
Series 1992	October, 1992	4,195,000	375,000	9,375 (4)	5.00	11/1/1999
Series 1993	February, 1993	71,600,000	64,180,000	23,104,733 (1)	4.90 - 5.75	9/1/2000-2009
Series 1993	October, 1993	25,000,000	21,185,000	8,181,531 (1)	4.13 - 5.50	9/1/2000-2013
Series 1993	October, 1993	6,435,000	5,455,000	2,106,404 (1)	4.13 - 5.50	9/1/2000-2013
Series 1993A	October, 1993	70,230,000	62,970,000	15,991,360 (1)	4.00 - 5.00	9/1/2000-2010
Series 1994	October, 1994	33,260,000	11,960,000	3,113,200 (1)	5.20 - 7.00	9/1/2000-2007
Series 1994	October, 1994	3,550,000	1,550,000	464,500 (1)	5.10 - 6.50	9/1/2000-2008
Series 1994	October, 1994	5,025,000	565,000	12,995 (4)	4.60	11/1/1999
Series 1995	October, 1995	30,250,000	22,140,000	12,259,025 (1)	4.80 - 7.75	9/1/2000-2013
Series 1995	October, 1995	8,660,000	6,620,000	2,984,055 (1)	4.75 - 6.00	9/1/2000-2013
Series 1995	October, 1995	8,205,000	2,690,000	115,171 (4)	4.20 - 4.25	11/1/1999-2000
Series 1996	October, 1996	30,550,000	13,825,000	7,467,738 (1)	4.50 - 6.00	9/1/2000-2011
Series 1996	October, 1996	11,755,000	8,000,000	971,858 (4)	4.50 - 4.80	11/1/1999-2003
Assumed MUD Debt	December, 1996	2,975,000	2,375,000	907,938 (7)	8.50 - 8.75	8/1/2000 - 2006
Taxable Series 1997	May, 1997	18,400,000	17,700,000	4,651,913 (1)	6.90 - 7.50	3/1/2000-2004
Series 1997	October, 1997	29,295,000	28,715,000	20,212,994 (1)	5.00 - 5.75	9/1/2000-2017
Series 1997	October, 1997	13,975,000	11,350,000	1,595,813 (4)	4.50	11/1/1999-2004
Series 1997	October, 1997	2,120,000	1,990,000	1,114,353 (1)	4.50 - 7.00	9/1/2000-2017
Assumed MUD Debt	December, 1997	33,680,000	30,675,000	23,110,357 (6)	4.40 - 10.50	11/15/1999-2021
Series 1998	January, 1998	110,300,000	110,090,000	61,581,153 (1)	3.70 - 5.25	9/1/2003-2016
Series 1998	October, 1998	13,430,000	13,430,000	9,164,370 (1)	4.40 - 7.13	9/1/2000-2018
Series 1998	October, 1998	22,770,000	22,150,000	12,303,038 (1)	4.10 - 7.00	9/1/2000-2018
Series 1998	October, 1998	14,975,000	14,270,000	2,261,672 (4)	3.90 - 4.50	11/1/1999-2005
Assumed MUD Debt	January, 1999	1,785,000	1,740,000	1,545,885 (1)	8.00 - 10.50	9/1/2000-2016

(1) Interest is paid semiannually on March 1 and September 1.

(2) Represents capital appreciation bonds.

(3) Includes \$14,158,632 of capital appreciation bonds, which have interest payable at maturity from 9/1/1997-2000.

(4) Interest is paid semiannually on May 1 and November 1.

(5) Includes \$13,281,765 of capital appreciation bonds, which have interest payable at maturity from 9/1/1997-1999.

(6) Interest is paid four times a year on March 1, May 15, September 1, and November 15.

(7) Interest is paid on February 1 and August 1.

**11 -- GENERAL LONG-TERM DEBT, continued**

In October 1998, the City issued Public Improvement Bonds, Series 1998, in the amount of \$13,430,000. Of the proceeds from the issue, \$6,743,000 will be used for street improvements, \$1,376,000 will be used for drainage and flood control, \$2,560,000 will be used for health, safety and welfare renovations, \$951,000 will be used for erosion and flood control, and \$1,800,000 will be used by various departments for communications equipment. These bonds will be amortized serially on September 1 of each year from 2001 to 2018. Certain of these bonds are callable beginning September 1, 2008. Interest is payable on March 1 and September 1 of each year, commencing March 1, 1999. Total interest requirements for these bonds, at rates ranging from 4.4% to 7.13%, aggregate \$9,831,518.

In October 1998, the City issued Public Property Finance Contractual Obligations, Series 1998, in the amount of \$14,975,000. Of the proceeds from the issue, \$1,520,000 will be used by Information Systems Department for communication equipment, \$250,000 will be used by the Solid Waste Services Department for capital equipment, \$3,505,000 will be used by the Water and Wastewater Department for capital equipment, and \$9,700,000 will be used by various departments for radio trunking. These contractual obligations will be amortized serially May 1 and November 1 of each year from 1999 to 2005. The contractual obligations are not subject to optional redemption prior to their maturity. Interest is payable on May 1 and November 1 of each year, commencing May 1, 1999. Total interest requirements for these contractual obligations, at rates ranging from 3.88% to 4.5%, aggregate \$2,675,897.

In October 1998, the City issued Certificates of Obligation, Series 1998, in the amount of \$22,770,000. Of the proceeds from the issue, \$10,500,000 will be used by the Public Works and Transportation Department for road construction and improvements, \$3,960,000 will be used by the Watershed Protection Department for drainage improvements, \$4,825,000 will be used by the Solid Waste Department for construction and improvement of solid waste disposal facilities, \$1,950,000 will be used by the Parks and Recreation Department for golf course improvements, and \$1,535,000 will be used by the Fleet Department for the purchase of real property located at 1006 Smith Road for vehicle maintenance purposes. These certificates of obligation will be amortized serially September 1 of each year from 1999 to 2018. Certain of these obligations are callable beginning September 1, 2008. Interest is payable on March 1 and September 1 of each year, commencing, March 1, 1999. Total interest requirements for these obligations, at rates ranging from 4.1% to 7.0%, aggregate \$13,443,633.

In January 1999, the City assumed debt related to the Municipal Utility Districts (MUDs) that were annexed, in the amount of \$1,785,000. \$697,580 of the assumed debt, which was issued to purchase infrastructure assets, is recorded in the General Long-Term Debt Account Group. The remaining assumed debt of \$1,087,420, which was issued to purchase water and wastewater facilities, is recorded in the Water and Wastewater Fund. Interest is payable on March 1 and September 1 of each year, commencing March 1, 1999. Total interest requirements for this debt at rates ranging from 8.0% to 10.5%, aggregate \$1,694,825.

**11 -- GENERAL LONG-TERM DEBT, continued**

The following is a summary of general obligation bonds, certificates of obligation, contractual obligation and tax note transactions of the City (including those of certain enterprise funds) for the year ended September 30, 1999 (in thousands of dollars):

	<b>General Obligation Bonds and Other Tax Supported Debt</b>	
	<b>General Long-Term Debt Account Group</b>	<b>Proprietary Funds</b>
<b>Balance payable--September 30, 1998</b>	\$ 507,297	43,713
Debt issued:		
Drainage and flood control improvements	2,500	1,460
Parks and recreation golf course improvements	--	1,950
Street improvements	6,743	--
Fleet/radio communications building	--	1,536
Erosion and flood control	2,327	--
Transportation Department for equipment	10,500	--
Health Department safety and welfare renovations	2,560	--
Public safety	1,375	--
Radio trunking for various departments	7,410	425
Solid Waste Department for equipment	--	5,075
Information Systems Office equipment	--	3,810
Water and Wastewater Department equipment	--	3,505
Debt issued during the year	33,415	17,761
Debt retired during the year	(23,781)	(6,709)
Assumed MUD debt due to annexation	698	--
<b>Balance payable--September 30, 1999</b>	<b>\$ 517,629</b>	<b>54,765</b>

General obligation bonds authorized and unissued amount to \$400,205,000 at September 30, 1999. Bond ratings at September 30, 1999, were Aa2 (Moody's Investor Service, Inc.), AA (Standard & Poor's) and AA+ (Fitch).

**b -- Other Long-Term Debt**

In addition to general obligation bonds, certificates of obligation, contractual obligations, and tax notes, the General Long-Term Debt Account Group includes all liabilities of the City (other than those reported in the proprietary funds) which are not due in the current period. Compensated absences liability was \$42,658,185 in 1998 and increased \$897,168 to a balance of \$43,555,353 in 1999. During 1999, the City recognized loans of \$10,710,649, and retired \$491,485, for a balance of \$10,219,164 at September 30, 1999.

**12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT**

**a -- Combined Utility Systems Debt -- General**

The City's Electric Fund and Water and Wastewater Fund comprise the "Combined Utility Systems," which issue Combined Utility Systems revenue bonds to fund Electric Fund and Water and Wastewater Fund capital projects. Principal and interest on these bonds are payable solely from the combined net revenues of the Electric Fund and Water and Wastewater Fund. The following table summarizes Combined Utility Systems revenue bonds and other long-term financing transactions for the year ended September 30, 1999 (in thousands of dollars):

<b>Description</b> <b>(Net of discount and inclusive of premium)</b>	<b>Subordinate</b> <b>Lien Bonds</b>	<b>Prior Lien</b> <b>Bonds</b>	<b>Total</b>
Balance payable, October 1, 1998	\$ 134,980	2,221,109	2,356,089
Debt issued	255,690	--	255,690
Debt repaid, defeased, or refunded	(32,710)	(217,720)	(250,430)
Amortization of bond discount and premium	5,982	1,748	7,730
Balance payable, September 30, 1999	<u>\$ 363,942</u>	<u>2,005,137</u>	<u>2,369,079</u>

The total Combined Utility Systems revenue bond obligations at September 30, 1999, consist of \$2,023,568,409 prior lien bonds and \$357,804,512 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$1,781,570,832 at September 30, 1999. Revenue bonds authorized and unissued amount to \$1,492,642,660 at that date. At September 30, 1999, Moody's Investors Service rated the prior lien and subordinate lien bonds A2, while Fitch rated them A. Standard and Poor's rated the prior lien A and the subordinate lien A-.

**b -- Combined Utility Systems Debt -- Revenue Bond Indenture Requirements**

The City is required by bond indentures to pledge the net revenues of the Combined Utility Systems for debt service, and is required to maintain debt service funds and bond reserve funds for all outstanding revenue bonds. The debt service funds, with assets of \$306,718,615 including accrued interest at September 30, 1999, are restricted within the utility systems and require that the net revenues of the systems, after operating and maintenance expenses are deducted, be irrevocably pledged by providing equal monthly installments that will accumulate to the semiannual principal and interest requirements as they become due.

The bond reserve fund for revenue bond retirement, with assets of \$160,534,152 of investments at fair value at September 30, 1999, is also restricted within the utility systems. The City is required to maintain a combined reserve fund for the benefit of the holders of prior lien bonds and subordinate lien bonds, which must contain cash and investments of not less than \$85,000,000 and which shall be increased upon the issuance of any additional bonds to the greater of such amount or the average annual principal and interest requirements on all prior lien bonds and subordinate lien bonds. Additional amounts required to be deposited in the reserve fund must be funded from bond proceeds or accumulated in the reserve fund in equal monthly installments within 60 months from the date of delivery of the additional bonds.

The City also covenants under the bond indentures that the custodian of the reserve fund shall be an official City depository and investment of the reserve fund shall be in direct or guaranteed obligations of the United States of America (USA), including obligations guaranteed by the USA, and certificates of deposit of any bank or trust company, the deposits of which are fully secured by a pledge or obligation of the USA or guaranteed by the USA. The revenue bond indentures also provide for a number of other limitations and restrictions. The City is in compliance with all significant limitations and restrictions contained in the revenue bond indentures.

**c -- Combined Utility Systems Debt -- Revenue Bond Refunding Issues**

The Combined Utility Systems have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

**12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued**

The prior lien bonds are subordinate only to the prior lien revenue bonds outstanding at the time of issuance, while the subordinate lien bonds are subordinate to prior lien revenue bonds and to subordinate lien revenue bonds outstanding at the time of issuance.

Some of these bonds are callable prior to maturity at the option of the City. The term bonds are subject to a mandatory redemption prior to the maturity dates as defined in the respective official statements.

The net proceeds of each of the refunding bond issuances were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service. As a result, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds have been removed. The accounting gains and losses due to the advance refunding of debt have been deferred and are being amortized over the life of the refunding bonds by the straight-line method. However, a gain or loss on defeased bonds is recognized when funds from current operations are used.

In November 1998, the City issued \$245,314,512 of Combined Utility Systems Revenue Refunding Bonds to refund \$139,550,000 of previously issued Combined Utility Systems Revenue Bonds and \$100,000,000 of Combined Utility Systems Commercial Paper Notes, Series A.

The refunding of the Refunded Bonds will accomplish a restructuring of a portion of the debt attributable to the Electric, Water and Wastewater Systems in order to more closely match debt service with the service life of the assets. In fiscal year 1999, the refunding will convert a portion of the Commercial Paper Notes then currently outstanding to long-term debt.

The refunding resulted in a decrease in cash flow requirements to service the debt of \$8,208,656. An economic gain of \$7,132,475 was recognized on this transaction. An accounting loss of \$15,978,149 which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on the refunding. The following bonds were refunded in this transaction (in thousands of dollars):

<u>Series</u>	<u>Amount</u>
	\$
1994 Refunding	35,400
1995 Refunding	103,100
1996A Refunding	1,010
1996B Refunding	40

In September 1999, the City defeased \$15,267,139 of Combined Utility Systems revenue bonds, with a \$16,964,085 cash payment. \$16,929,085 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligation for the defeased debt. The following bonds were defeased in September 1999 (in thousands of dollars):

<u>Series</u>	<u>Amount</u>
	\$
1992 Refunding	515
1993 Refunding	850
1993A Refunding	5,632
1996 Refunding	260
1998 Refunding	2,840
1998A Refunding	5,170

**12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued**

**d -- Combined Utility Systems Debt -- Bonds Issued and Outstanding**

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 1999 (in thousands of dollars):

Series	Bonds Dated	Original Amount	Outstanding at
		Issued	September 30, 1999
		\$	\$
1982 Refunding	March 1982	598,000	95,045
1985	March 1985	225,000	3,790
1985A	November 1985	162,000	2,340
1986A	April 1986	325,000	6,730
1986C	November 1986	137,915	5,360
1986 Refunding	March 1986	545,145	34,970
1987	May 1987	65,000	3,175
1988AB Refunding	October 1988	369,901	12,403
1989	July 1989	65,800	4,145
1990	August 1990	6,395	4,630
1990AB Refunding	February 1990	236,009	41,301
1991A Refunding	June 1991	57,080	36,900
1992 Refunding	March 1992	265,806	243,876
1992A Refunding	May 1992	351,706	324,776
1993 Refunding	February 1993	203,166	175,221
1993A Refunding	June 1993	263,410	207,817
1994	May 1994	3,500	3,050
1994 Refunding	October 1994	142,559	107,159
1995 Refunding	June 1995	151,770	46,670
1996AB Refunding	September 1996	249,235	247,895
1997 Refunding	August 1997	227,215	224,030
1998 Refunding	August 1998	180,000	177,160
1998A Refunding	August 1998	123,020	117,850
1998 Refunding	November 1998	245,315	245,080
1998	November 1998	10,000	10,000
			\$ 2,381,373

**e -- Combined Utility Systems Debt -- Commercial Paper Notes**

The City is authorized pursuant to Ordinance No. 961121-A adopted by the City Council on November 21, 1996, to issue commercial paper notes, (the "notes"), in an aggregate principal amount not to exceed \$350,000,000 outstanding at any one time. Proceeds from the notes are used to provide interim financing for capital project costs for additions, improvements and extensions to the City's Electric System and the City's Water and Wastewater System and to refinance, renew, or refund maturing notes and other obligations of the systems.

The notes will be in denominations of \$100,000 or more and mature not more than 270 days from the date of issuance. Principal and interest on the notes are payable from the combined net revenues of the City's Electric Fund and Water and Wastewater Fund.

At September 30, 1999, the Electric Fund had outstanding commercial paper notes of \$187,479,181 (net of discount of \$154,819), and the Water and Wastewater Fund had \$145,668,000 of commercial paper notes outstanding. Interest rates on the notes range from 3.1% to 4.2%, and subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

**12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued**

**f -- Water and Wastewater Fund -- Refunds Payable on Construction Contracts**

Refunds payable on construction contracts of approximately \$2,127,799 at September 30, 1999, excluding accrued interest, represent contractual obligations of the Water and Wastewater Fund to refund a percentage of certain construction costs incurred by developers. The contracts vary as to terms and conditions. Most of the contracts provide for the City to pay interest at 3% per annum on the unpaid balance. Generally, the Water and Wastewater Fund has agreed to pay annually to the developers a sum equal to 75% of the amount of revenues realized (based on rates in existence at the contract date) from sales and service relating to the water and wastewater facilities constructed by these developers. Such payments are made in March of each year based upon the revenues for the previous calendar year; however, the total number of payments is limited, ranging primarily from 20 to 25 years, at which time the unpaid principal balance, if any, reverts to the Water and Wastewater Fund as a contribution in aid of construction.

**g -- Airport -- General**

The City's Airport Fund issues Airport System revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. The following table summarizes Airport System revenue bonds for the year ended September 30, 1999 (in thousands of dollars):

Description (Net of discount and loss on refunding)	Prior Lien Bonds
Balance payable, October 1, 1998	\$ 382,798
Amortization of bond discount and loss on refunding	615
Balance payable, September 30, 1999	<u>\$ 383,413</u>

The total Airport System obligations for prior lien bonds is \$394,245,000 at September 30, 1999. Aggregate interest requirements for all prior lien bonds are \$414,335,386 at September 30, 1999. Revenue bonds authorized and unissued amount to \$735,795,000 at that date.

**h -- Airport -- Revenue Bond Indenture Requirements**

The City is required by bond indentures to pledge the net revenues of the Airport System for debt service, and is required to maintain a debt service fund and bond reserve fund for all outstanding revenue bonds. The debt service fund, with assets of \$8,977,815 including accrued interest at September 30, 1999, is restricted within the Airport System and requires that the net revenues of the airport, after operating and maintenance expenses are deducted, be irrevocably pledged by providing equal monthly installments that will accumulate to the semiannual principal and interest requirements as they become due.

The City is also required to maintain a reserve fund for the benefit of the holders of prior lien bonds, which must contain cash and investments equal to the arithmetic average of the debt service requirements scheduled to occur in the then current and future fiscal years for all prior lien bonds then outstanding. The bond ordinance allows for the use of a debt service reserve fund surety bond in lieu of the cash deposit. The City holds a surety bond with a total benefit available of \$30,429,177. The City is in compliance with all significant limitations and restrictions contained in the revenue bond indentures available in the event a draw is necessary.

**i -- Airport Debt -- Revenue Bond Refunding Issues**

The Airport System previously refunded the Series 1989 revenue bonds through refunding revenue bonds. Principal and interest on these refunding bonds are payable solely from the net revenues of the Airport.

12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

j -- Airport Debt -- Bonds Issued and Outstanding

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 1999 (in thousands of dollars):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 1999
		\$	\$
1989	September 1989	30,000	1,000
1995A	August 1995	362,205	362,205
1995B Refunding	August 1995	31,040	31,040
			<u>\$ 394,245</u>

k -- Airport Debt -- Variable Rate Revenue Notes

The City is authorized to issue Airport System variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A adopted by the City Council on February 5, 1998. At September 30, 1999, the Airport System had outstanding variable rate revenue notes of \$28,000,000. The debt service fund required by the bond ordinance held assets of \$439,715 including accrued interest at September 30, 1999 and was restricted within the Airport System. During fiscal year 1999, interest rates on the notes ranged from 2.25% to 3.95%, adjusted weekly, and subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the Airport System.

l -- Convention Center -- General

The City's Convention Center Fund issues Convention Center revenue bonds and Hotel Occupancy Tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from pledged hotel occupancy tax revenues. In May 1998, the voters of the City of Austin approved and authorized an increase of 2% in the hotel occupancy tax. The total occupancy tax increased from 7% to 9%, effective August 1, 1998. The Convention Center's portion of the hotel occupancy bed tax revenue increased from 4.5% to 6.5%. The total debt amount approved by the voters of the City of Austin was \$135,000,000. This amount will be used to fund the expansion of the Austin Convention Center and to construct tunnel drainage improvements along Waller Creek. The following table summarizes the Convention Center Fund revenue bonds for the year ended September 30, 1999 (in thousands of dollars):

Description (Net of discount and loss on refunding)	Subordinate Lien Bonds	Prior Lien Bonds	Total
Balance payable, October 1, 1998	\$ 5,682	64,619	70,301
Debt issued	110,000	31,445	141,445
Debt refunded	(6,170)	--	(6,170)
Debt repaid	--	(1,960)	(1,960)
Amortization of bond discounts, premiums, and loss on refunding	(639)	353	(286)
Balance payable, September 30, 1999	<u>\$ 108,873</u>	<u>94,457</u>	<u>203,330</u>

Revenue bonds authorized and unissued amount to \$760,000 at September 30, 1999.

m -- Convention Center -- Revenue Refunding Bond Issues and Indenture Requirements

The City is required by bond indentures to pledge the hotel occupancy tax revenue for debt service, and is required to maintain a debt service fund and either a bond reserve fund or a debt service reserve fund surety bond. The Series 1993A debt service fund, with assets of \$2,942,104 at September 30, 1999, is restricted within the Convention Center and requires that the pledged hotel occupancy revenues of the Convention Center be irrevocably pledged by providing quarterly installments that will accumulate to the semiannual principal and interest requirements as they become due.

**12 -- ENTERPRISE FUNDS -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued**

In June 1999, the City issued \$6,445,000 of Taxable Refunding Revenue Bonds Series 1999 to refund \$6,170,000 of Refunding Revenue Bonds Series 1993B. The refunding allowed changes in certain debt covenant requirements necessary for the overall plan of financing for the Convention Center capital projects. The refunding bonds are secured and payable from a first lien on a portion of the hotel occupancy tax revenues derived by the City. The refunding resulted in an increase of cash flow requirements to service the debt of \$409,290. An economic loss of \$326,322 was recognized on this transaction. An accounting loss of \$562,639, which will be deferred and amortized in accordance to GASB Statement No. 23, was recognized on the refunding. The City maintains a debt service reserve fund for this issuance of debt.

Also in June 1999, the City issued \$25,000,000 of Convention Center/Waller Creek Venue Project Bonds Series 1999A. The Series 1999A debt was issued to construct tunnel drainage improvements along Waller Creek. It is secured and payable from a first lien pledge of the additional 2% portion of the hotel occupancy tax revenue derived by the City. The City established a debt service fund, with assets of \$437,507 at September 30, 1999, to service principal and interest payments. A debt service reserve fund surety bond has been purchased in lieu of a cash deposit.

In August 1999, the City issued \$110,000,000 of interim debt. The City simultaneously issued interim bonds of \$85,000,000 Hotel Occupancy Tax (HOT) Subordinate Lien Bonds Series 1999 and \$25,000,000 Convention Center/Waller Creek Venue Project Bonds Series 1999B, which were privately placed with a third party. The Interim HOT Subordinate Lien Series 1999 had a subordinate lien pledge on the 4.5% hotel occupancy tax revenues. The Interim Convention Center/Waller Creek Venue Project Bonds Series 1999B had a subordinate lien pledge on the additional 2% of hotel occupancy tax revenues. The purpose of the interim debt was to comply with a legal opinion of the State Attorney General's Office. State law, as interpreted by the Attorney General of Texas, will only allow the joint pledge of the 4.5% and 2% hotel occupancy tax if debt is issued and subsequently refunded.

In September 1999, the City issued \$110,000,000 of Hotel Occupancy Tax Subordinate Lien Revenue Refunding Bonds Series 1999 to refund the Interim Subordinate Lien Bonds above. The interim bonds were redeemed at par; therefore, no accounting loss resulted from the refunding transaction. Interest expense recognized from the interim bonds was \$769,428. The Refunding Bonds Series 1999 are secured and payable from a subordinate lien on the joint 4.5% and 2% hotel occupancy tax revenues. No operating revenues of the Convention Center are pledged. The City has established a debt service fund, with assets of \$940,626 at September 30, 1999, to service principal and interest payments. The City maintains a debt service reserve fund surety bond for this issuance of debt.

The Series 1993A bond reserve fund for revenue bond retirement, with assets of \$6,874,269 at September 30, 1999, is restricted within the Convention Center Fund. The City is required to maintain a reserve fund for the benefit of the holders of the Series 1993A Prior Lien Bonds and the Taxable Refunding Revenue Bonds Series 1999. The requirements of the reserve fund are that cash and investments must equal the lesser of 10% of the principal amount or the maximum annual debt service requirement scheduled to occur in the current and each future fiscal year for all bonds outstanding. The City is in compliance with all significant limitations and restrictions contained in the revenue bond indentures.

**n -- Convention Center Debt -- Bonds Issued and Outstanding**

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 1999 (in thousands of dollars):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 1999
		\$	\$
1993A	December 1993	75,955	72,110
1999 Refunding	June 1999	6,445	6,445
1999A	June 1999	25,000	25,000
1999	September 1999	110,000	110,000
			<u>\$ 213,555</u>

**13 -- CONDUIT DEBT**

**a -- Austin Housing Finance Corporation**

From time to time, the City has issued housing revenue bonds through the Austin Housing Finance Corporation (AHFC) to provide financial assistance to other entities for the acquisition and construction of housing facilities for low and moderate-income Austin residents. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. As of September 30, 1999, ten series of AHFC housing finance bonds had been issued. The aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled \$203.8 million.

In fiscal year 1999, no AHFC bonds were issued. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**b -- Austin Industrial Development Corporation**

From time to time, the City has issued industrial revenue bonds through the Austin Industrial Development Corporation (AIDC) to provide financial assistance to other entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. As of September 30, 1999, 24 series of AIDC industrial revenue bonds had been issued. The aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled \$106.4 million.

No AIDC bonds were issued in fiscal year 1999. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**c -- Austin-Bergstrom International Airport Development Corporation**

To provide for the construction of certain facilities at the Austin-Bergstrom International Airport (ABIA), the City has issued industrial revenue bonds through the ABIA Development Corporation. The bonds are special limited obligations of the City, payable solely from and secured by a pledge of rentals to be received from lease agreements between the City and certain entities operating at the Airport. Two series of industrial revenue bonds were issued in 1998; the original issue and aggregate principal amounts payable at September 30, 1999 totaled \$19.2 million.

In December 1998, the ABIA Development Corporation issued \$8.5 million of tax exempt debt and \$300,000 of taxable debt to finance a portion of the cost of an airport cargo warehouse, operations area, and ground service maintenance facility. In August 1999, the Corporation also issued \$4.4 million tax exempt debt to finance a portion of the cost of an airport cargo warehouse. These bonds are special limited obligations of the City, payable solely from and secured by a pledge of rentals to be received from lease agreements between the City and certain entities operating at the Airport.

These bonds do not constitute a debt or pledge of the Airport System revenues nor of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

**13 -- CONDUIT DEBT, continued**

**d -- Austin-Bergstrom Landhost Enterprises, Inc.**

In February 1999, the City issued \$38,785,000 senior revenue bonds and \$3.73 million subordinate revenue bonds through the Austin-Bergstrom Landhost Enterprises, Inc. for a full-service hotel facility at the airport. The bonds are special limited obligations of the City, payable solely from and secured by a pledge of revenues generated by the hotel.

These bonds do not constitute a debt or pledge of the Airport System revenues, nor of the faith and credit of the City, and accordingly have not been reported in the accompanying financial statements.

**e -- Rental Car Facility Trust Indenture**

To provide for the costs of design, acquisition, construction and equipping of rental car facilities at the Austin-Bergstrom International Airport, the City issued rental car special facilities revenue bonds in 1998 under a trust indenture, by and between the City and Chase Bank of Texas, National Association, Austin, Texas. The bonds are limited special obligations of the City, payable solely from and secured by a pledge of the Trust Estate, including revenues to be received from parking garage rentals, supplemental facilities fees, contract facility charges paid by concessionaires to the trustee and investment earnings from amounts held by the trustee. As of September 30, 1999, one series of rental car special facilities bonds had been issued. The principal amount payable of these bonds and their original issue amount totaled \$21.05 million. The bonds do not constitute a debt or pledge of the Airport System revenues nor of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1999**

**CITY OF AUSTIN, TEXAS**  
**(Continued)**

**14 -- DEBT SERVICE REQUIREMENTS**

The following is a schedule of General Obligation Bonds and Other Tax Supported Debt requirements for the General Long-Term Debt Account Group (in thousands):

Fiscal Year Ended September 30	General Obligation Bonds (1)			Public Property Finance Contractual Obligations			Certificates of Obligation		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2000	21,716	37,423	59,139	7,720	1,534	9,254	1,680	1,955	3,635
2001	34,914	24,619	59,533	6,295	1,207	7,502	1,785	1,853	3,638
2002	37,777	22,940	60,717	5,785	943	6,728	1,865	1,745	3,610
2003	37,030	20,799	57,829	6,240	680	6,920	1,990	1,632	3,622
2004	39,481	18,631	58,112	5,715	400	6,115	1,820	1,512	3,332
Thereafter	307,761	83,230	390,991	5,495	203	5,698	29,625	10,420	40,045
	<u>478,679</u>	<u>207,642</u>	<u>686,321</u>	<u>37,250</u>	<u>4,967</u>	<u>42,217</u>	<u>38,765</u>	<u>19,117</u>	<u>57,882</u>
Fiscal Year Ended September 30	Tax Notes			Total					
	Principal	Interest	Total	Principal	Interest	Total			
2000	1,000	1,202	2,202	32,116	42,114	74,230			
2001	1,300	1,117	2,417	44,294	28,796	73,090			
2002	1,500	1,017	2,517	46,927	26,645	73,572			
2003	1,900	900	2,800	47,160	24,011	71,171			
2004	12,000	417	12,417	59,016	20,960	79,976			
Thereafter	--	--	--	342,881	93,853	436,734			
	<u>17,700</u>	<u>4,653</u>	<u>22,353</u>	<u>572,394</u>	<u>236,379</u>	<u>808,773</u>			
				Less: Amounts reported in Enterprise Funds	(46,016)	(63,350)			
				Amounts reported in Internal Service Funds	(8,749)	(10,997)			
				Total requirements reported in other funds	(54,765)	(74,347)			
				General Long-Term Debt Account Group requirements at September 30, 1999	<u>\$ 517,629</u>	<u>734,426</u>			

(1) Excludes \$7,575,000 principal and \$4,731,602 interest for the HUD Section 108 Loan (Central City Entertainment Center) and \$2,402,902 principal and \$249,161 interest for the Municipal Energy Conservation Loan.

**14 -- DEBT SERVICE REQUIREMENTS, continued**

The following summarizes the proprietary funds debt service requirements at September 30, 1999 (in thousands):

Fiscal Year Ended September 30	Commercial Paper Notes (1)			Revenue Notes		
	Principal	Interest	Total	Principal	Interest	Total
2000	\$ 333,302	1,063	334,365	--	--	--
2001	--	--	--	--	--	--
2002	--	--	--	--	--	--
2003	--	--	--	--	--	--
2004	--	--	--	--	--	--
Thereafter	--	--	--	28,000	--	28,000
	<u>333,302</u>	<u>1,063</u>	<u>334,365</u>	<u>28,000</u>	<u>--</u>	<u>28,000</u>
Less: Unamortized bond discount	(155)	--	(155)			
Unamortized loss on bond refundings	--	--	--			
Add: Unamortized bond premium	--	--	--			
Net debt service requirements	<u>333,147</u>	<u>1,063</u>	<u>334,210</u>			

Fiscal Year Ended September 30	General Obligation Bonds and Other Tax Supported Debt (2)			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2000	7,830	4,571	12,401	99,460	173,564	273,024
2001	6,842	4,312	11,154	104,302	161,252	265,554
2002	6,064	4,184	10,248	109,521	166,287	275,808
2003	5,999	3,909	9,908	92,825	156,623	249,448
2004	6,024	3,629	9,653	132,385	141,261	273,646
Thereafter	48,774	18,117	66,891	2,450,679	1,601,368	4,052,047
	<u>81,533</u>	<u>38,722</u>	<u>120,255</u>	<u>2,989,172</u>	<u>2,400,355</u>	<u>5,389,527</u>
Less: Unamortized bond discount	(380)	--	(380)	(63,298)	--	(63,298)
Unamortized loss on bond refundings	(390)	--	(390)	(9,135)	--	(9,135)
Add: Unamortized bond premium	445	--	445	39,082	--	39,082
Net debt service requirements	<u>\$ 81,208</u>	<u>38,722</u>	<u>119,930</u>	<u>2,955,821</u>	<u>2,400,355</u>	<u>5,356,176</u>

(continued)

(1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

(2) Includes assumed tax and revenue bond principal of \$26,647,890 and interest of \$19,140,183 and \$120,000 of Water and Wastewater notes payable.

**14 -- DEBT SERVICE REQUIREMENTS, continued**

Fiscal Year Ended September 30	Water Improvement District Bonds			Municipal Utility District Contract Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
	2000	\$ 307	54	361	6,245	6,182
2001	366	37	403	6,930	5,791	12,721
2002	353	19	372	6,730	5,352	12,082
2003	35	3	38	7,540	4,919	12,459
2004	35	1	36	8,190	4,433	12,623
Thereafter	--	--	--	66,125	13,877	80,002
	<u>1,096</u>	<u>114</u>	<u>1,210</u>	<u>101,760</u>	<u>40,554</u>	<u>142,314</u>
Less: Unamortized bond discount				(365)	--	(365)
Unamortized loss on bond refundings				--	--	--
Add: Unamortized bond premium				--	--	--
Net debt service requirements				<u>101,395</u>	<u>40,554</u>	<u>141,949</u>

Fiscal Year Ended September 30	Total Debt Service Requirements		
	Principal	Interest	Total
	2000	447,144	185,434
2001	118,440	171,392	289,832
2002	122,668	175,842	298,510
2003	106,399	165,454	271,853
2004	146,634	149,324	295,958
Thereafter	2,593,578	1,633,358	4,226,936
	<u>3,534,863</u>	<u>2,480,804</u>	<u>6,015,667</u>
Less: Unamortized bond discount	(64,198)	--	(64,198)
Unamortized loss on bond refundings	(9,525)	--	(9,525)
Add: Unamortized bond premium	39,527	--	39,527
Net debt service requirements	<u>\$ 3,500,667</u>	<u>2,480,804</u>	<u>5,981,471</u>

**14 -- DEBT SERVICE REQUIREMENTS, continued**

The following summarizes the proprietary funds debt service requirements at September 30, 1999 by fund (in thousands):

Fiscal Year Ended September 30	Electric (1)			Water and Wastewater (2)		
	Principal	Interest	Total	Principal	Interest	Total
2000	\$ 266,726	96,897	363,623	173,615	52,815	226,430
2001	83,936	84,797	168,733	27,930	49,425	77,355
2002	80,680	89,091	169,771	28,175	50,092	78,267
2003	67,432	83,446	150,878	24,471	46,100	70,571
2004	91,680	70,527	162,207	38,493	43,731	82,224
Thereafter	1,139,162	582,172	1,721,334	834,346	596,297	1,430,643
	<u>1,729,616</u>	<u>1,006,930</u>	<u>2,736,546</u>	<u>1,127,030</u>	<u>838,460</u>	<u>1,965,490</u>
Less: Unamortized bond discount	(27,190)	--	(27,190)	(24,686)	--	(24,686)
Unamortized loss on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	28,661	--	28,661	10,289	--	10,289
	<u>1,731,087</u>	<u>1,006,930</u>	<u>2,738,017</u>	<u>1,112,633</u>	<u>838,460</u>	<u>1,951,093</u>

Fiscal Year Ended September 30	Solid Waste Services			Airport		
	Principal	Interest	Total	Principal	Interest	Total
2000	1,860	1,075	2,935	92	24,154	24,246
2001	1,499	933	2,432	216	24,004	24,220
2002	1,260	859	2,119	7,765	23,801	31,566
2003	1,288	791	2,079	8,120	23,365	31,485
2004	1,298	721	2,019	8,550	22,890	31,440
Thereafter	13,449	4,359	17,808	398,691	296,617	695,308
	<u>20,654</u>	<u>8,738</u>	<u>29,392</u>	<u>423,434</u>	<u>414,831</u>	<u>838,265</u>
Less: Unamortized bond discount	(21)	--	(21)	(9,081)	--	(9,081)
Unamortized loss on bond refundings	(247)	--	(247)	(1,762)	--	(1,762)
Add: Unamortized bond premium	135	--	135	--	--	--
	<u>\$ 20,521</u>	<u>8,738</u>	<u>29,259</u>	<u>412,591</u>	<u>414,831</u>	<u>827,422</u>

(continued)

(1) Included in the debt service requirements of Electric is \$187,634,000 principal and \$615,662 interest for commercial paper notes.

(2) Included in the debt service requirements of Water and Wastewater is \$145,668,000 principal and \$447,385 interest for commercial paper notes.

14 -- DEBT SERVICE REQUIREMENTS, continued

Fiscal Year Ended September 30	Convention Center			Drainage		
	Principal	Interest	Total	Principal	Interest	Total
	2000	\$ 2,702	9,520	12,222	146	153
2001	2,980	11,365	14,345	158	142	300
2002	3,128	11,217	14,345	171	130	301
2003	3,297	11,055	14,352	185	117	302
2004	4,906	10,850	15,756	207	102	309
Thereafter	196,994	150,624	347,618	1,609	553	2,162
	214,007	204,631	418,638	2,476	1,197	3,673
Less: Unamortized bond discount	(3,210)	--	(3,210)	--	--	--
Unamortized loss on bond refundings	(7,373)	--	(7,373)	--	--	--
Add: Unamortized bond premium	358	--	358	--	--	--
	203,782	204,631	408,413	2,476	1,197	3,673

Fiscal Year Ended September 30	Transportation			Golf		
	Principal	Interest	Total	Principal	Interest	Total
	2000	106	28	134	378	401
2001	111	23	134	403	380	783
2002	117	18	135	415	359	774
2003	123	13	136	454	338	792
2004	130	7	137	419	315	734
Thereafter	67	2	69	6,174	1,885	8,059
	654	91	745	8,243	3,678	11,921
Less: Unamortized bond discount	--	--	--	(7)	--	(7)
Unamortized loss on bond refundings	--	--	--	(70)	--	(70)
Add: Unamortized bond premium	--	--	--	60	--	60
	\$ 654	91	745	8,226	3,678	11,904

(continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1999**

**CITY OF AUSTIN, TEXAS**  
**(Continued)**

**14 -- DEBT SERVICE REQUIREMENTS, continued**

Fiscal Year Ended September 30	Fleet Maintenance			Support Services		
	Principal	Interest	Total	Principal	Interest	Total
2000	\$ 264	112	376	1,258	279	1,537
2001	130	101	231	1,076	222	1,298
2002	74	95	169	882	179	1,061
2003	79	90	169	950	138	1,088
2004	88	85	173	863	95	958
Thereafter	1,677	620	2,297	1,408	232	1,640
	<u>2,312</u>	<u>1,103</u>	<u>3,415</u>	<u>6,437</u>	<u>1,145</u>	<u>7,582</u>
Less: Unamortized bond discount	--	--	--	(3)	--	(3)
Unamortized loss on bond refundings	(16)	--	(16)	(57)	--	(57)
Add: Unamortized bond premium	4	--	4	20	--	20
	<u>2,300</u>	<u>1,103</u>	<u>3,403</u>	<u>6,397</u>	<u>1,145</u>	<u>7,542</u>

Fiscal Year Ended September 30	Total Debt Service Requirements		
	Principal	Interest	Total
2000	447,147	185,434	632,581
2001	118,439	171,392	289,831
2002	122,667	175,841	298,508
2003	106,399	165,453	271,852
2004	146,634	149,323	295,957
Thereafter	2,593,577	1,633,361	4,226,938
	<u>3,534,863</u>	<u>2,480,804</u>	<u>6,015,667</u>
Less: Unamortized bond discount	(64,198)	--	(64,198)
Unamortized loss on bond refundings	(9,525)	--	(9,525)
Add: Unamortized bond premium	39,527	--	39,527
	<u>\$ 3,500,667</u>	<u>2,480,804</u>	<u>5,981,471</u>

**15 -- INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables at September 30, 1999, are as follows:

	<u>Current</u>		<u>Long-Term</u>	
	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Advance To Other Funds</u>	<u>Advance From Other Funds</u>
<b>RECEIVABLES:</b>				
<b>Special Revenue Funds</b>				
Other Special Revenue Funds:				
Receivable from Federal Grants	\$ 10,970,077	--	--	--
Receivable from State Grants	2,113,172	--	--	--
Receivable from Other Special Revenue Grants	78,160	--	--	--
Receivable from Other Special Revenue Funds	1,311,826	--	--	--
<b>Capital Projects Funds</b>				
Capital Projects Funds Prior to 1984:				
Receivable from Capital Projects Funds Prior to 1984	90,804	--	--	--
Capital Projects Funds 1984:				
Receivable from Capital Projects Funds 1984	341,517	--	--	--
Capital Projects Funds 1992:				
Receivable from Agency Funds	72,885	--	--	--
Capital Projects Funds 1997:				
Receivable from Capital Project Funds 1997	7,752,505	--	--	--
Other Funds:				
Receivable from Capital Projects Other Funds	692,460	--	--	--
<b>Enterprise Funds</b>				
Electric Fund (Restricted):				
Receivable from Solid Waste Services Fund	12,385	--	12,385	--
Receivable from Airport Fund	1,455	--	1,455	--
Receivable from Drainage Fund	3,045	--	3,045	--
Internal Service Funds:				
Receivable from Fleet Maintenance Fund	13,875	--	13,875	--
Receivable from Support Services Fund	124,932	--	124,932	--
Water and Wastewater Fund (Restricted):				
Receivable from Solid Waste Services Fund	10,225	--	10,225	--
Receivable from Airport Fund	1,201	--	1,201	--
Receivable from Drainage Fund	2,514	--	2,514	--
Internal Service Funds:				
Receivable from Fleet Maintenance Fund	11,455	--	11,455	--
Receivable from Support Services Fund	203,337	--	472,059	--
Airport Fund:				
Internal Service Funds:				
Receivable from Support Services Fund	\$ 45,988	--	--	--

**15 -- INTERFUND RECEIVABLES AND PAYABLES, continued**

	Current		Long-Term	
	Due From Other Funds	Due To Other Funds	Advance To Other Funds	Advance From Other Funds
<b>PAYABLES:</b>				
<b>Special Revenue Funds</b>				
Federal Grants:				
Payable to Other Special Revenue Funds	--	10,970,077	--	--
State Grants:				
Payable to Other Special Revenue Funds	--	2,113,172	--	--
Other Special Revenue Grants:				
Payable to Other Special Revenue Funds	--	78,160	--	--
Other Special Revenue Funds:				
Payable to Other Special Revenue Funds	--	1,311,826	--	--
<b>Capital Projects Funds</b>				
Capital Projects Funds prior to 1984:				
Payable to Capital Projects Prior to 1984	--	90,804	--	--
Payable to Capital Projects 1984	--	71,444	--	--
Capital Projects Funds 1984:				
Payable to Capital Project Funds 1984	--	270,073	--	--
Capital Project Funds 1998:				
Payable to Capital Projects Funds 1997	--	4,911,760	--	--
Capital Projects Funds Other Funds:				
Payable to Capital Projects Funds 1997	--	2,840,745	--	--
Payable to Capital Projects Funds Other Funds	--	692,460	--	--
<b>Enterprise Funds</b>				
Solid Waste Services Fund:				
Payable to Electric Fund	--	12,385	--	12,385
Payable to Water and Wastewater Fund	--	10,225	--	10,225
Airport Fund:				
Payable to Electric Fund	--	1,455	--	1,455
Payable to Water and Wastewater Fund	--	1,201	--	1,201
Drainage Fund:				
Payable to Electric Fund	--	3,045	--	3,045
Payable to Water and Wastewater Fund	--	2,514	--	2,514
<b>Internal Service Funds</b>				
Fleet Maintenance Fund:				
Payable to Electric Fund	--	13,875	--	13,875
Payable to Water and Wastewater Fund	--	11,455	--	11,455
Support Services Fund:				
Payable to Electric Fund	--	124,932	--	124,932
Payable to Water and Wastewater Fund	--	203,337	--	472,059
Payable to Airport Fund	--	45,988	--	--
<b>Trust and Agency Funds</b>				
Agency Funds:				
Payable to Capital Projects Funds	--	72,885	--	--
	<b>\$ 23,853,818</b>	<b>23,853,818</b>	<b>653,146</b>	<b>653,146</b>

**16 -- INTERFUND TRANSFERS**

**a – Interfund Transfers**

Operating transfers between funds during the year were as follows:

<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Amount</u>
<b>General Fund</b>	Enterprise Funds:	
	Electric Fund	\$ 57,990,860
	Water and Wastewater Fund	16,213,620
		<u>74,204,480</u>
<b>Special Revenue Funds - Other:</b>		
Balcones Canyonlands Conservation Fund	General Fund	88,000
	Enterprise Funds:	
	Drainage Fund	400,802
Barton Springs Conservation Fund	General Fund	55,000
Downtown Development Fund	General Fund	600,000
Environmental Remediation Fund	Enterprise Funds:	
	Water and Wastewater Fund	75,000
	Solid Waste Fund	75,000
	Drainage Fund	75,000
Fee Waiver Fund	General Fund	7,000
Federally Qualified Health Center Fund	Special Revenue Funds:	
	Disproportionate Share Fund	350,000
	Enterprise Funds:	
	Hospital Operating Fund	6,302,410
Neighborhood Housing and Conservation Fund	General Fund	1,250,240
PARD-Cultural Projects Fund	Special Revenue Funds:	
	Hotel-Motel Occupancy Tax Fund	2,799,655
Planning, Environmental & Conservation Fund	General Fund	2,141,303
Public Improvement District	Enterprise Funds:	
	Water and Wastewater Fund	50,000
	Convention Center Fund	50,000
Strategic Planning Investment Fund	General Fund	1,100,000
Tourism and Promotion Fund	General Fund	125,382
	Special Revenue Funds:	
	Hotel-Motel Occupancy Tax Fund	4,199,494
Voluntary Utility Assistance Fund	General Fund	160,000
		<u>19,904,286</u>
<b>Debt Service Funds:</b>		
General Obligation Debt Service Fund	Special Revenue Funds:	
	Balcones Canyonlands	
	Conservation Plan Fund	26,394
	Federally Qualified Health Center Fund	104,594
	One Texas Center Fund	1,965,725
	Capital Project Funds:	
	Interest Income Fund	840,000
HUD Section 108 Fund	Special Revenue Funds:	
	Neighborhood Housing and	
	Conservation Fund	187,764
		<u>\$ 3,124,477</u>

(continued)

16 -- INTERFUND TRANSFERS, continued

Operating Transfers In	Operating Transfers Out	Amount
<b>Capital Projects Funds</b>	General Fund	\$ 20,350,709
	Special Revenue Funds: Disproportionate Share Fund	1,614,280
	Police Federal Seized Money Fund	650,000
	Capital Project Funds: Neighborhood Park and Recreation	433,000
	Fire/EMS/NW Austin MUD #1	2,379,273
	Interest Income Fund	7,315,000
	Internal Service Funds: Fleet Maintenance Fund	65,000
		<u>32,807,262</u>
<b>Enterprise Funds:</b>		
Electric Fund	General Fund	65,817
Solid Waste Fund	General Fund	350,100
	Special Revenue Funds: Environmental Remediation Fund	75,000
Convention Center Fund	Special Revenue Funds: Hotel-Motel Occupancy Tax Fund	17,612,964
Drainage Fund	General Fund	298,504
	Capital Project Funds: Fire/EMS/NW Austin MUD #1	470,000
		<u>18,872,385</u>
<b>Total Operating Transfers</b>		<u>\$ 148,912,890</u>

b – Residual Equity Transfers

Certain accounts relating to residual equity transfers have been restated to conform to generally accepted accounting principles.

	Residual Equity Transfers In	Residual Equity Transfers Out
<b>Governmental funds</b>		
Special Revenue Funds:		
Other Special Revenue Funds:		
Planning, Environmental and Conservation Services	\$ 946,568	--
<b>Proprietary funds</b>		
Enterprise Funds:		
Electric Fund	2,730,138	--
Performance Contracting Fund	--	3,676,706
	<u>\$ 3,676,706</u>	<u>3,676,706</u>

17 -- SEGMENT INFORMATION

a -- Enterprise Fund Activities

The City maintains eleven enterprise funds, which provide electric, water and wastewater, health care, solid waste services, airport, convention, drainage, transportation services, performance contracting, golf, and parks and recreation activities. Segment information for the year ended September 30, 1999, is as follows (in thousands of dollars):

	Electric Fund	Water & Wastewater Fund	Hospital Fund	Solid Waste Services Fund	Airport Fund	Convention Center Fund	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	\$ 682,088	214,043	17,943	35,228	54,580	9,428	49,214	1,062,524
Depreciation and amortization expense	79,048	46,231	2,094	2,934	17,231	2,668	2,531	152,737
Operating income (loss)	260,834	81,225	13,970	5,714	9,818	(5,362)	4,224	370,423
Operating transfers in	66	--	--	425	--	17,613	768	18,872
Operating transfers out	(57,991)	(16,339)	(6,302)	(75)	--	(50)	(476)	(81,233)
Net income (loss)	115,987	33,950	8,910	5,746	9,917	7,265	5,182	186,957
Current assets	201,613	55,107	25,394	12,848	3,287	7,355	10,588	316,192
Current liabilities	54,770	19,559	672	4,528	3,856	771	4,306	88,462
Net working capital surplus	146,843	35,548	24,722	8,320	(569)	6,584	6,282	227,730
Property, plant and equipment:								
Additions	90,557	171,558	--	3,687	148,684	5,774	8,470	428,730
Retirements	(11,509)	(6,476)	--	(387)	(36)	(624)	(38)	(19,070)
Transfers from (to) other funds	153	--	--	--	--	--	(153)	--
Net property, plant and equipment	1,720,890	1,479,846	45,645	26,966	602,213	97,469	48,796	4,021,825
Total assets	2,881,632	1,941,145	78,539	56,412	735,784	255,444	87,054	6,036,010
Bond, restricted, and other long-term liabilities	1,950,306	1,205,498	--	25,458	448,858	208,389	12,032	3,850,541
Current capital contributions	4,843	35,858	--	5	29,414	2	5,481	75,603
Total equity	876,555	716,087	77,867	26,426	283,070	46,284	70,718	2,097,007

**17 -- SEGMENT INFORMATION, continued**

**b -- Proprietary Fund Contributed Capital**

The following table summarizes activity in contributed capital for the year ended September 30, 1999:

	Balance September 30, 1998	Contribution Type				Depreciation Taken	Balance September 30, 1999
		(To) From Municipality	From Donors	From Other Governments	In Aid of Construction		
<b>Enterprise Funds:</b>							
Electric Fund	\$ 64,156,353	2,730,138	--	407,178	1,705,850	(3,172,155)	65,827,364
Water and Wastewater Fund	309,267,139	(681,779)	--	--	36,540,039	(12,208,049)	332,917,350
Hospital Fund	12,615,015	--	--	--	--	--	12,615,015
Solid Waste Services Fund	1,367,679	4,554	--	--	--	--	1,372,233
Airport Fund	116,795,723	722	--	23,120,401	6,292,920	(2,838,691)	143,371,075
Convention Center Fund	21,734,751	2,441	--	--	--	(65,494)	21,671,698
Drainage Fund	23,203,147	1,904,651	--	--	3,594,891	--	28,702,689
Transportation Fund	331,206	--	--	--	--	--	331,206
Golf Fund	867,779	(19,099)	--	--	--	--	848,680
Parks and Recreation Fund	1,069,976	--	--	--	--	--	1,069,976
<b>Internal Service Funds:</b>							
Fleet Maintenance Fund	13,492,253	7,200,000	--	--	--	--	20,692,253
Support Services Fund	7,323,252	(426,708)	--	--	--	--	6,896,544
Employee Benefits Fund	9,244,036	--	--	--	--	--	9,244,036
Workers' Compensation Fund	2,443,283	--	--	--	--	--	2,443,283
Radio Communication Fund	56,255	--	--	--	--	--	56,255
Infrastructure Support Services Fund	343,005	--	--	--	--	--	343,005
Capital Projects Management Fund	28,300	--	--	--	--	--	28,300
<b>Total</b>	<b>\$ 584,339,152</b>	<b>10,714,920</b>	<b>--</b>	<b>23,527,579</b>	<b>48,133,700</b>	<b>(18,284,389)</b>	<b>648,430,962</b>

**18 -- JOINT OPERATIONS**

The City has entered into several participating agreements on joint projects. As required by generally accepted accounting principles, such joint operations have been evaluated to determine if they fall within the definition of the reporting entity. The following joint operations meet the criteria of an undivided interest as defined in GASB Statement 14 and, accordingly, the City's share of assets, liabilities, and expenses is included in the City's financial statements.

**a -- Fayette Power Project**

The Fayette Power Project (the "Project", Units I and II) is jointly owned by the City and the Lower Colorado River Authority (LCRA, Project Manager) -- each participant has an undivided interest in the Project. The Project is a joint operation of two coal-fired electric power generation units with a net capacity of 1,140 megawatts. Each participant's actual equity in the Project may vary from 50% depending on the percentage of kilowatt hours produced by the Project and used by each.

The Project is governed by a management committee whose four members are administratively appointed, two each, by the participants. As managing partner, LCRA is responsible for the operation of the Project and appoints the Project's management. However, the City has the ability to influence significantly the operation of the Project through approval of major contracts and new major expenditures by its appointees to the management committee. Each participant issued its own debt to finance its share of construction costs. The City's portion is financed through revenue bonds to be repaid by the Electric Fund. In addition, each participant has the obligation to finance its portion of any deficits that may occur.

**18 -- JOINT OPERATIONS, continued**

The following is a summary of financial information taken from the Project's audited financial statements, dated June 30, 1999, and 1998, the Project's fiscal year end (in thousands of dollars). These statements include Unit III, which is 100% owned by LCRA. These statements were not examined by the City's auditors.

	June 30, 1999			June 30, 1998		
	Total	COA	LCRA	Total	COA	LCRA
Assets	\$ 66,531	29,450	37,081	65,208	29,996	35,212
Liabilities	15,573	5,700	9,873	11,394	4,265	7,129
Equity	50,958	23,750	27,208	53,814	25,731	28,083
Revenues	1,385	309	1,076	2,580	620	1,960
Expenses	144,400	49,418	94,982	130,950	40,381	90,569
Net expenses incurred	\$ 143,015	49,109	93,906	128,370	39,761	88,609

Financial reports that include financial statements and supplementary information for the Fayette Power Project are publicly available at the LCRA, 3700 Lake Austin Blvd., Austin, TX 78703. Their telephone number is (512) 473-3200.

**b -- South Texas Project**

The South Texas Project (STP) was formed for the purpose of licensing, constructing and operating two 1,250 megawatt nuclear generating units. The City was admitted to the STP in December 1973, with a 16% ownership in generating units and common facilities. The City is a tenant-in-common with Houston Lighting and Power Company (HL&P), City Public Service of San Antonio (CPS), and Central Power and Light Company (CP&L).

On October 1, 1997 the STP Nuclear Operating Company (OPCO) was formed by the owners of STP and replaced HL&P as the project manager. OPCO is a separate entity formed to manage STP. Each participant appoints one member to the board of directors of OPCO. There is also an owner's committee, and each participant appoints one member to the owner's committee. A member of the owner's committee may serve on the board of directors in the absence of a board member. OPCO, serving as project manager, is responsible for the operation and maintenance of the project as well as capital improvements. Each participant is responsible for its debt related to STP. The City's portion is financed through revenue bonds or commercial paper, which are repaid by the Electric Fund (see Note 12). In addition, each participant has the obligation to finance any deficits that may occur.

The City's portion of Units 1 and 2 of the South Texas Project is classified as plant in service. Nuclear fuel includes fuel in the reactor as well as nuclear fuel in process.

The following is a summary of financial information taken from the South Texas Project's audited financial statements dated December 31, 1998 (in thousands of dollars). These statements were not examined by the City's auditors.

	HL&P	CPS	CP&L	Austin	Total
Operations	\$ 88,525	80,430	72,429	45,987	287,371
Spent fuel	6,155	5,570	4,919	3,157	19,801
Total 1998 funding	\$ 94,680	86,000	77,348	49,144	307,172

Financial reports that include financial statements and supplementary information for the STP are publicly available at the STP Nuclear Operating Company, P.O. Box 289, Wadsworth, TX 77483. Their telephone number is (361) 972-7067.

**18 -- JOINT OPERATIONS, continued**

**c -- South Texas Project Decommissioning**

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant operating license submit information to the NRC indicating the minimum amount of funds that will be required to decommission the plant while demonstrating reasonable assurance that sufficient funds are being accumulated to provide the minimum amount at the time the plant is decommissioned. This minimum amount must be adjusted annually in accordance with an adjustment factor as required by the NRC. At September 30, 1999 and 1998, the City had funded its share of the estimated decommissioning liability as follows:

	<u>1999</u>	<u>1998</u>
Estimated cost to decommission STP	\$190,572,684	\$181,205,588
Restricted decommissioning fund assets	53,655,752	49,332,878

The City of Austin and other STP participants have provided the required information to the NRC, and the City of Austin has established an external irrevocable trust for decommissioning and has been collecting through its rates since 1989 sufficient amounts to provide for its share of the estimated decommissioning costs. For fiscal years 1999 and 1998, the City collected \$4,958,221 in each year for decommissioning expenses.

**d -- Municipal Utility Districts**

The City has certain contractual commitments with several municipal utility districts (MUDs) for the construction of additions and improvements to the City's water and wastewater system that serves the MUDs and surrounding areas. These additions and improvements are funded by the issuance of City contract revenue bonds, whose principal and interest are payable primarily from the net revenues of the Water and Wastewater Fund.

The City reports the bond proceeds as "investment in municipal utility districts" on the balance sheet of the Water and Wastewater Fund. As facilities funded by the contract revenue bonds are completed, the City's investment in municipal utility districts is reduced and plant in service is increased. The City records the contract revenue bonds as a liability on the balance sheet of the Water and Wastewater Fund.

**e -- Brushy Creek**

The City, the Lower Colorado River Authority (LCRA), and the Brazos River Authority (BRA) are joint owners of the Brushy Creek Regional Wastewater System. This facility serves the upper Brushy Creek watershed in Williamson County. The Brazos River Authority operates the system. During fiscal year 1998, the LCRA and BRA purchased a portion of Austin's share relating to the area now included in the City of Cedar Park's extra-territorial jurisdiction.

**f -- Rivercrest Water Supply Corporation**

Upon annexation, in December 1997, of Davenport Ranch Municipal Utility District ("Davenport MUD"), the City assumed a cost sharing agreement with Davenport MUD, Davenport Limited, Rivercrest Water Supply Corporation and Loop 360 Water Supply Corporation. The agreement allocates the costs, based on capacity allocations, of operating a private water treatment facility servicing the Davenport MUD and the other participants' service areas. ST Environmental is under contract to operate the water treatment facility. The participants in the cost sharing agreement continue to pay their contractual share of the operations and maintenance costs of the facility, with the City of Austin now responsible for the Davenport MUD portion of these costs. The City may amend this arrangement in the future to provide for facility improvements that will allow the customers to be served by the City's system.

Former Davenport MUD customers are now billed by the City of Austin as inside City retail water customers. The other entities continue to bill the individual customers served by the facility who were not residents of the former MUD.

**19 -- ANNEXED DISTRICTS**

Municipal Utility Districts ("MUD") are taxing and financing authorities organized under the laws of the State of Texas to provide water, drainage and sewer services to residents not serviced by the City. The assets and liabilities of districts annexed are recorded as follows:

- (1) Fixed assets, at cost, net of accumulated depreciation, constructed for water and sewer operations are recorded in the Water and Wastewater Fund, and fixed assets, at cost, net of accumulated depreciation, constructed for drainage operations are recorded in the Drainage Fund.
- (2) Funds available for future construction of water and sewer facilities are recorded in the Water and Wastewater Fund with corresponding contributed capital recorded within that fund.
- (3) The annexed districts' long-term debt is assumed by the City upon dissolution of the districts and is treated as tax obligation bonded debt of the City. The assumed debt, net of premium/discount, issued to acquire the water and sewer facilities and issuance costs is recorded in the Water and Wastewater Fund, and the assumed debt issued to acquire the drainage facilities is recorded in the General Long-Term Debt Account Group.
- (4) Debt service requirements on the assumed districts' tax obligation debt are provided by the City's ad valorem tax levy and by revenues from the Water and Wastewater Fund.
- (5) Upon completion of construction, any remaining funds are restricted to the payment of debt service of the annexed districts that provided the funds.

During fiscal year 1999, the City annexed three utility districts which included Austin MUD No. 1, 2, and 3. Contributions of net assets or liabilities were recorded in the following funds and account groups (in thousands of dollars):

	<u>Assets</u>	<u>Liabilities</u>
General Fund	\$ 1,145	\$ --
Capital Project Funds	150	--
Water and Wastewater Fund	1,338	1,118
Drainage Fund	583	--
General Long-Term Debt Account Group	--	717

**20 -- LITIGATION**

**a -- Water and Wastewater Litigation**

The City is involved in a number of lawsuits involving the operation of its water and wastewater system. Some of the cases involve failure to provide sewer service on a timely basis; some small lawsuits involve various property claims. The City believes these suits will not have a material effect on these financial statements.

**b -- Other Litigation**

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 effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 1999. These liabilities include amounts for lawsuits settled subsequent to year end.

**21 -- COMMITMENTS AND CONTINGENCIES**

**a -- Certificates of Participation**

The City has entered into several capital lease arrangements through the issuance of Certificates of Participation as follows:

- \$23,060,000 Certificates of Participation, City of Austin, Texas Electric Utility Office Project, Series 1987;
- \$14,000,000 Certificates of Participation, City of Austin, Texas Water and Wastewater Utility Office Project, Series 1987;

The certificates represent proportionate interests in lease payments to be made by the City to a third-party lessor. The City has title to the office projects, pursuant to general warranty deeds; however, the trustee maintains a vendor's lien and superior title to the properties until all sums due are paid in full.

The City's obligations under the lease agreements are subject to and dependent upon annual appropriations by the City Council and do not obligate the City to levy or pledge any form of taxation. Thus the certificates are treated as capital lease obligations rather than long-term bonds and are recorded as a liability in the funds.

The following table presents information regarding these certificates:

	<b>Electric Fund Office Project (1)</b>	<b>Water and Wastewater Fund Office Project (1)</b>
Date issued	February 1987	August 1987
Amount issued	23,060,000	14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and September 15	May 15 and November 15
Maturity dates	September 15 1988 - 2007	November 15 1989 - 2007
Present value of lease payments	12,650,000	8,950,000
Reserve fund (2)	2,000,000	1,250,000

(1) Subject to mandatory redemption upon the occurrence of certain events.

(2) Held by trustee, to be used to make final payments.

**b -- Federal and State Financial Assistance Programs**

The City participates in a number of federal and state financial assistance programs. The programs are subject to audit by the granting agencies to determine if activities comply with conditions of the grant. Management believes that no material liability will arise from any such audits.

**c -- Arbitrage Rebate Payable**

The City's financial advisor has determined that the City may have earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations, which may have to be rebated to the Federal government. Estimated amounts payable at September 30, 1999, as arbitrage rebates are \$584,100 for the enterprise funds and \$1,384,000 for the capital projects funds which are recorded as liabilities of these funds.

**21 -- COMMITMENTS AND CONTINGENCIES, continued**

**d -- Capital Improvement Plan**

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* that is an anticipated spending plan for projects in the upcoming year (a *Capital Budget*) as well as for future years. The City's 2000 Capital Budget includes new appropriations of \$329,335,967 for the City's enterprise funds and \$131,709,506 for general government projects and appropriation reductions of \$647,110 for the enterprise funds and \$51,036 for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

**e -- Operating lease with Daughters of Charity Health Services of Austin**

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin ("Seton"). Under the terms of the lease, Seton will operate City-owned Brackenridge Hospital and will provide all necessary medical services for all residents of Austin regardless of their ability to pay. The City will fund these services through payments to Seton for three programs. Under the Charity Care Program, the City will reimburse Seton up to a maximum of \$5.6 million annually for providing care to the medically indigent; provided, however, that Seton must first satisfy its requirement under State law to provide charity care in the amount of 4% of net revenues. Under the Medical Assistance Program, the City will pay Seton a maximum of approximately \$6.0 million annually (adjusted annually for inflation for the next one year) for providing services to patients enrolled in the City's Medical Assistance Program. Under the Physician Services Program, the City will pay Seton approximately \$5.1 million annually (adjusted annually for each of the next six years) for providing physician services to patients in the first two programs.

**f -- Landfill Closure and Postclosure Liability**

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports in the Solid Waste Services Fund a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The \$6,467,381 reported as accrued landfill closure and postclosure costs at September 30, 1999, represents the cumulative amount reported to date based on the use of 76.6 percent of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of \$1,975,675 as the remaining estimated capacity is filled over the next twelve years. The total estimated costs of \$8,443,056 include costs of closure in 2010 of \$2,189,211 and postclosure costs over the subsequent thirty years of \$6,253,844. These amounts are based on what it would cost to perform all closure and postclosure care in 1999. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

State and federal laws to demonstrate financial assurance for closure, postclosure, and/or corrective action became effective in April 1997. The City complies with the financial and public notice components of the local government financial test and government-guarantee of the test.

**g -- Risk-Related Contingencies**

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

<u>Fund name</u>	<u>Description</u>
Employee Benefits	Approximately 24% of City employees use one of three HMOs; approximately 76% use the City's program, which is self-insured. In addition, retirees may choose from three HMOs, one Medicare Risk Program and a PPO. Premiums are charged to other City funds through a charge per employee per pay period.
Liability Reserve	Self-insured. Includes losses and claims related to liability for bodily injury, property damage, professional liability, and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	Self-insured. Premiums are charged to other City funds each year based on historical costs.

**21 -- COMMITMENTS AND CONTINGENCIES, continued**

The City purchases stop loss insurance for the City's self-funded Medical Plan. This stop loss insurance covers individual claims that exceed \$150,000 per calendar year, up to a maximum of \$1 million. During fiscal year 1999, six claims exceeded the stop loss limit of \$150,000; one claim exceeded the stop loss limit in fiscal year 1998; and two exceeded the limit in fiscal year 1997. City coverage is limited to \$1 million in lifetime benefits. The City does not purchase stop loss insurance for workers' compensation claims.

The City purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bond, and airport operations. The City also purchases a broad range of insurance coverage through the Rolling Owner Controlled Insurance Program (ROCIP). The program provides auto and commercial general liability coverage for the City and for contractors working at selected capital improvement sites; it also provides workers' compensation, employers' liability, and excess liability for contractors at these sites. The City purchases excess liability coverage for the Electric Fund. The City also purchases medical malpractice insurance coverage for physicians in the City's Health and Human Services Department clinics. None of the policies had claims settlements in excess of insurance coverage. The City does not participate in a risk pool. There are no significant reductions in insurance coverage in fiscal year 1999.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities for the Employee Benefits Fund are calculated considering recent claim settlement trends; liabilities for the Liability Reserve Fund and Workers' Compensation Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 1999. The possible range of loss is \$19.7 - \$36.1 million. The City contributes amounts to an internal service fund based on an estimate of the cost of claims expected to be incurred each year.

Changes in the balances of claims liability are as follows:

	<b>Employee Benefits</b>	<b>Liability Reserve</b>	<b>Workers' Compensation</b>
September 30, 1997 liability balances	\$2,903,000	15,460,136	5,183,000
Claims and changes in estimates	1,778,000	793,878	1,269,228
Claims payments	2,143,000	2,980,987	2,562,228
September 30, 1998 liability balances	2,538,000	13,273,027	3,890,000
Claims and changes in estimates	2,584,000	3,237,183	2,307,899
Claims payments	2,101,000	4,012,883	2,043,899
September 30, 1999 liability balances	\$3,021,000	12,497,327	4,154,000

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of \$6,766,000 discounted at 5.85% in 1999 and \$5,305,000 discounted at 5.06% in 1998.

**h -- Developer Reimbursement Claims**

The City is in the process of reviewing claims made by the developers of the MUDs annexed in December 1998 and 1999 (see Note 19). These claims are for reimbursement of costs incurred to construct water and wastewater facilities and related infrastructure, and are subject to verification from the engineering and accounting consultants performing the technical reviews. The City estimates the actual liability for developer reimbursement claims is between \$19.5 and 29.3 million.

**i -- Environmental Remediation Contingencies**

The Electric Fund may incur potential costs related to environmental remediation of certain sites including the Seaholm Power Plant, and has recorded a liability of \$4,302,000 in 1999. Additional potential liabilities for remediation range from \$0 to \$3.8 million. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated costs for the remediation of the contaminated sites. The Electric Fund anticipates incurring these costs between 2000 and 2001.

**21 -- COMMITMENTS AND CONTINGENCIES, continued**

In addition, on April 29, 1999, the EPA issued an Administrative Order to the Water and Wastewater Utility concerning wastewater overflow issues. The Administrative Order requires the Utility to conduct studies of its wastewater collection system and to eliminate overflows by December 2007 by making necessary improvements that will require capital investment for the repair and/or rehabilitation of the collection system infrastructure. When the studies are complete, the utility will be able to estimate the cost of the improvements. Currently, the Utility is complying with all requirements of the Administrative Order. On October 29, 1999, the EPA and the Utility executed a Consent Order assessing an administrative penalty of \$21,000 to the Utility for past overflows from its collection system; the penalty was paid following year end.

The Airport Fund may also incur potential costs related to environmental remediation of certain sites, and has recorded in these financial statements an estimated liability of \$4.6 million.

**j -- Other Commitments and Contingencies**

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered for accounting purposes to be operating leases. Lease expense for the year ended September 30, 1999, amounted to \$12,798,853. The City expects these leases to be replaced in the ordinary course of business with similar leases. Future minimum lease payments for these leases should be approximately the same amount.

The City has entered into certain lease agreements, including the certificates of participation, as lessee for financing the purchase of equipment used in the Electric Fund and Water and Wastewater Fund. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following summarizes assets recorded at September 30, 1999, under capital lease obligations:

	<b>Electric Fund</b>	<b>Water &amp; Wastewater Fund</b>	<b>Total</b>
<b>Assets</b>			
Building	\$ 20,198,960	12,750,000	32,948,960
Total assets	<u>20,198,960</u>	<u>12,750,000</u>	<u>32,948,960</u>
Accumulated depreciation	6,356,840	2,928,502	9,285,342
Net assets	<u>\$ 13,842,120</u>	<u>9,821,498</u>	<u>23,663,618</u>

**21 -- COMMITMENTS AND CONTINGENCIES, continued**

The following is an analysis of the future minimum lease payments under these capital leases and Certificates of Participation and the present value of the net minimum lease payments, as of September 30, 1999:

Fiscal Year Ended September 30	Electric Fund	Water and Wastewater Fund	Total
2000	\$ 2,117,715	1,400,606	3,518,321
2001	2,119,635	1,393,775	3,513,410
2002	2,119,535	1,406,194	3,525,729
2003	2,116,900	1,387,931	3,504,831
2004	2,116,200	1,389,217	3,505,417
Later years	6,338,800	5,515,787	11,854,587
Total minimum lease payments	16,928,785	12,493,510	29,422,295
Less:			
Amount representing interest	4,278,785	3,543,510	7,822,295
Present value of net minimum lease payments	12,650,000	8,950,000	21,600,000
Current portion	1,240,000	725,000	1,965,000
Long-term portion	\$ 11,410,000	8,225,000	19,635,000

The City guarantees certain energy improvement loans made by a bank. The maximum contingent liability of the RMD Loan Fund, a special revenue fund, is \$6.2 million, which City management does not anticipate having to fulfill.

The City has entered into an agreement with the Federal Aviation Administration for the disposition of Robert Mueller Municipal Airport, including a provision for continued use of the City golf course and the associated land which was acquired with Federal airport grant assistance. A percent of the appraised market value at the date of the closure of Mueller Airport will be payable over 5 years from City funds to an account to be used for future work at Austin-Bergstrom International Airport (ABIA). As of September 30, 1999, the City has not completed an appraisal of the property.

In conjunction with the opening of Austin-Bergstrom International Airport (ABIA), the City has stopped sending household garbage to the City's landfill site near ABIA 60 days prior to ABIA's opening date. This action complies with the Environmental Protection Agency requirements. The landfill site will continue to accept nonbird attracting waste. The FAA has agreed to this approach. With the closing of the City landfill for household garbage, the City has entered into two short-term contracts for household waste disposal. A long-term contract for disposal services is under negotiation.

**22 -- OTHER POST-EMPLOYMENT BENEFITS**

In addition to making contributions to the three pension systems, the City provided certain other post-employment benefits to its retirees. Other post-employment benefits include access to medical and dental insurance for the retiree and the retiree's family and \$1,000 of life insurance on the retiree only.

All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical and dental plan(s) in which they participate. Eligible dependents of the retiree include a legally married spouse, unmarried children under age 19 (under age 24 if an eligible student) who are dependent upon the retiree for support including natural children, stepchildren, legally adopted children, children for whom the retiree has obtained court-ordered guardianship/conservatorship, qualified children placed pending adoption, and grandchildren who qualify as a dependent on the retiree's or retiree's spouse's federal income tax return, and eligible disabled children. A surviving spouse of a deceased retiree may continue medical coverage until the date the surviving spouse remarries. A surviving spouse of a deceased retiree may continue dental coverage for 36 months by paying the entire premium plus a two-percent administrative fee. Other surviving dependents of a deceased retiree may continue medical and dental coverage for 36 months by paying the entire premium plus a two-percent administrative fee.

**22 -- OTHER POST-EMPLOYMENT BENEFITS, continued**

The City is under no obligation, statutory or otherwise, to offer other post-employment benefits or to pay any portion of the cost of other post-employment benefits to any retirees. Allocation of City funds to pay other post-employment benefits or to make other post-employment benefits available is determined on an annual basis by the City Council as part of the budget process.

The City pays a portion of the retiree's medical insurance premium and a portion of the retiree's dependents' medical insurance premium. The portion paid by the City varies according to age, coverage selection, and years of service. The percentage of the medical insurance premium paid by the City ranges as follows:

<u>Years of Service</u>	<u>Retiree only</u>	<u>Dependent only</u>
Less than 5 years	8% - 20%	5% - 9%
5 to 10 years	12% - 30%	8% - 14%
10 to 15 years	20% - 50%	14% - 23%
15 to 20 years	29% - 70%	19% - 33%
Greater than 20 years	41% - 100%	27% - 47%

The City pays 100% of the retiree's life insurance premium. Group dental coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental premium.

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits Fund. The cost of providing these 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 and cannot be reasonably estimated. Total payments to the Employee Benefits Fund for retirees and active employees were \$27,394,366 in 1999 and \$24,600,422 in 1998.

As more fully described in Note 18, the City is a participant in the South Texas Project Nuclear Operating Company (OPCO) and as such is liable for certain post-employment benefits for OPCO employees. At December 31, 1998, the City's portion of this obligation, \$3,175,893, is not reflected in the financial statements of the Electric Fund.

**23 -- SUBSEQUENT EVENTS**

**a -- General Obligation Bonds Issuance**

In October 1999, the City issued Public Improvement Bonds, Series 1999, in the amount of \$51,100,000. Of the proceeds from the issue, \$3,950,000 will be used for land acquisition and libraries, \$1,800,000 will be used for the Mexican American Cultural Center, \$1,000,000 will be used for health, safety and welfare renovations, \$17,570,000 will be used for erosion and flood control, \$890,000 will be used by various departments for radio trunking, \$5,230,000 will be used for street improvements, \$11,735,000 will be used for park and recreation facilities, and \$8,925,000 will be used for emergency centers. These bonds will be amortized serially on September 1 of each year from 2000 to 2019. Certain of these bonds are callable beginning September 1, 2009. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2000. Total interest requirements for these bonds, at rates ranging from 4.13% to 5.75%, are \$43,494,650.

**b -- Public Property Finance Contractual Obligations Issuance**

In October 1999, the City issued Public Property Finance Contractual Obligations, Series 1999, in the amount of \$10,335,000. Of the proceeds from the issue, \$7,925,000 will be used by various departments for radio trunking, and \$2,410,000 will be used by the Water and Wastewater Department for capital equipment. These contractual obligations will be amortized serially May 1 and November 1 of each year from 2000 to 2006. The contractual obligations are not subject to optional redemption prior to their maturity. Interest is payable on May 1 and November 1 of each year, commencing May 1, 2000. Total interest requirements for these contractual obligations, at rates ranging from 4.5% to 4.75%, aggregate \$1,996,383.

**23 -- SUBSEQUENT EVENTS, continued**

**c -- Certificates of Obligation Issuance**

In October 1999, the City issued Certificates of Obligation, Series 1999, in the amount of \$5,590,000. Of the proceeds from the issue, \$2,400,000 will be used by the Public Works and Transportation Department for road improvements, \$2,080,000 will be used by the Solid Waste Department for construction and improvement of solid waste disposal facilities, and \$1,110,000 will be used by the Parks and Recreation Department for golf course improvements. These certificates of obligation will be amortized serially September 1 of each year from 2000 to 2019. Certain of these obligations are callable beginning September 1, 2009. Interest is payable on March 1 and September 1 of each year, commencing March 1, 2000. Total interest requirements for these obligations, at rates ranging from 5.0% to 6.0%, aggregate \$3,697,233.

**d -- Venue Project Bonds**

In November 1999, the City issued the Town Lake Community Events Center Venue Project Bonds, Series 1999, in the amount of \$40,000,000. The proceeds from this issue will be used to construct the Town Lake Community Events Center and a parking facility. The debt is secured and payable from the levy of the Special Motor Vehicle Rental Tax, a 5% tax on the gross rental receipts on short-term motor vehicle rentals within the City. The debt is also secured and payable from revenues derived from the Parking Facility and Events Center. Interest is payable on May 15 and November 15 of each year, commencing May 15, 2000. Total interest requirements for this obligation, at rates ranging from 5.3% to 6.75%, aggregate \$49,886,912.

**e -- Conduit Debt**

In November 1999, the City issued two series of housing revenue bonds through the Austin Housing Finance Corporation to provide for a loan to a borrower for the acquisition, renovation and equipping of two multi-family housing projects. The principal amounts of the bond issues were \$9.39 million and \$270,000. The bonds and interest are special limited obligations of the City, payable solely from revenues and receipts under the loan agreement. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**f -- Contract for Downtown Development**

In February 2000, the City and Computer Sciences Corporation (CSC) formally signed a contract to enter into a long-term lease agreement. The City will lease three downtown blocks to CSC for 99 years, and CSC will build three multi-story office buildings with retail space, as well as a parking garage. The City will also build a new City Hall and public plaza in the area. The City Hall and public plaza are expected to be completed in 2003. This lease is an element of the City's long-term Smart Growth initiative that focuses on development of the central city area.

**g -- LCRA Water Rights Agreement**

On October 7, 1999, the City and Lower Colorado River Authority (LCRA) signed a historic fifty-year assured water supply agreement. The agreement, with an option to extend another fifty years, is vital for the City's future. The \$100 million contract reserves an additional 75,000 acre-feet of water for Austin and allows the City to take water from the Highland Lakes, rather than relying exclusively on available river water. The agreement was signed after the City held public hearings at City Council meetings and throughout the City during 1999.

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**ENTERPRISE FUNDS**  
**COMBINING BALANCE SHEET**  
**September 30, 1999**  
**With comparative totals for September 30, 1998**

	Electric	Water and Wastewater	Hospital	Solid Waste Services	Airport
<b>ASSETS</b>					
Current assets:					
Cash	\$ 16,500	10,450	--	2,100	6,750
Pooled investments and cash	45,208,827	34,611,568	24,971,787	9,860,194	2,508,955
Working capital advances	3,002,411	--	--	--	--
Accounts receivable	95,648,216	21,513,057	4,353,786	3,363,195	853,687
Less allowance for doubtful accounts	(2,806,692)	(1,807,060)	(3,931,449)	(377,092)	(150,000)
Net accounts receivable	92,841,524	19,705,997	422,337	2,986,103	703,687
Receivable from other governments	--	--	--	--	--
Due from other funds	--	--	--	--	45,988
Inventories, at cost	48,950,644	778,490	--	--	--
Prepaid expenses and other assets	11,593,520	--	--	--	21,200
<b>Total current assets</b>	<b>201,613,426</b>	<b>55,106,505</b>	<b>25,394,124</b>	<b>12,848,397</b>	<b>3,286,580</b>
Restricted assets:					
Revenue bond current debt service account	73,651,762	27,626,573	--	--	9,417,530
Revenue bond future debt service account	205,440,280	--	--	--	--
Revenue bond retirement reserve account	109,626,246	50,907,906	--	--	--
Tax and revenue bond debt service account	--	--	--	--	--
Construction account	65,387,672	83,872,232	--	16,445,531	78,658,648
Construction account due from other funds	155,692	228,732	--	--	--
Construction account advances to other funds	155,692	497,454	--	--	--
Decommissioning account	53,655,752	--	--	--	--
Capital improvement account	--	--	--	--	14,950,917
Operating reserve account	--	--	--	--	6,752,050
Hotel occupancy tax account	--	--	--	--	--
Renewal and replacement account	--	--	--	--	10,000,000
Investments and cash held by trustee	2,005,709	20,152,198	2,500,000	--	--
Nuclear fuel inventory acquisition account	31,366,762	--	--	--	--
Mueller disposition account	--	--	--	--	22,507
Customer and escrow deposits	2,586,517	8,040,947	5,000,000	114,076	137,794
Other restricted accounts	--	--	--	--	7,734,879
<b>Total restricted assets</b>	<b>544,032,084</b>	<b>191,326,042</b>	<b>7,500,000</b>	<b>16,559,607</b>	<b>127,674,325</b>
Fixed assets, at cost:					
Property, plant and equipment in service	2,587,834,948	1,855,347,052	74,786,858	39,918,424	639,217,178
Less accumulated depreciation	(972,367,880)	(500,485,803)	(29,141,937)	(22,744,894)	(96,139,122)
Net property, plant and equipment in service	1,615,467,068	1,354,861,249	45,644,921	17,173,530	543,078,056
Construction in progress	52,799,094	124,984,258	--	9,792,468	59,134,813
Nuclear fuel, net of amortization	19,969,499	--	--	--	--
Plant held for future use	32,653,983	--	--	--	--
Net property, plant and equipment	1,720,889,644	1,479,845,507	45,644,921	26,965,998	602,212,869
Investment in municipal utility districts	--	2,431,398	--	--	--
Advances to other funds	--	--	--	--	--
Other long-term assets	1,450,616	--	--	--	--
Deferred costs and expenses, including bond issue cost, net of amortization	413,645,872	212,435,107	--	37,639	2,609,809
<b>Total assets</b>	<b>\$ 2,881,631,642</b>	<b>1,941,144,559</b>	<b>78,539,045</b>	<b>56,411,641</b>	<b>735,783,583</b>

See accompanying independent auditor's report.

**CITY OF AUSTIN, TEXAS**  
**Exhibit F-1**

Convention Center	Drainage	Transportation	Performance Contracting	Golf	Parks and Recreation	Totals	
						1999	1998
2,000	700	800	--	1,300	--	40,600	39,450
7,274,063	1,447,203	4,578,781	--	797,171	954,551	132,213,100	92,277,017
79,007	--	--	--	--	--	3,081,418	3,867,194
--	1,783,967	1,209,624	--	--	400	128,725,932	114,364,726
--	(63,097)	(347,923)	--	--	--	(9,483,313)	(10,512,910)
--	1,720,870	861,701	--	--	400	119,242,619	103,851,816
--	--	--	--	--	--	--	30,234
--	--	--	--	--	--	45,988	1,774,085
--	--	224,395	--	--	--	49,953,529	42,591,663
--	--	--	--	--	--	11,614,720	15,639,212
7,355,070	3,168,773	5,665,677	--	798,471	954,951	316,191,974	260,070,671
4,322,535	--	--	--	--	--	115,018,400	104,832,101
--	--	--	--	--	--	205,440,280	156,547,474
6,878,016	--	--	--	--	--	167,412,168	175,635,855
--	--	--	--	--	--	--	100,265
118,316,788	25,361,784	394,885	--	1,884,124	--	390,321,664	346,167,073
--	--	--	--	--	--	384,424	384,424
--	--	--	--	--	--	653,146	1,037,571
--	--	--	--	--	--	53,655,752	49,332,878
--	--	--	--	--	--	14,950,917	17,706,677
10,757,236	--	--	--	--	--	17,509,286	12,255,351
1,989,916	--	--	--	--	--	1,989,916	1,466,403
1,197,233	--	--	--	--	--	11,197,233	5,842,437
--	--	--	--	--	--	24,657,907	24,745,878
--	--	--	--	--	--	31,366,762	31,424,932
--	--	--	--	--	--	22,507	608,543
--	--	--	--	--	--	15,879,334	14,426,120
3,344,462	--	--	--	--	--	11,079,341	2,360,770
146,806,186	25,361,784	394,885	--	1,884,124	--	1,061,539,037	944,874,752
113,536,810	20,808,823	5,970,882	--	11,897,203	134,589	5,349,452,767	4,675,367,732
(20,647,320)	(3,677,686)	(2,848,089)	--	(2,777,828)	(34,238)	(1,650,864,797)	(1,505,908,171)
92,889,490	17,131,137	3,122,793	--	9,119,375	100,351	3,698,587,970	3,169,459,561
4,579,721	18,615,153	410,115	--	297,655	--	270,613,277	546,257,243
--	--	--	--	--	--	19,969,499	19,911,329
--	--	--	--	--	--	32,653,983	32,653,983
97,469,211	35,746,290	3,532,908	--	9,417,030	100,351	4,021,824,729	3,768,282,116
--	--	--	--	--	--	2,431,398	2,746,428
--	--	--	--	--	--	--	19,101
--	--	--	--	--	--	1,450,616	532,854
3,813,857	4,871	1,912	--	23,396	--	632,572,463	586,384,558
255,444,324	64,281,718	9,595,382	--	12,123,021	1,055,302	6,036,010,217	5,562,910,480

(continued)

**ENTERPRISE FUNDS**  
**COMBINING BALANCE SHEET**  
**September 30, 1999**  
**With comparative totals for September 30, 1998**

	Electric	Water and Wastewater	Hospital	Solid Waste Services	Airport
<b>LIABILITIES AND FUND EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 35,066,208	1,770,978	91,549	872,378	2,198,093
Accrued payroll	4,143,817	2,341,643	14,314	698,954	616,783
Accrued compensated absences	5,534,644	3,327,698	73,336	886,100	546,563
Construction contracts payable	--	109,776	--	--	--
Contract revenue bonds payable	--	6,245,000	--	--	--
Due to other governments	--	--	493,009	--	--
Due to other funds	--	--	--	22,610	2,656
Interest payable on other debt	652,234	3,059,854	--	188,659	153,355
Deferred revenue	--	959,058	--	--	238,935
General obligation bonds payable and other tax supported debt	--	--	--	1,859,689	91,628
Water improvement district bonds payable	--	307,000	--	--	--
Capital lease obligations payable	1,240,001	725,000	--	--	--
Other liabilities	8,133,476	713,361	--	--	7,888
<b>Total current liabilities</b>	<b>54,770,380</b>	<b>19,559,368</b>	<b>672,208</b>	<b>4,528,390</b>	<b>3,855,901</b>
Liabilities payable from restricted assets:					
Accounts and retainage payable	3,960,672	18,595,041	--	31,965	14,676,889
Due to other funds	--	--	--	--	--
Accrued interest payable	38,558,150	17,688,551	--	--	9,057,390
General obligation bonds payable and other tax supported debt	193,131	3,383,106	--	--	--
Revenue bonds payable within one year	78,898,662	17,891,650	--	--	--
Customer deposits	1,083,993	469,831	--	114,076	137,794
Escrow deposits	1,502,524	7,571,116	--	--	--
Decommissioning expense payable	53,655,752	--	--	--	--
Nuclear fuel expense payable	31,366,762	--	--	--	--
Other liabilities	--	--	--	--	11,979,744
<b>Total liabilities payable from restricted assets</b>	<b>\$ 209,219,646</b>	<b>65,599,295</b>	<b>--</b>	<b>146,041</b>	<b>35,851,817</b>

See accompanying independent auditor's report.

**CITY OF AUSTIN, TEXAS**  
**Exhibit F-1**  
**(Continued)**

Convention Center	Drainage	Transportation	Performance Contracting	Golf	Parks and Recreation	Totals	
						1999	1998
184,148	328,034	872,571	--	54,268	81,262	41,519,489	22,947,057
242,831	490,955	344,138	--	91,433	40,179	9,025,047	7,426,027
261,976	672,802	446,816	--	100,560	28,307	11,878,802	11,517,073
--	--	--	--	--	--	109,776	204,041
--	--	--	--	--	--	6,245,000	5,695,000
--	--	--	--	--	--	493,009	1,083,021
--	5,559	--	--	--	--	30,825	573,814
--	20,471	12,259	--	33,412	--	4,120,244	5,579,223
--	--	--	--	--	--	1,197,993	1,141,138
31,995	145,503	158,119	--	377,635	--	2,664,569	2,855,513
--	--	--	--	--	--	307,000	332,000
--	--	--	--	--	--	1,965,001	1,848,919
50,000	--	--	--	--	189	8,904,914	5,695,129
<b>770,950</b>	<b>1,663,324</b>	<b>1,833,903</b>	<b>--</b>	<b>657,308</b>	<b>149,937</b>	<b>88,461,669</b>	<b>66,897,955</b>
621,813	241,339	--	--	217,707	--	38,345,426	39,469,941
--	--	--	--	--	--	--	1,186,132
2,563,952	--	--	--	--	--	67,868,043	59,296,239
--	--	--	--	--	--	3,576,237	4,194,973
2,670,000	--	--	--	--	--	99,460,312	101,808,872
839,427	216,062	--	--	--	--	2,861,183	2,813,177
--	--	--	--	--	--	9,073,640	7,529,017
--	--	--	--	--	--	53,655,752	48,827,308
--	--	--	--	--	--	31,366,762	31,424,932
450,408	--	--	--	--	--	12,430,152	12,690,109
<b>7,145,600</b>	<b>457,401</b>	<b>--</b>	<b>--</b>	<b>217,707</b>	<b>--</b>	<b>318,637,507</b>	<b>309,240,700</b>

(continued)

**ENTERPRISE FUNDS**  
**COMBINING BALANCE SHEET**  
**September 30, 1999**  
**With comparative totals for September 30, 1998**

	Electric	Water and Wastewater	Hospital	Solid Waste Services	Airport
<b>LIABILITIES AND FUND EQUITY, CONTINUED</b>					
Long-term liabilities:					
Accrued compensated absences payable	\$ 3,449,371	1,176,430	--	159,797	504,467
Construction contracts payable	--	2,018,023	--	--	--
Contract revenue bonds payable, net of discount	--	95,149,775	--	--	--
Advances from other funds	--	--	--	22,610	2,656
Capital appreciation bond interest payable	71,976,688	37,798,428	--	--	--
Commercial paper notes payable	187,479,181	145,668,000	--	--	--
Revenue notes payable	--	--	--	--	28,000,000
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	2,535,295	32,892,160	--	18,661,779	1,086,404
Revenue bonds payable, net of discount and inclusive of premium	1,461,980,724	810,307,776	--	--	383,412,507
Water improvement district bonds payable	--	789,000	--	--	--
Capital lease obligations payable	11,409,999	8,225,000	--	--	--
Decommissioning assessment payable	2,255,362	--	--	--	--
Accrued landfill closure and postclosure costs	--	--	--	6,467,381	--
Deferred revenue and other credits	--	5,874,230	--	--	--
Total long-term liabilities	1,741,086,620	1,139,898,822	--	25,311,567	413,006,034
<b>Total liabilities</b>	<b>2,005,076,646</b>	<b>1,225,057,485</b>	<b>672,208</b>	<b>29,985,998</b>	<b>452,713,752</b>
<b>Fund equity</b>					
Contributions from municipality	3,562,708	3,402,808	8,053,972	1,372,233	3,031,549
Contributions from State and Federal governments	670,508	30,809,623	874,135	--	129,307,378
Contributions in aid of construction	61,594,148	298,704,919	--	--	11,032,148
Contributions from the private sector	--	--	3,686,908	--	--
Total contributions	65,827,364	332,917,350	12,615,015	1,372,233	143,371,075
Retained earnings:					
Reserved for renewal and replacement	--	--	--	--	10,000,000
Reserved for passenger facility charge	--	--	--	--	7,734,879
Unreserved	810,727,632	383,169,724	65,251,822	25,053,410	121,963,877
Total retained earnings	810,727,632	383,169,724	65,251,822	25,053,410	139,698,756
<b>Total fund equity</b>	<b>876,554,996</b>	<b>716,087,074</b>	<b>77,866,837</b>	<b>26,425,643</b>	<b>283,069,831</b>
<b>Total liabilities and fund equity</b>	<b>\$ 2,881,631,642</b>	<b>1,941,144,559</b>	<b>78,539,045</b>	<b>56,411,641</b>	<b>735,783,583</b>

See accompanying independent auditor's report.

**CITY OF AUSTIN, TEXAS**  
**Exhibit F-1**  
**(Continued)**

Convention Center	Drainage	Transportation	Performance Contracting	Golf	Parks and Recreation	Totals	
						1999	1998
163,732	260,634	206,036	--	165,937	44,506	6,130,910	5,889,737
--	--	--	--	--	--	2,018,023	2,018,023
--	--	--	--	--	--	95,149,775	101,359,940
--	5,559	--	--	--	--	30,825	61,651
--	--	--	--	--	--	109,775,116	98,328,153
--	--	--	--	--	--	333,147,181	294,412,023
--	--	--	--	--	--	28,000,000	28,000,000
420,007	2,330,131	495,673	--	7,848,330	--	66,269,779	57,293,201
200,660,067	--	--	--	--	--	2,856,361,074	2,707,378,996
--	--	--	--	--	--	789,000	1,076,000
--	--	--	--	--	--	19,634,999	21,599,999
--	--	--	--	--	--	2,255,362	2,791,495
--	--	--	--	--	--	6,467,381	6,224,517
--	--	--	--	--	--	5,874,230	6,833,287
201,243,806	2,596,324	701,709	--	8,014,267	44,506	3,531,903,655	3,333,267,022
209,160,356	4,717,049	2,535,612	--	8,889,282	194,443	3,939,002,831	3,709,405,677
18,989,202	15,188,310	331,206	--	848,680	1,069,976	55,850,644	52,135,175
264,577	--	--	--	--	--	161,926,221	142,919,642
1,929,483	13,514,379	--	--	--	--	386,775,077	352,178,607
488,436	--	--	--	--	--	4,175,344	4,175,344
21,671,698	28,702,689	331,206	--	848,680	1,069,976	608,727,286	551,408,768
808,822	--	--	--	--	--	10,808,822	5,842,437
--	--	--	--	--	--	7,734,879	116,638
23,803,448	30,861,980	6,728,564	--	2,385,059	(209,117)	1,469,736,399	1,296,136,960
24,612,270	30,861,980	6,728,564	--	2,385,059	(209,117)	1,488,280,100	1,302,096,035
46,283,968	59,564,669	7,059,770	--	3,233,739	860,859	2,097,007,386	1,853,504,803
255,444,324	64,281,718	9,595,382	--	12,123,021	1,055,302	6,036,010,217	5,562,910,480

**ENTERPRISE FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**

Year ended September 30, 1999

With comparative totals for year ended September 30, 1998

	Electric	Water and Wastewater	Hospital	Solid Waste Services	Airport
<b>REVENUES</b>					
Utility services	\$ 682,087,588	214,042,787	--	--	--
User fees and rentals	--	--	2,105,271	35,227,846	54,580,165
Operating revenues from other governments	--	--	15,837,556	--	--
Operating revenues	682,087,588	214,042,787	17,942,827	35,227,846	54,580,165
<b>EXPENSES</b>					
Operating expenses before depreciation	342,914,020	87,011,629	1,878,936	26,589,968	27,640,315
Depreciation	78,339,973	45,806,370	2,093,613	2,923,871	17,122,217
Total operating expenses	421,253,993	132,817,999	3,972,549	29,513,839	44,762,532
<b>Operating income (loss) before nonoperating revenues (expenses) and operating transfers</b>	260,833,595	81,224,788	13,970,278	5,714,007	9,817,633
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest and other revenues	21,841,554	8,719,668	1,400,726	926,273	7,950,330
Interest on revenue bonds and other debt	(111,592,169)	(65,735,028)	--	(1,219,773)	(25,566,865)
Interest capitalized during construction	--	--	--	--	18,601,484
Amortization of bond issue cost	(707,751)	(424,979)	--	(9,766)	(108,706)
Other nonoperating expense	(7,968,589)	(1,692,139)	(158,332)	(15,100)	(776,669)
Total nonoperating revenues (expenses)	(98,426,955)	(59,132,478)	1,242,394	(318,366)	99,574
Cost to be recovered in future years	11,505,582	28,196,372	--	--	--
Income (loss) before operating transfers	173,912,222	50,288,682	15,212,672	5,395,641	9,917,207
Operating transfers:					
Operating transfers in	65,817	--	--	425,100	--
Operating transfers out	(57,990,860)	(16,338,620)	(6,302,410)	(75,000)	--
<b>Net income</b>	115,987,179	33,950,062	8,910,262	5,745,741	9,917,207
Add depreciation transferred to contributions	--	--	--	--	2,838,691
Net increase (decrease) in retained earnings	115,987,179	33,950,062	8,910,262	5,745,741	12,755,898
Retained earnings at beginning of year	694,740,453	349,219,662	56,341,560	19,307,669	126,942,858
Residual equity transfers out	--	--	--	--	--
<b>Retained earnings at end of year</b>	<b>\$ 810,727,632</b>	<b>383,169,724</b>	<b>65,251,822</b>	<b>25,053,410</b>	<b>139,698,756</b>

See accompanying independent auditor's report.

**CITY OF AUSTIN, TEXAS**  
**Exhibit F-2**

Convention Center	Drainage	Transportation	Performance Contracting	Golf	Parks and Recreation	Totals	
						1999	1998
--	--	--	--	--	--	896,130,375	870,162,845
9,428,014	20,690,892	15,728,646	4,271,809	5,343,113	3,180,106	150,555,862	126,190,892
--	--	--	--	--	--	15,837,556	9,075,130
9,428,014	20,690,892	15,728,646	4,271,809	5,343,113	3,180,106	1,062,523,793	1,005,428,867
12,206,546	18,005,001	13,936,866	2,984,976	4,470,417	3,062,890	540,701,564	506,792,388
2,583,579	1,348,494	716,226	32,928	424,435	7,851	151,399,557	147,273,030
14,790,125	19,353,495	14,653,092	3,017,904	4,894,852	3,070,741	692,101,121	654,065,418
(5,362,111)	1,337,397	1,075,554	1,253,905	448,261	109,365	370,422,672	351,363,449
2,246,492	881,674	189,777	160,952	90,381	40,373	44,448,200	85,928,009
(6,522,942)	(169,770)	(30,968)	--	(423,213)	--	(211,260,728)	(224,706,381)
--	--	--	--	--	--	18,601,484	10,976,299
(84,027)	--	(376)	--	(1,580)	--	(1,337,185)	(1,085,868)
(575,811)	(12,238)	(32,736)	(9,720)	(12,615)	(5,555)	(11,259,504)	(13,580,840)
(4,936,288)	699,666	125,697	151,232	(347,027)	34,818	(160,807,733)	(142,468,781)
--	--	--	--	--	--	39,701,954	18,774,460
(10,298,399)	2,037,063	1,201,251	1,405,137	101,234	144,183	249,316,893	227,669,128
17,612,964	768,504	--	--	--	--	18,872,385	18,268,624
(50,000)	(475,802)	--	--	--	--	(81,232,692)	(79,976,777)
7,264,565	2,329,765	1,201,251	1,405,137	101,234	144,183	186,956,586	165,960,975
65,494	--	--	--	--	--	2,904,185	6,989,092
7,330,059	2,329,765	1,201,251	1,405,137	101,234	144,183	189,860,771	172,950,067
17,282,211	28,532,215	5,527,313	2,271,569	2,283,825	(353,300)	1,302,096,035	1,129,145,968
--	--	--	(3,676,706)	--	--	(3,676,706)	--
24,612,270	30,861,980	6,728,564	--	2,385,059	(209,117)	1,488,280,100	1,302,096,035

**ENTERPRISE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**Year ended September 30, 1999**  
**With comparative totals for year ended September 30, 1998**

	Electric	Water and Wastewater	Hospital	Solid Waste Services	Airport
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 678,486,149	208,995,029	2,208,371	34,589,577	55,746,316
Cash payments to suppliers for goods and services	(231,132,174)	(40,746,012)	(1,566,875)	(11,830,446)	(13,601,821)
Cash payments to employees for services	(70,471,231)	(43,607,587)	(517,036)	(13,714,689)	(11,168,780)
Cash received from other governments	--	--	15,065,464	--	--
Taxes collected and remitted to other governments	(15,493,225)	--	--	--	--
<b>Net cash provided (used) by operating activities</b>	<b>361,389,519</b>	<b>124,641,430</b>	<b>15,189,924</b>	<b>9,044,442</b>	<b>30,975,715</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Operating transfers in	65,817	--	--	425,100	--
Operating transfers out	(57,990,860)	(16,338,620)	(6,302,410)	(75,000)	--
Residual equity transfer out	--	--	--	--	--
Interest paid on revenue notes and other debt	(175,410)	(27,472)	--	(11,944)	--
Decrease in deferred assets	1,471,681	--	--	--	--
Contributions from private sector	--	--	--	--	--
Loans to other funds	--	--	--	--	--
Loans from other funds	--	--	--	--	--
Loan repayments (to) from other funds	--	(444,049)	--	--	48,797
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(56,628,772)</b>	<b>(16,810,141)</b>	<b>(6,302,410)</b>	<b>338,156</b>	<b>48,797</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from the sale of commercial paper notes	28,681,158	110,054,000	--	--	--
Proceeds from the sale of general obligation bonds and other tax supported debt	1,151,051	4,264,100	--	5,397,824	202,884
Proceeds from the sale of revenue notes	--	10,000,000	--	--	--
Proceeds from sale of revenue bonds	--	--	--	--	--
Principal paid on long-term debt	(84,962,221)	(26,437,245)	--	(3,164,916)	(93,814)
Proceeds from the sale of fixed assets	2,550	--	--	--	--
Purchased interest received	618,547	620,670	--	--	--
Interest paid on revenue bonds and other debt	(98,364,212)	(55,113,721)	--	(1,234,668)	(25,072,366)
Acquisition and construction of capital assets	(82,297,441)	(141,940,820)	--	(3,964,672)	(133,544,973)
Contributions from municipality	--	--	--	--	722
Contributions from State and Federal governments	--	--	--	--	22,621,652
Contributions in aid of construction	4,753,992	15,450,176	--	--	6,292,920
Bond discounts, premiums, and issuance costs	7,434,568	(2,696,201)	--	(16,932)	(637)
Cash paid for bond defeasance	--	(16,964,085)	--	--	--
Bonds issued for advanced refundings of debt	103,952,013	141,362,499	--	--	--
Cash paid for bond refunding escrow	(114,311,441)	(139,814,054)	--	--	--
Proceeds from municipal utility district reserves	--	--	--	--	--
Cash paid for nuclear fuel inventory	(11,218,838)	--	--	--	--
<b>Net cash used by capital and related financing activities</b>	<b>\$ (244,560,274)</b>	<b>(101,214,681)</b>	<b>--</b>	<b>(2,983,364)</b>	<b>(129,593,612)</b>

See accompanying independent auditor's report.

**CITY OF AUSTIN, TEXAS**  
**Exhibit F-3**

Convention Center	Drainage	Transportation	Performance		Parks and Recreation	Totals	
			Contracting	Golf		1999	1998
9,241,052	20,053,141	15,767,216	4,841,625	5,343,113	3,180,106	1,038,451,695	980,797,314
(6,814,259)	(8,007,300)	(7,332,126)	(1,274,588)	(2,283,145)	(1,194,523)	(325,783,269)	(362,097,435)
(4,864,791)	(9,314,777)	(5,996,727)	(1,945,086)	(2,134,741)	(1,832,515)	(165,567,960)	(139,806,182)
--	--	--	--	--	--	15,065,464	7,108,832
--	--	--	--	--	--	(15,493,225)	(14,482,333)
(2,437,998)	2,731,064	2,438,363	1,621,951	925,227	153,068	546,672,705	471,520,196
17,612,964	768,504	--	--	--	--	18,872,385	18,268,624
(50,000)	(475,802)	--	--	--	--	(81,232,692)	(79,976,777)
--	--	--	(3,676,706)	--	--	(3,676,706)	--
--	--	--	--	--	--	(214,826)	(150,611)
--	--	--	--	--	--	1,471,681	316,085
--	--	--	--	--	--	--	400,000
--	--	--	--	--	--	--	(452,832)
--	--	--	--	--	--	--	444,049
--	452,832	--	--	--	--	57,580	45,939
17,562,964	745,534	--	(3,676,706)	--	--	(64,722,578)	(61,105,523)
--	--	--	--	--	--	138,735,158	65,875,000
--	1,552,854	--	--	1,950,000	--	14,518,713	7,491,418
--	--	--	--	--	--	10,000,000	28,000,000
135,000,000	--	--	--	--	--	135,000,000	293,582
(1,981,765)	(129,485)	(101,669)	--	(361,996)	--	(117,233,111)	(109,009,961)
--	--	--	115,716	--	--	118,266	646,685
--	--	--	--	--	--	1,239,217	9,491
(4,720,602)	(162,978)	(32,874)	--	(416,318)	--	(185,117,739)	(190,603,057)
(5,211,741)	(5,275,906)	(1,274,065)	(53,981)	(1,110,846)	(30,930)	(374,705,375)	(312,550,475)
--	--	--	--	--	--	722	132,656
--	--	--	--	--	--	22,621,652	23,532,213
--	4,936,326	--	--	--	--	31,433,414	29,308,543
(3,643,754)	(4,871)	--	--	(6,116)	--	1,066,057	8,126,919
--	--	--	--	--	--	(16,964,085)	(20,999,453)
6,445,000	--	--	--	--	--	251,759,512	309,351,591
(6,286,246)	--	--	--	--	--	(260,411,741)	(319,313,511)
--	--	--	--	--	--	--	18,205,377
--	--	--	--	--	--	(11,218,838)	(4,937,020)
119,600,892	915,940	(1,408,608)	61,735	54,724	(30,930)	(359,158,178)	(466,440,002)

(continued)

**ENTERPRISE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**Year ended September 30, 1999**  
**With comparative totals for year ended September 30, 1998**

	Electric	Water and Wastewater	Hospital	Solid Waste Services	Airport
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investment securities	\$ (548,010,583)	(159,296,469)	--	(747,624)	(315,144,490)
Proceeds from sale and maturities of investment securities	490,792,101	156,722,555	--	802,500	407,273,230
Interest on investments	30,819,824	11,920,474	1,231,379	916,589	9,188,591
Reverse repurchase agreement income	1,474,980	764,548	169,347	149,828	829,871
Reverse repurchase agreement expense	(1,346,568)	(690,545)	(158,332)	(140,144)	(776,282)
<b>Net cash provided (used) by investing activities</b>	<b>(26,270,246)</b>	<b>9,420,563</b>	<b>1,242,394</b>	<b>981,149</b>	<b>101,370,920</b>
Net increase (decrease) in cash and cash equivalents	33,930,227	16,037,171	10,129,908	7,380,383	2,801,820
Cash and cash equivalents, October 1 (including \$278,113,315 in restricted accounts)	113,445,949	130,118,796	22,341,879	19,041,517	49,320,429
<b>Cash and cash equivalents, September 30 (including \$449,418,667 in restricted accounts)</b>	<b>147,376,176</b>	<b>146,155,967</b>	<b>32,471,787</b>	<b>26,421,900</b>	<b>52,122,249</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	260,833,595	81,224,788	13,970,278	5,714,007	9,817,633
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	78,339,973	45,806,370	2,093,613	2,923,871	17,122,217
Allowance for doubtful accounts	1,414,630	(11,362)	(1,866,609)	(577,872)	--
Amortization	11,633,240	--	--	--	--
Change in assets and liabilities:					
Decrease in working capital advances	785,776	--	--	--	--
(Increase) decrease in accounts receivable	(14,460,901)	(2,611,285)	1,969,709	61,565	826,236
Decrease in receivable from other governments	--	--	--	23,879	--
Decrease in due from other funds	--	--	--	--	59,437
(Increase) decrease in inventory	(7,516,862)	132,612	--	--	--
(Increase) decrease in prepaid expenses and deferred costs	1,638,559	--	--	98,938	(20,000)
Decrease in other regulatory assets	295,342	--	--	--	--
Increase (decrease) in accounts payable	15,011,685	600,139	(79,084)	611,512	1,601,275
Increase (decrease) in accrued payroll and compensated absences	1,742,550	177,715	(125,891)	(53,071)	214,379
Increase (decrease) in deferred revenue	--	(959,057)	(182,080)	--	238,935
Decrease in decommissioning assessment payable	(524,104)	--	--	--	--
(Increase) decrease in unrecovered fuel revenue	2,594,276	--	--	--	--
Increase (decrease) in accrued landfill closure costs	--	--	--	242,864	--
Decrease in due to other governments	--	--	(590,012)	--	--
Decrease in due to other funds	--	--	--	--	--
Increase (decrease) in other liabilities	9,728,636	301,051	--	(14,716)	1,074,060
Increase (decrease) in customer deposits	(126,876)	(19,541)	--	13,465	41,543
<b>Total adjustments</b>	<b>100,555,924</b>	<b>43,416,642</b>	<b>1,219,646</b>	<b>3,330,435</b>	<b>21,158,082</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 361,389,519</b>	<b>124,641,430</b>	<b>15,189,924</b>	<b>9,044,442</b>	<b>30,975,715</b>

See accompanying independent auditor's report.

**CITY OF AUSTIN, TEXAS**  
**Exhibit F-3**  
**(Continued)**

Convention Center	Drainage	Transportation	Performance			Parks and Recreation	Totals	
			Contracting	Golf			1999	1998
(22,496,360)	(130,590)	--	--	--	--	--	(1,045,826,116)	(1,487,708,756)
20,739,920	162,389	--	--	--	--	--	1,076,492,695	1,515,008,283
2,102,246	871,483	162,069	150,579	76,982	40,177		57,480,393	57,735,735
290,483	156,965	27,708	10,373	13,399	196		3,887,698	13,499,115
(271,635)	(146,774)	(25,914)	(9,720)	(12,565)	(5,555)		(3,584,034)	(13,131,171)
364,654	913,473	163,863	151,232	77,816	34,818		88,450,636	85,403,206
135,090,512	5,306,011	1,193,618	(1,841,788)	1,057,767	156,956		211,242,585	29,377,877
6,612,477	21,503,676	3,780,848	1,841,788	1,624,828	797,595		370,429,782	341,051,905
141,702,989	26,809,687	4,974,466	--	2,682,595	954,551		581,672,367	370,429,782
(5,362,111)	1,337,397	1,075,554	1,253,905	448,261	109,365		370,422,672	351,363,449
2,583,579	1,348,494	716,226	32,928	424,435	7,851		151,399,557	147,273,030
--	--	11,616	--	--	--		(1,029,597)	(4,525,367)
--	--	--	--	--	--		11,633,240	12,788,895
--	--	--	--	--	--		785,776	75,065
(322,693)	(222,062)	38,570	569,816	--	--		(14,151,045)	(13,481,382)
--	6,355	--	--	--	--		30,234	39,661
--	--	--	--	--	--		59,437	59,437
--	--	22,384	--	--	--		(7,361,866)	(6,623,999)
--	--	--	--	--	--		1,717,497	3,708,236
--	--	--	--	--	--		295,342	317,067
184,148	61,681	532,962	(7,199)	(11,837)	14,745		18,520,027	(20,914,886)
148,018	199,199	41,051	(227,499)	64,368	21,103		2,201,922	1,965,194
--	--	--	--	--	--		(902,202)	(1,608,391)
--	--	--	--	--	--		(524,104)	--
--	--	--	--	--	--		2,594,276	(6,289,042)
--	--	--	--	--	--		242,864	(2,415,863)
--	--	--	--	--	--		(590,012)	(1,029,031)
--	--	--	--	--	--		--	(327,485)
195,330	--	--	--	--	4		11,284,365	11,934,754
135,731	--	--	--	--	--		44,322	(789,146)
2,924,113	1,393,667	1,362,809	368,046	476,966	43,703		176,250,033	120,156,747
(2,437,998)	2,731,064	2,438,363	1,621,951	925,227	153,068		546,672,705	471,520,196

(continued)

**ENTERPRISE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**Year ended September 30, 1999**  
**With comparative totals for year ended September 30, 1998**

	Electric	Water and Wastewater	Hospital	Solid Waste Services	Airport
<b>NONCASH INVESTING, CAPITAL AND FINANCING</b>					
<b>ACTIVITIES:</b>					
Increase (decrease) in deferred assets/expenses	\$ 11,473,790	21,226,385	--	(9,292)	--
Unamortized bond discounts, premiums, and issue costs on advance refundings	(3,309,967)	(1,816,685)	--	--	--
(Increase) decrease in capital appreciation bond interest payable	(6,271,242)	(5,321,878)	--	11,937	125,015
Fixed assets contributed from (to) other funds	--	--	--	--	--
Increase in contributed facilities	--	23,077,693	--	--	--
Net increase (decrease) in the fair value of investments	(9,793,370)	(2,581,713)	--	--	(337,138)
Amortization of bond discounts, premiums and issue costs	(1,345,946)	(1,492,048)	--	9,424	(641,887)
Amortization of deferred loss on refundings	--	--	--	--	(83,370)
Loss on disposal of assets	(7,968,589)	(1,692,139)	--	(15,100)	--
Costs to be recovered in future years	11,505,582	28,196,372	--	--	--
Loss on extinguishment of debt	(10,751,524)	(6,527,349)	--	--	--
Due to other funds for fixed assets	--	--	--	--	(5,312)
Contributions from other funds	\$ 1,450,616	--	--	--	--

See accompanying independent auditor's report.

**APPENDIX C**

**SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS**

ORDINANCE NO. 010118-

AN ORDINANCE providing for the issuance of ELECTRIC UTILITY SYSTEM revenue obligations; making provision for the payment of such obligations from the revenues of the City's Electric Utility System; enacting provisions incident and related to the issuance, payment and security of such obligations, including covenants and agreements relating to the operation and management of the Electric Utility System, the revenues derived from its operation and ownership, the establishment and maintenance of funds and accounts for the payment of such obligations, specifying the terms and conditions for the issuance of parity revenue obligations and other matters incident and related to their issuance and security; suspending the rule requiring ordinances be read on three separate days; and declaring an emergency.

WHEREAS, the City of Austin, Texas (the "City" or the "Issuer"), a "home-rule" city operating under a home-rule charter adopted pursuant to Section 5 of Article XI of the Texas Constitution has heretofore financed improvements and extensions to the City's Electric Light and Power System (the "System") by the issuance and sale of revenue obligations payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Electric Light and Power System and the City's Water and Wastewater System; and

WHEREAS, the revenue obligations currently outstanding payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Electric Light and Power System and the City's Water and Wastewater System include:

(a) "Prior First Lien Obligations" more particularly 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,

(b) "Prior Subordinate Lien Obligations" more particularly described as follows: (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, and

(c) "Commercial Paper Obligations" more particularly described as follows: (i) City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A", authorized for issuance pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A currently authorized up to an aggregate principal amount of \$350,000,000 and (ii) "City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes", authorized for issuance pursuant to Ordinance No. 980513-B, as amended by Ordinance No. 000627-A, currently authorized up to an aggregate principal amount of \$160,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No.980513-B, as amended; and

AND WHEREAS, in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations, the City retained the authority to issue "Separate Lien Obligations" payable solely from either the Net Revenues of the Water and Wastewater System or the Net Revenues of the Electric Light and Power System, but not both, without specifying any terms or limitations on the issuance of such "Separate Lien Obligations"; and

WHEREAS, the City has determined future financing of capital improvements for the City's Electric Light and Power System and the City's Water and Wastewater System should be undertaken and accomplished through the issuance of "Separate Lien Obligations" which will enable the City to restructure provisions governing the issuance of such obligations and relating to the operations of such systems and provide financing flexibility to both systems, particularly the

Electric Light and Power System in a more competitive market resulting from a change in laws affecting the regulation, generation, distribution and sale of electric energy, and

WHEREAS, in furtherance of its determination that future financing of capital improvements to the City's Electric Light and Power System shall be undertaken through the issuance of revenue obligations payable solely from and secured by a lien on and pledge of the Net Revenues of the City's Electric Light and Power System, the Council hereby finds a master ordinance governing and pertaining to their issuance should be adopted and enacted; and

WHEREAS, the terms used in this Ordinance and not otherwise defined shall have the meaning given Exhibit A to this Ordinance attached hereto and made a part hereof;

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN, TEXAS:

**Section 1. REVENUE OBLIGATION FINANCING FOR THE CITY'S ELECTRIC UTILITY SYSTEM.** From and after the date hereof, all revenue obligations, other than Commercial Paper Obligations, to finance capital improvements for the Electric Utility System shall be payable from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility System and from the funds and accounts hereinafter provided in this Ordinance and in any Supplement. This Ordinance is intended to provide for and govern the issuance of such Parity Electric Utility Obligations and establish the security for their payment, the agreements and covenants with the holders or owners of such obligations in regard to the management and operation of the Electric Utility System, the application and disbursement of revenues derived from its operation and ownership and other matters incident and related to the issuance of such revenue obligations. Each issue or series of Parity Electric Utility Obligations shall be issued, incurred or assumed pursuant to the terms of a Supplement, and each such Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, terms of payment and redemption, and any other related matters not inconsistent with the Constitution and laws of the State of Texas or the provisions of this Ordinance.

**Section 2. PLEDGE OF REVENUES/SECURITY FOR PAYMENT.** Subject to the prior claim on and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations, the Net Revenues of the Electric Utility System are hereby pledged to the payment of the Parity Electric Utility Obligations and such Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System in accordance with the terms of this Ordinance and any Supplement. Additionally, Parity Electric Utility Obligations shall be secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security to a Supplement and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of this Ordinance and any Supplement. Parity Electric Utility Obligations are and will be secured by and payable only from the Net Revenues of the Electric Utility System, and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, of the Electric Utility System. The owners of the Parity Electric Utility Obligations shall never have the

right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Ordinance or any Supplement.

**Section 3. NO ADDITIONAL PRIOR FIRST LIEN /PRIOR SUBORDINATE LIEN COMBINED UTILITY SYSTEMS REVENUE OBLIGATIONS.** From and after the date of the adoption of this Ordinance, the City hereby provides that no additional revenue obligations payable from the same sources and secured in the same manner as the Prior First Lien Obligations or the Prior Subordinate Lien Obligations shall be issued, and at such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations currently Outstanding and the Commercial Paper Obligations have been fully paid and discharged in a manner such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations of the Electric Utility System then Outstanding shall be Parity Electric Utility Obligations or obligations subordinate to the Parity Electric Utility Obligations then Outstanding, and payable only from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance, including this Ordinance with respect to Parity Electric Utility Obligations and any Supplement.

**Section 4. RATE COVENANT.** Subject to any rate regulation by any state or federal regulatory authority, the City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient:

(i) to pay all current Operating Expenses,

(ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and

(iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility 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 Section or obtain a written report from a Utility System Consultant after a review and study of the operations of the Electric Utility 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 this Section and such adjustments and revisions to electric 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.

**Section 5. GENERAL COVENANTS.** Subject to the provisions contained in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations which may be in conflict herewith and control to the extent of any conflict, the City hereby covenants and agrees with the Holders of the Parity Electric Utility Obligations to the extent permitted by law as follows:

(a) **PERFORMANCE.** All covenants, undertakings, stipulations, and provisions contained in this Ordinance and any Supplement shall be duly performed and honored at all times; the principal amount of and interest on Parity Electric Utility Obligations shall be timely paid as the same shall become due and payable on the dates, at the places and in the manner prescribed in each Supplement and such Parity Electric Utility Obligations; and all deposits to the credit of the Funds and Accounts shall be made at the times, in the amounts and in the manner specified by this Ordinance and in any Supplement; and any Holder may require the City, its officials and employees to perform, honor or enforce the covenants and obligations of this Ordinance, or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City, its officials and employees.

(b) **CITY'S LEGAL AUTHORITY.** The City is a duly created and existing home rule municipality of the State of Texas, and is duly authorized under the laws of the State of Texas to issue the Parity Electric Utility Obligations; with the adoption of each Supplement, all action on the City's part for the issuance of the Parity Electric Utility Obligations shall have been duly and effectively taken; and the Parity Electric Utility Obligations upon issuance and delivery to the Holders shall and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) **OPERATION AND MAINTENANCE.** The Electric Utility System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Electric Utility System shall be maintained, preserved and kept in good repair, working order and condition, and proper maintenance, repairs and replacements of such property, facilities and plants shall occur to preserve and keep the Electric Utility System operating in a business like manner; provided, however, nothing herein is intended nor shall any statement herein be construed to prevent the City from ceasing to operate or maintain, or from leasing or disposing of, any portion or component of the Electric Utility System if, in the judgment of the governing body of the City having responsibility for the management and operation of the Electric Utility System, including the making of any final decision on the acquisition and disposal of Electric Utility System properties, determines (i) it is advisable to lease, dispose of or not operate and maintain the same, (ii) the operation thereof is not essential to the maintenance and continued operation of the remainder of the Electric Utility System and (iii) the lease, disposition or failure to maintain or operate such component or portion of the Electric Utility System will not prevent the City from complying with the requirements of Section 4 hereof.

(d) **TITLE.** The City has or will have lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Electric Utility System; the City warrants it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof against the claims and demands of all persons whomsoever; and the City is lawfully qualified to pledge the Net Revenues to the payment of the Parity Electric Utility Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(e) **LIENS.** All taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon the Electric Utility System, its properties or revenues, shall be paid before the same become delinquent; all lawful claims for rents, royalties, labor, materials and supplies shall be paid in a timely manner, which if unpaid might by law become a lien or charge on the revenues of the Electric Utility System or the Electric Utility System's properties prior to or interfere with the liens hereof, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the lien on and pledge of the Net Revenues of the Electric Utility System for the Parity Electric Utility Obligations granted by this Ordinance or any Supplement might or could be impaired; provided however, that no such tax, assessment or charge, and no such claims that might result in a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the City.

(f) **NO FREE SERVICE.** Save and except as provided by V.T.C.A., Government Code, Section 1502.057, as amended, no free service of the Electric Utility System shall be allowed.

(g) **FURTHER ENCUMBRANCE.** Save and except for the issuance of Parity Electric Utility Obligations, the Net Revenues of the Electric Utility System shall not hereafter be encumbered in any manner unless such encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance and any Supplement; but the right to issue Subordinated Debt payable in whole or in part from a subordinate lien on the Net Revenues is specifically recognized and retained.

(h) **SALE, LEASE OR DISPOSAL OF SYSTEM PROPERTY.** To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property, facilities and assets of the Electric Utility System at any time and from time to time. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Electric Utility System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such special Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Electric Utility System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Electric Utility Obligations or for any other Electric Utility System purpose.

(i) **BOOKS, RECORDS AND ACCOUNTS.** Proper books, records and accounts pertaining to the operation and ownership of the Electric Utility System shall be established and maintained in accordance with generally accepted accounting principles, and such books, records and accounts shall be kept and maintained separate and apart from all other records and

accounts of the City. Accurate and complete entries of all transactions relating to the Electric Utility System shall be recorded in such books, records and accounts, and such books and records relating to the financial operations of the Electric Utility System shall be kept current on a month to month basis.

(j) **INSURANCE.** Except as otherwise permitted below, insurance shall be obtained and maintained on the properties of the Electric Utility System in a manner and to the extent municipal corporations operating like properties carry and maintain such insurance, and such insurance shall be maintained with one or more responsible insurance companies and cover such risks, accidents or casualties customarily carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage caused by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times during regular business hours. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds available for such purpose as the City in its sole discretion shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance Account or Fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the Electric Utility System.

In lieu of obtaining policies for insurance as provided above, the City may self-insure against risks, accidents, claims or casualties described above, or such risks, accidents, claims or casualties may be covered under one or more blanket insurance policies maintained by the City. The annual audit hereinafter required shall contain a section commenting on whether the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing the areas of insurance for which the City is self-insuring, all policies carried, and whether all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(k) **AUDITS.** After the close of each Fiscal Year while any of the Parity Electric Utility Obligations are Outstanding, an annual audit of the books, records and accounts relating to the operations of the Electric Utility System shall be made by an Accountant as part of the City's overall annual comprehensive audit. After such annual audit has been completed and approved by the City, a copy thereof shall be sent to the Municipal Advisory Council of Texas and to any owner of \$100,000 or more in Outstanding Principal Amount of Parity Electric Utility Obligations who shall request a copy of such annual audit in writing. A copy of such annual audit shall be

available for the inspection at the administrative offices of the Electric Utility System by the owners of the Parity Electric Utility Obligations and their agents and representatives at all reasonable times during regular business hours.

(l) **GOVERNMENTAL AGENCIES.** Any and all franchises, licenses, permits and authorizations received or obtained from any governmental agency or department and applicable to or necessary with respect to the operations of the Electric Utility System shall be kept current and in effect, and no franchise, permit, license or authorization required or necessary for the acquisition, construction, equipment, operation and maintenance of the Electric Utility System shall be allowed to expire or terminate by a failure of the City to act or shall the City fail to comply with any terms or conditions that results in a forfeiture or early termination of any such franchise, permit, license, or authorization.

(m) **RIGHTS OF INSPECTION.** Subject to public safety and other restrictions as may be reasonably imposed, the owner of Parity Electric Utility Obligations shall have the right at all reasonable times during regular business hours to inspect properties of the Electric Utility System and all records, accounts and data relating thereto, and copies of such records, accounts and data will be furnished to such owner from time to time, upon the written request and at the payment of the cost of making such copies by the owner making such request.

**Section 6. SYSTEM FUND.** 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 Electric Utility Obligations are Outstanding a separate fund or account known and designated as the "Electric Light and Power System Fund" (herein called the "Electric Fund" or "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 Electric Utility 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.

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 and (ii) the special Funds and Accounts

maintain for the payment and security of the Parity Electric Utility Obligations pursuant to this Ordinance or a Supplement.

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

Any Net Revenues remaining in the System 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 7. DEBT SERVICE FUND.** For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (other than Operating Expenses) incurred in connection with Parity Electric Utility Obligations, there is hereby created and there shall be established and maintained on the books of the City a separate fund designated as the "Electric Utility Revenue Obligation Debt Service Fund" (the "Debt Service Fund") and moneys to the credit of such Debt Service Fund shall be placed in a special fund or account maintained at an official depository of funds of the City.

The amount of the deposits to be made to the credit of the Debt Service Fund to pay the principal of and interest on the Parity Electric Utility Obligations as the same shall become due and payable and the manner for making such deposits shall be addressed and contained in each Supplement. In addition, the City reserves the right in any Supplement to establish within the Debt Service Fund various Accounts to facilitate the timely payment of Parity Electric Utility Obligations as the same become due and owing.

**Section 8. ISSUANCE OF ADDITIONAL OBLIGATIONS.** (a) Parity Electric Utility Obligations. The City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of this Ordinance and a Supplement hereafter adopted. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing::

(i) the City is in compliance with all covenants contained in this 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 established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility 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, if any; and

(ii) the Net Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility

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, exceed One Hundred Ten Per Cent (110%) the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Electric Utility Obligations.

For purposes of paragraph (a) (ii), if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the Designated Financial Officer's certificate required above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

(b) Short-Term Parity Electric Utility Obligations. The City may issue or incur Parity Electric Utility 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 Electric Utility 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.

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

(d) Separately Financed Projects. The City expressly retains the right to issue or incur bonds, notes, or other obligations or evidences of indebtedness, other than Parity Electric Utility Obligations, for any project or purpose for goods or services other than the generation, transmission, distribution and sale of electric energy and capacity or related goods and services, which presently are or hereafter may be authorized or permitted to be provided or maintained by municipal electric systems generally or the City specifically under the laws of the State of Texas, federal law or the City's home rule charter; provided the bonds, notes or other obligations issued or incurred for any such separately financed project are payable from and secured by other available funds derived from the ownership or operation thereof or excess Net Revenues remaining after satisfying, or making provision for the satisfaction of, the "First" through the "Fourth" priority of claims identified on such Net Revenues in Section 6 hereof and separate books and records for such separately financed project or activity are maintained by the City

(e) Credit Agreements. Payments to be made under a Credit Agreement may be treated as Parity Electric Utility Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then Outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

(f) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility 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 Electric Utility System for the period of time covered by his or her certification based on such change in rates and charges being in effect for the entire period covered.

**Section 9. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS.** (a) Any Parity Electric Utility Obligation shall be deemed to be paid, retired and cease to be Outstanding within the meaning of this Ordinance, and the Supplement pursuant to which it was issued, when payment of the principal amount of, redemption premium, if any, on such Parity Electric Utility Obligation, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either shall have been (i) made in accordance with the terms thereof or (ii) provided by irrevocably depositing with, or making available to, a Paying Agent (or escrow agent) therefor, in trust and set aside exclusively for such payment, in accordance with the terms and conditions of an agreement between the City and said Paying Agent (or escrow agent), (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 such Paying Agent pertaining to the Parity Electric Utility Obligation with respect to which such deposit is made shall have been paid or the payment thereof duly provided (and irrevocable instructions shall have been given by the City to such Paying Agent to give notice of such redemption in the manner required by the Supplement authorizing the issuance of such Parity Electric Utility Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Electric Utility Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Electric Utility Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Electric Utility Obligation was issued. In addition, in connection with a defeasance, such Paying Agent shall give notice of redemption, if necessary, to the owners of any Parity Electric Utility Obligation in the manner provided in the Supplement for such Parity Electric Utility Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Electric Utility 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 the Supplement pursuant to which it was issued or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys deposited with a Paying Agent (or escrow agent) may, at the direction of the City, also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Paying Agent pursuant to this Section which is not required for the payment of the principal of the Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City for deposit to the credit of the Debt Service Fund.

(c) Except as provided in clause (b) of this Section, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon, shall be applied solely to and used solely for the payment of such Parity Electric Utility Obligations, the redemption premium, if any, and interest thereon.

**Section 10. AMENDMENT OF ORDINANCE.** (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Electric Utility Obligations so as to:

- (1) Make any change in the maturity of any of the Outstanding Parity Electric Utility Obligations;
- (2) Reduce the rate of interest borne by any of the Outstanding Parity Electric Utility Obligations;
- (3) Reduce the amount of the principal payable on the Outstanding Parity Electric Utility Obligations;
- (4) Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Parity Electric Utility Obligations or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all of the Parity Electric Utility Obligations then Outstanding;
- (6) Amend this subsection (a) of this Section; or
- (7) Change the minimum percentage of the principal amount of Parity Electric Utility Obligations necessary for consent to any amendment;

unless such amendment or amendments be approved by the owners of all of the Parity Electric Utility Obligations affected by the change or amendment then Outstanding.

(b) Notice of Amendment Requiring Consent. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with each Paying Agent or Registrar, as the case may be, for the Parity Electric Utility Obligations for inspection by all Holders of Parity Electric Utility Obligations. Such publication is not required, however, if notice in writing is given by mail, first class postage prepaid, to each Holder of Parity Electric Utility Obligations.

(c) Time Period for Obtaining Consent If within one year from (i) the date of the first publication of said notice or (ii) the date of the mailing by the Paying Agent of written notice to the owners of the Parity Electric Utility Obligations, whichever date first occurs if both methods of giving notice are used, the City shall receive an instrument or instruments executed by the owners of at least a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations consenting to and approving such amendment in substantially the form of the copy thereof on file with each Paying Agent or Registrar, as the case may be, for the Parity Electric Utility Obligations, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Revocation of Consent. Any consent given by the owner of a Parity Electric Utility Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, and shall be conclusive and binding upon all future owners of the same Parity Electric Utility Obligation during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, such consent may be revoked by the owner who gave such consent, or by a successor in title, by filing written notice thereof with the Paying Agent or Registrar, as the case may be, for such Parity Electric Utility Obligation and the City, but such revocation shall not be effective if the owners of at least a majority in Outstanding Principal Amount of the then Outstanding Parity Electric Utility Obligations as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(e) Implementation of Amendment. Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations of the City under this Ordinance and all the owners of then Outstanding Parity Electric Utility Obligations and all future Parity Electric Utility Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(f) Amendment without Consent. The foregoing provisions of this Section notwithstanding, the City by action of its governing body may amend this Ordinance for any one or more of the following purposes:

(1) To vest the management and control of the Electric Utility System in an independent board of trustees or similar board pursuant to authority conferred by V.T.C.A., Government Code, Section 1502.070 et seq. or other law now or hereafter enacted;

(2) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the owners of the Parity Electric Utility Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(3) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this

Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the owners of the Parity Electric Utility Obligations then outstanding;

(4) To modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after all Parity Electric Utility Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(5) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Electric Utility Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Electric Utility Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the owners of the Parity Electric Utility Obligations;

(7) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Parity Electric Utility Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(8) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Electric Utility Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Electric Utility Obligations. Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Parity Electric Utility Obligations may be determined as provided in each Supplement and unless otherwise provided in a Supplement, the owners of the Parity Electric Utility Obligations insured as to the payment of principal of and interest thereon shall be deemed to be the insurance company providing the insurance coverage on such Parity Electric Utility Obligations; provided such amendment to this Ordinance is an amendment that can be made with the consent of a majority in Outstanding Principal Amount of the Parity Electric Utility Obligations and such insurance company is not in default with respect to its obligations under its insurance policy.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Parity Electric Utility Obligations then Outstanding under such Supplement a priority over the owners of any other Parity Electric Utility Obligations then Outstanding.

**Section 11. DEFICIENCIES.** If on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Funds and Accounts established in accordance with this Ordinance and any Supplement, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other source available for such purpose.

**Section 12. FUNDS SECURED.** Moneys in all Funds and Accounts created in accordance with this Ordinance and any Supplement shall be secured in the manner prescribed by law for securing funds of the City.

**Section 13. INVESTMENTS.** Moneys in any Fund or Account established pursuant to this Ordinance and any Supplement may, at the option of the City, be placed or invested in Eligible Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually during the last month of each Fiscal Year. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Fund or Account from which moneys used to acquire such investment shall have come.

**Section 14. BENEFITS OF ORDINANCE.** Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

**Section 15. GOVERNING LAW.** This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

**Section 16. EFFECT OF HEADINGS.** The Section headings herein are for convenience only and shall not affect the construction hereof.

**Section 17. CONSTRUCTION OF TERMS.** If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

**Section 18. SEVERABILITY.** If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the

application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

**Section 19. PUBLIC MEETING.** It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

**Section 20. EMERGENCY.** The public importance of this measure and the fact that there is an urgent public need for the City to obtain the funds from the sale of the Bonds as soon as possible and without delay for the immediate preservation of the public peace, health and safety of the citizens of the City constitute and create an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

PASSED AND ADOPTED, this 18<sup>th</sup> day of January, 2001.

CITY OF AUSTIN, TEXAS

ATTEST:

\_\_\_\_\_  
KIRK WATSON  
Mayor

\_\_\_\_\_  
SHIRLEY A. BROWN  
City Clerk

APPROVED:

(City Seal)

\_\_\_\_\_  
ANDREW MARTIN  
City Attorney

## EXHIBIT "A"

### DEFINITIONS

As used in the Ordinance, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

**"Account"** means any account created, established and maintained on the books and records of the City under the terms of any Supplement.

**"Accountant"** means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

**"Annual Debt Service Requirements"** means, for any Fiscal Year, the principal of and interest on all Parity Electric Utility Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(i) Committed Take Out. If the City has entered into a Credit Agreement with a Credit Provider to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased by the Credit Provider shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(ii) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable by reason of any required purchase of such Funded Debt by the City) in any Fiscal Year is either (a) equal to 25%, or more, of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or (b) exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term

of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(iii) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer executes a certificate to the effect that such Balloon Debt (a) may be treated as being retired in installments (and the instrument creating such Balloon Debt expressly permits such Debt to be treated as being retired in installments), or (b) paid from the funding and accumulation of a sinking fund (and the instrument creating such Balloon Debt expressly permits the funding and accumulation of a sinking fund) according to a fixed schedule stated in such certificate, then the principal of (and, in the case of retirement, or to the extent provided for the funding and accumulation of a sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such fixed schedule, provided this clause (iii) shall apply only to Balloon Debt when installments due and payable prior to such certificate have been duly paid or all deposits to the sinking fund established for such Debt have been duly credited to the sinking fund on or before the times required by such schedule; and provided further this clause (iii) shall not apply when the City has elected to apply the rule set forth in clause (ii) above;

(iv) Prepaid Debt. Principal of and interest on Parity Electric Utility Obligations, or portions thereof, payable from capitalized interest, accrued interest and amounts deposited or set aside in trust for the payment thereof with a financial institution shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year;

(v) Variable Rate. As to any Parity Electric Utility Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the City, either (a) an interest rate equal to the average rate borne by such Parity Electric Utility Obligations (or by comparable debt in the event that such Parity Electric Utility Obligations has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be used for this purpose;

(vi) Commercial Paper. Any Parity Electric Utility Obligations issued in the form of commercial paper shall use an interest rate for such Parity Electric Utility Obligations calculated in the manner provided in clause (v) of this definition and the maturity schedule shall be calculated in the manner provided in clause (ii) of this definition; and

(vii) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (i) through (vi) above and any payments otherwise included above under (i) through (vi) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

**"Bond Counsel"** means Messrs. Fulbright & Jaworski L.L.P. or other firm engaged by the City with legal experience and expertise in the issuance and sale of obligations by municipalities in the State of Texas and with respect to the exclusion of interest on obligations from federal income taxation under Section 103(a) of the Code.

**"City"** and **"Issuer"** mean the City of Austin, Texas.

**"Code"** means the Internal Revenue Code of 1986, as amended, or any successor thereto.

**"Commercial Paper Obligations"** means those obligations identified and described in the preamble of the Ordinance.

**"Credit Agreement"** means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Electric Utility Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City in connection with the authorization, issuance, security, or payment of Parity Electric Utility Obligations and on a parity therewith.

**"Credit Facility"** means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Electric Utility Obligations would rate the Parity Electric Utility Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Electric Utility Obligations would assign a rating to the Parity Electric Utility Obligations of one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Electric Utility Obligations and the interest thereon.

**"Credit Provider"** means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

**"Debt"** of the City payable from Net Revenues means all:

(i) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Electric Utility System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(ii) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Net Revenues of the Electric Utility System, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (A) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (B) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

**"Debt Service Fund"** means the "Electric Utility System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

**"Designated Financial Officer"** shall mean the Director of Finance, Treasurer or such other official of the City having primary responsibility for the fiscal management and operations of the System.

**"Electric Utility System"** means all properties, facilities and plants currently owned, operated and maintained by the City for the generation, transmission, distribution and sale of electric energy and power, 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 Electric Utility System, as defined herein, shall not include (i) properties and facilities owned in whole or in part by the City and under the management and control of the electric utility department of the City but provide a service or product apart from the generation, transmission, distribution or sale of electric energy and power such as a fiber optic system, chiller tower facilities, etc.; (ii) facilities of any kind which are declared not to be a part of the Electric Utility System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues,

or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities; or (iii) separately financed projects or properties contemplated and authorized pursuant to Section 8(d) of the Ordinance.

**"Eligible Investments"** means those investments in which the City is now or hereafter authorized by law, including, but not limited to, the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), as amended, to purchase, sell and invest its funds and funds under its control.

**"Fiscal Year"** means the twelve month financial accounting period for the Electric Utility System which currently ends on September 30 of each calendar year.

**"Fund"** means any fund created, established and maintained under the terms of the Ordinance and any Supplement.

**"Funded Debt"** of the Electric Utility System means all Parity Electric Utility Obligations (and, for purposes of Section 9(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

**"Government Obligations"** means (i) direct noncallable 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, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent or (iv) such other obligations hereafter authorized by law to be acquired for defeasance and payment of outstanding indebtedness of the City.

**"Gross Revenues"** means those revenues, income, and receipts derived or received by the City from the operation and ownership of the Electric Utility System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Electric Utility System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code. The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts, grants in aid of construction or "transition charges" or similar charges imposed pursuant to V.T.C.A., Utilities Code, Subchapter G of Chapter 39 or similar law imposed for the payment of "transition bonds".

**"Holder"** or **"Bondholder"** or **"owner"** means the registered owner appearing on the books and records of the Registrar of any Parity Electric Utility Obligation registered as to ownership and the holder of any Parity Electric Utility Obligation payable to bearer.

**"Maturity"** when used with respect to any Debt means the date the principal of such Debt or any installment thereof becomes due and payable, whether at its Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

**"Net Revenues"** and **"Net Revenues of the Electric Utility System"** with respect to any period of time means the Gross Revenues for such period less Operating Expenses incurred during such period.

**"Operating Expenses"** means the expenses of operation and maintenance of the Electric Utility 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, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Electric Utility Obligations. Operating Expenses shall include the purchase of power, and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

**"Opinion of Counsel"** means a written opinion of counsel acceptable to the City.

**"Ordinance"** means this Ordinance No. 010118-\_\_ pertaining to the issuance of Parity Electric Utility Obligations, and any amendments thereto.

**"Outstanding"** when used with respect to Parity Electric Utility Obligations means, as of the date of determination, all Parity Electric Utility Obligations theretofore delivered under this Ordinance and any Supplement, except:

- (i) Parity Electric Utility Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;
- (ii) Parity Electric Utility Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;
- (iii) Parity Electric Utility Obligations upon transfer of or in exchange for and in lieu of which other Parity Electric Utility Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and
- (iv) Parity Electric Utility Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless acquired for purposes of cancellation, Parity Electric Utility Obligations owned by the City shall be deemed to be Outstanding as though owned by any other owner.

**"Outstanding Principal Amount"** means, with respect to all Parity Electric Utility Obligations or to a series of Parity Electric Utility Obligations, the outstanding and unpaid principal amount of such Parity Electric Utility Obligations paying interest on a current basis and the

accreted value as of each compounding date for Parity Electric Utility Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Electric Utility Obligations

**"Parity Electric Utility Obligations"** means all Debt of the City issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

**"Paying Agent"** means bank, trust company or other entity selected by the City in a Supplement undertaking the duties and responsibilities for the payment to the Holders of the principal of and interest on the series or issue of Parity Electric Utility Obligations.

**"Prior First Lien Obligations"** means those obligations identified and described in the preamble of the Ordinance.

**"Prior Subordinate Lien Obligations"** means to obligations identified and described in the preamble of the Ordinance.

**"Prudent Utility Practice"** means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act at the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the Electric Utility System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

**"Rating Agency"** means a nationally recognized securities rating agency which has assigned a rating to the Parity Electric Utility Obligations.

**"Registrar"** means bank, trust company or other entity selected by the City in a Supplement to serve as the registrar for the registration and transfer of a series or issue of Parity Electric Utility Obligations issued in fully registered form as to the payment of principal of and interest thereon.

**"Stated Maturity"** when used with respect to Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

**"Subordinated Debt"** means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Electric Utility Obligations then Outstanding or subsequently issued.

**"Supplement"** or **"Supplemental Ordinance"** means an ordinance supplemental to, and authorized and adopted by the governing body of the City pursuant to the terms of, the Ordinance.

**"System Fund"** or **"Electric Fund"** means the "Electric Light and Power System Fund" affirmed in Section 6 of the Ordinance.

**"Term of Issue"** means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term in any Supplement authorizing the issuance of commercial paper) or (ii) twenty-five years.

**"Utility System Consultant"** means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal electric light and power facilities and systems similar in size to the Electric Utility System.

**"Value of Investment Securities"** and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

**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**

# FULBRIGHT & JAWORSKI L.L.P.

A REGISTERED LIMITED LIABILITY PARTNERSHIP

2200 ROSS AVENUE, SUITE 2800  
DALLAS, TEXAS 75201-2784

HOUSTON  
WASHINGTON, D.C.  
AUSTIN  
SAN ANTONIO  
DALLAS  
NEW YORK  
LOS ANGELES  
MINNEAPOLIS  
LONDON  
HONG KONG

TELEPHONE: 214/855-8000  
FACSIMILE: 214/855-8200

IN REGARD to the authorization and issuance of the "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Series 2001" (the "Bonds"), dated January 1, 2001 (the "Bond Date"), in the principal amount of \$126,700,000, we have examined into the legality and validity of the issuance thereof by the City of Austin, Texas (the "City"), which Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a maturity), have stated maturities of November 15 in each of the years 2003 through 2021, 2023 and 2030, unless redeemed prior to maturity in accordance with applicable optional or mandatory redemption provisions. The Bonds bear interest on the unpaid principal amount from the Bond Date at the rates per annum stated in the ordinance authorizing the issuance of the Bonds (the "Ordinance") and such interest is payable on May 15 and November 15 in each year, commencing May 15, 2001, to the registered owners shown on the registration books of the Paying Agent/Registrar on the Record Date (stated on the face of the Bonds).

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes, and none other. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City or the City's Electric Utility System (the "System") and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

Our examination into the legality and validity of the Bonds included a review of the applicable and pertinent provisions of the Constitution and laws of the State of Texas; the Charter of the City; a transcript of certified proceedings of the City relating to the authorization, issuance, sale, and delivery of the Bonds, including a Master Ordinance and the Ordinance (collectively, the "Ordinances"); certificates and opinions of officials of the City; other pertinent instruments authorizing and relating to the issuance of the Bonds; and an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed.

Based on our examination, it is our opinion that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds are valid, legally binding and enforceable special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Prior Subordinate Lien Obligations (identified and defined in the Ordinances), equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System in the manner provided in the Ordinances except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally.

Page 2 of Legal Opinion of Fulbright & Jaworski L.L.P.

Re: "City of Austin, Texas, Electric Utility System Revenue Refunding Bonds, Series 2001",  
dated January 1, 2001

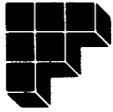
The City has reserved the right, subject to the restrictions stated in the Ordinances, to issue and incur additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System in the same manner and to the same extent as the Bonds.

It is further our opinion that, assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the 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 hereof, of the owners thereof pursuant to section 103 of such Code, existing regulations, published rulings, and court decisions thereunder, and (2) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on all tax-exempt obligations, such as 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 corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, 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 of the Code will be computed.

We express no opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life 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 tax credit, owners of 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.

EHE:dfc

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



**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)