

DISCUSSION OF OPERATING STATEMENT

Electric System Revenues

Variations in total Electric Utility revenues for the period beginning with the fiscal year ("FY") 89 through FY92 were attributable to changes in cost of fuel for power generation, rate changes, and weather variations. Total fuel costs are passed through to the consumer.

Waterworks and Sewer System Revenues

Variations in Waterworks and Sewer System revenues for the period FY89 through FY93, were largely attributable to weather and system rate changes. No system rate increase was adopted for FY89, but revenues were impacted by dry weather conditions. Increased revenue in FY90 is explained by a 2.4% system wide rate increase. No rate increases were adopted for FY91, FY92 or FY93. Extraordinarily dry weather again impacted utility water revenue in FY93, but rate reductions prescribed by the settlement with wholesale customers offset these increases.

Electric System Expenses

Changes in Electric Utility expenses for the period FY89 through FY92 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 in FY89, FY90, FY91 and FY92 includes Operating and Maintenance expenses for Units 1 and 2 of the South Texas Project.

Waterworks and Sewer System Expenses

Changes in Waterworks and Sewer System expenses for the period FY89 through FY93 were primarily attributable to inflationary increases in the cost of power, chemicals, and personnel along with system growth. Transfer of the project management function from Utility Engineering to the City's Department of Public Works and Transportation and utility-wide cost containment efforts decreased operating expenditures for FY89. Implementation of two new Utility programs and the cost of additional chemicals required for treatment and odor control in system sewer lines increased FY90 through FY92 operating expenses. Increased costs of compliance with the Safe Drinking Water Act and line maintenance are reflected in FY93.

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THE ELECTRIC LIGHT AND POWER SYSTEM AND WATERWORKS AND SEWER SYSTEM

	As of September 30			
	1993	1992	1991	1990
Cost After Depreciation				
Cost After Depreciation				
Utility Systems:				
Electric	\$2,243,467,689	\$2,174,902,238	\$2,101,600,407	\$2,059,897,384
Water	708,564,910	681,187,337	641,179,316	599,573,839
Sewer	758,983,390	736,870,563	695,985,372	660,589,056
Total Cost	<u>3,711,015,989</u>	<u>3,592,960,138</u>	<u>3,438,765,095</u>	<u>3,320,060,279</u>
Allowance for Depreciation:				
Electric	556,085,187	498,858,341	444,809,156	388,709,422
Water	124,765,045	113,235,229	101,957,419	91,667,363
Sewer	152,073,540	134,231,054	116,417,971	100,372,523
Total Depreciation	<u>832,923,772</u>	<u>746,324,624</u>	<u>663,184,546</u>	<u>580,749,308</u>
Cost after Depreciation	<u>\$2,878,092,217</u>	<u>\$2,846,635,514</u>	<u>\$2,775,580,549</u>	<u>\$2,739,310,971</u>
City's Equity in the Systems				
Utility Systems	\$3,711,015,989	\$3,592,960,138	\$3,438,765,095	\$3,320,060,279
Plus: Inventories, Materials and Supplies (a)	27,969,455	28,014,756	26,092,392	22,672,596
Net Construction Assets and Unamortized Bond Issue Cost(b)	<u>91,163,044</u>	<u>158,949,362</u>	<u>280,838,008</u>	<u>387,386,163</u>
Less:	<u>3,830,148,488</u>	<u>3,779,924,256</u>	<u>3,745,695,495</u>	<u>3,730,119,038</u>
Allowance for Depreciation	832,923,772	746,324,624	663,184,546	580,749,308
Construction Contract Payable	5,786,407	6,390,299	9,074,981	10,243,514
Utility Systems, Net	<u>838,710,179</u>	<u>752,714,923</u>	<u>672,259,527</u>	<u>590,992,822</u>
Revenue Bonds and Other Debt Service (c)	<u>2,991,438,309</u>	<u>3,027,209,333</u>	<u>3,073,435,968</u>	<u>3,139,126,216</u>
	2,577,223,424	2,515,661,233	2,504,374,959	2,555,622,465
Less:				
Bond Retirement and Reserve Funds(d)	170,555,973	170,504,982	180,506,734	196,745,031
Net Debt	<u>2,406,667,451</u>	<u>2,345,156,251</u>	<u>2,323,868,225</u>	<u>2,358,877,434</u>
Equity in Utility's Systems	<u>\$ 584,770,858</u>	<u>\$ 682,053,082</u>	<u>\$ 749,567,743</u>	<u>\$ 780,248,782</u>
Percentage of City's Equity in Utility Systems	<u>19.55%</u>	<u>22.53%</u>	<u>24.39%</u>	<u>24.86%</u>
				<u>25.75%</u>

- (a) Does not include fuel oil or coal inventories of approximately \$7,477,139 at September 30, 1993. Consists primarily of spare parts inventory at Fayette Plant and STP.
- (b) Includes investment in municipal utility districts of \$27,018,963.
- (c) Includes Revenue Bonds and Tax and Revenue Bonds of \$2,365,513,202 (net of discounts and inclusive of premiums); Contract Revenue Bonds of \$126,765,000; Capital Lease Obligations of \$32,220,536; and Water District Bonds of \$1,161,000 at March 31, 1993.
- (d) Includes municipal utility district reserves of \$4,554,528.

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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

Action Against HLP . . . On January 6, 1983, the City filed suit in Travis County against Houston Lighting and Power Company ("HLP") and its parent company, Houston Industries, Inc. The lawsuit alleges that HLP failed to properly perform and discharge its duties as Project Manager for the South Texas Project ("STP"). A motion by HLP to transfer venue from Travis County was granted in May 1986. The case was subsequently assigned to Dallas County, where it was set for trial on May 4, 1987, before Judge Craig Enoch. In early March 1987 Judge Enoch was appointed to the Dallas Court of Appeals. Subsequently, retired Judge Clarence Guittard was assigned to hear the case. Subsequently, Judge Guittard narrowed the focus of the City's case by limiting the breach of contract claim to whether HLP provided adequate information concerning the status of the project to the City as required by the Participation Agreement. On September 3, 1987, the City and HLP entered into an Agreement in Principle attempting to settle the STP litigation which was followed by a Settlement Agreement dated March 17, 1988 and a First Amendment to the Settlement Agreement dated August 2, 1988. The Settlement Agreement provided for an exchange of the City's interest in STP for interests in a lignite-fueled generating facility owned by HLP. However, the settlement was subject to several conditions including a requirement that the Public Utility Commission ("PUC") make a finding that the exchange of the City's interest in STP for interests in HLP's lignite-fueled generating facility is in the public interest as regards its effect on HLP's ratepayers. As a result of a mandamus action by HLP, the PUC issued an order on October 24, 1988 finding that such exchange is not in the public interest as regards its effects on HLP's ratepayers. HLP then gave the City notice that it determined it would not be possible to obtain a PUC order satisfying its conditions and that it elected to terminate the Settlement Agreement. Following the termination of the Settlement Agreement, a trial date of March 6, 1989 was set. After numerous pretrial hearings and selection of a jury, opening arguments began on March 13, 1989. The City presented almost 50 witnesses during its case-in-chief, and the City rested its case on May 9, 1989. HLP then filed a motion for directed verdict, which was not granted and then began presenting its case. On July 5, 1989, the jury came back with a unanimous verdict finding that HLP breached the STP Participation Agreement by withholding information from the City, but that this breach had not been the cause of any increase in the cost of STP, so that the City had not suffered any damages. The trial court subsequently denied the City's motion for new trial, and a notice of appeal was filed with the Dallas Court of Appeals. The City filed its brief with the Dallas Court of Appeals on January 16, 1990. Oral arguments were heard by a three-judge panel of the Court of Appeals on December 11, 1990. On October 7, 1992, the Court of Appeals issued a 3-0 opinion affirming the trial court's judgement. Following the denial of its Motion for Rehearing, the City filed an Application for Writ of Error seeking review by the Supreme Court of Texas on December 18, 1992. On April 14, 1993, the Supreme Court denied the City's Application for Writ of Error and on April 29, 1993, the City filed a Motion for Rehearing for Application for Writ of Error. With the Supreme Court's denial of this motion for rehearing on May 19, 1993, this litigation is concluded.

Westinghouse 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, 130th Judicial District, Cause of Action No. 90-5-0684A-C. This litigation alleges that Westinghouse knowingly sold the STP owners a nuclear steam supply system containing a steam generator tubing that is susceptible to stress corrosion cracking and that Westinghouse has failed to meet its warranty obligations to repair, modify, or replace the steam generator tubes as required. The suit also alleges that Westinghouse violated the Texas Deceptive Trade Practices Act by misrepresenting the quality and capabilities of the steam generator tubing and by failing to disclose information it knew regarding deficiencies in the steam generator tubes. On November 14, 1990, Westinghouse filed a Notice of Removal to remove the action from the Matagorda County District Court to the U.S. District, Southern District of Texas, Galveston Division. Subsequently, the STP owners and Westinghouse reached and entered into an agreement retaining jurisdiction in the state district court. Extensive document production between the parties began in mid-1992 and is still continuing. Numerous depositions have been taken in recent months and many more will be taken over the next nine months. Trial has been set for September 1994. The STP owners have continued to have infrequent settlement discussions with Westinghouse, but to date these discussions have been largely conceptual, and no resolution of this dispute through settlement is imminent. The STP owners intend to continue aggressively pursuing their claims in this matter.

ARCO Litigation

In the years 1991 through 1993, the Fayette Power Project experienced several events of "force majeure" under its coal supply contract with Thunder Basin including equipment breakdowns and the flooding in the Midwest in 1993 which impaired coal deliveries by rail. The contract is not explicit how an event of force majeure affects the City and LCRA's requirements to take various categories of coal, and a dispute has arisen between FPP and Thunder Basin concerning the correct pricing of coal taken during these force majeure events. It is the position of LCRA and the City that Thunder Basin has overcharged the project approximately \$2 million for coal over this period. On September 22, 1993, the City and LCRA filed suit in Federal District Court in Austin, Texas for declaratory relief and to recover the overcharges.

Water and Wastewater System Litigation

The City is also 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. Additionally, the City is involved in litigation arising in the normal course of operations of the Water and Wastewater Utility such as workers' compensation, personal injury, and employment practices. The City Attorney and the City Management are of the opinion that the resolution of the claims pending will not have a material effect on the City's financial statements.

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF AUSTIN, TEXAS

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GENERAL INFORMATION REGARDING THE CITY AND ITS ECONOMY

The following information has been presented for informational purposes only. The Series 1993A Bonds are not a general obligation of the City. See "Security for the Series 1993A Bonds" in the main text of the Official Statement.

History and General Description

The City of Austin is located in Southeast Central Texas, at the eastern edge of the Hill Country, a unique geographical region famous for its natural beauty and attractive climate. The average temperature in Austin is 68.3 degrees Fahrenheit, with a range of 42-62 degrees in the winter months and 73-94 degrees in summer. The City averages 300 days of sunshine each year and only 24 days with temperatures below freezing.

The City had its beginnings in a community named Waterloo which began to develop on the north bank of the Colorado River in early 1835. In 1839, Republic of Texas President Mirabeau B. Lamar created a commission to choose a permanent site for the Texas capital. The recommended site, Waterloo, was named for Stephen F. Austin and officially incorporated in December 1839. The City celebrated its sesquicentennial in 1989.

The government of the Republic was moved from Houston to Austin, and the Texas Congress confirmed the choice when it met here in January 1840. Austin remained the capital city when Texas was formally annexed by the United States in 1845. Austin is also the county seat of Travis County.

Quality of Life

Austin is noted for its exceptional quality of life, with educational and cultural amenities comparable to those found in much larger cities. As the state capital and the site of the University of Texas. Austin has a highly educated population: 32% of its total labor force has had 16-plus years of education, which ranks it first among cities with populations of more than 250,000. Austin has a variety of literary and cultural facilities, including the LBJ Museum and Huntington Art Gallery at the University of Texas; the Elisabet Ney Museum; the O. Henry Home Museum; the French Legation historical site; the George Washington Carver Museum; the Laguna Gloria Art Museum; the Paramount Theater; the Heritage Society; and 35 art galleries.

Austin residents attend or participate in a variety of other cultural activities. The City is home to more than a dozen repertory companies, four dance companies, the Austin Symphony Orchestra, and the nationally broadcast PBS series, Austin City Limits. Austin enjoys a growing reputation as an emerging music capital because of its many live venues and such events as the South by Southwest music festival. Austin's Aqua Fest is an annual summer event combining water sports, live music provided by local and national touring acts, and a variety of other activities.

With its extensive system of parks and recreation centers, its renowned beauty, and its temperate climate, Austin also provides year-round opportunities for outdoor recreation. The City of Austin Parks and Recreation Department ("PARD") maintains 170 parks and greenbelts covering some 12,336 acres. The City operates 14 recreation centers, 172 athletic fields, 106 tennis courts, 4 golf courses, 29 designated miles of hike and bike trails, 21 wading pools, and 43 swimming pools, including renowned Barton Springs where as many as 400,000 people a year enjoy the constant 68-degree springfed water. In addition, there are a number of lakes and rivers located throughout the Hill Country.

The Federal government owns 5,077 acres of parkland throughout the Austin area, of which 863 acres have been developed. The facilities available at these parks include 384 campsites, 6 pavilions, 8 boat ramps, and 2 fishing structures. The State of Texas operates 247 developed acres of parkland, 7 playgrounds, a sports field, 86 campsites and 2 boat launching areas, dedicated by the State to public recreation. Additionally, on the local level, Hays County offers 30 acres of public parkland and a boat launching facility. Travis County's facilities include 2,745 acres of land for recreational purposes, 68 campsites, 5 pavilions, 7 playgrounds, 16 sports facilities (5 courts and 11 fields), 10 boat ramps and a launching area. Total park acreage available in Travis County is 16,054 acres.

Industry and Business

The most recent figures available indicate that there were an average of over 900 manufacturing firms in the Austin Metropolitan Area in 1990 providing a total payroll of more than \$900 million. According to the Texas Employment Commission, manufacturing firms in the Austin metropolitan area now employ more than 55,400 people, providing about 13.4% of total wage and salary jobs. Approximately 65% of these jobs are in high-technology industries - computers, electronic components, and instruments. Among the major high-technology companies in Austin are IBM, which employs approximately 7,000 people in the areas of research, development, and manufacturing of personal systems and advanced workstations; Texas Instruments, which has an Austin workforce of about 2,000; Motorola, Inc., which employs about 7,500 in manufacturing electronic components and has completed construction of a \$650 million wafer fabrication facility; Dell Computer employs approximately 4,800; Advanced Micro Devices employs 2,200; Abbott Labs with about 2,000 employees; 3M's Austin site, a 1.2 million square foot research and development facility and headquarters for 6 divisions with 1,600; and Lockheed Missiles and Space with 1,600 people.

Over the last several years, a number of firms have located or expanded operations to Austin.

- * Applied Materials of Santa Clara, California has started Phase II of its manufacturing facilities in northeast Austin, with a 168,000 square foot manufacturing facility and plans of employing an additional 400 people. Phase II will bring Applied Materials to almost 350,000 square feet of total manufacturing facilities and approximately 800 employees. Applied Materials expects to reach its goal of 1 million square feet by the late 1990's.
- * Apple Computer USA currently employs in excess of 700 people and leases approximately 250,000 square feet in northeast Austin. However, they have acquired 130 acres of land northwest of Parmer Lane and McNeil Road for a permanent campus style facility.

Also announcing significant expansion plans in 1992 were:

- * Motorola with over 500,000 square feet
- * Dell Computer with 600,000 square feet
- * Advanced Micro Devices with a new \$700 million, 450,000 square foot wafer fab
- * Intermedics Orthopedics with 250,000 square feet.
- * Austin Diagnostic Clinic with 500,000 square feet.

Austin's emergence as a high-technology center is demonstrated by the presence of two major research consortiums, Microelectronics and Computer Technology Corporation ("MCC") and Sematech. In 1983, MCC chose Austin as its home after considering bids from 56 municipalities. Financial and academic support from the University of Texas was a critical factor in the decision to locate here. MCC is a cooperative venture of some twenty major U.S. computer companies, each of which can participate in the various research programs and utilize the results in its products.

In 1988, a new consortium of twelve semiconductor manufacturers, known as Sematech, also chose to locate in Austin over eleven other cities identified as finalist. Sematech was formed as a vehicle for developing improved semiconductor manufacturing techniques to better compete with Japan, and has an annual budget of \$200 million, \$100 million of which will come from the Defense Department. The consortium employs over 700 in research and development jobs in Austin, and has resulted in the addition of some 2,000 jobs in other areas.

Although high-technology manufacturing is considered to be the catalyst for future growth in Austin, government has historically been the stabilizing factor in local employment. Federal, state, and local government combined provide 24.8% of total wage and salary jobs in the Austin metropolitan area. State government is the single largest employer in Austin, with more than 20,000 employees at the University of Texas alone.

Some other local manufacturers include Radian Corporation, with 1,200 employees providing environmental, engineering and chemical services and materials; Tracor, Inc. with 1,000 in electronics manufacturing; Minco Technology, which manufactures hybrid microelectronic devices and has 147 employees; National Instruments has 400 employees and manufactures IEEE-2888 and data acquisition interfaces, scientific and engineering software, and instrument controls; XeTel Corporation, with about 400 employees and manufactures electronic sub-assemblies; and TN Technologies (formerly Texas Nuclear Corp.) with 250

employees producing process measurement gauging, elemental analysis instrumentation, flow meters, water and waste samplers, and Thomas Conrad with 300 in printed circuit board assemblies.

Other major employment sectors in the Austin economy are wholesale and retail trade, which together provide 21.1% of total wage and salary jobs, and the service sector, which accounts for 27.3%. Elgin-Butler Brick Co. which was established in Austin in 1873 employs 411 people and produces facebrick-glazed structural bricks. Hart Graphics provides printing, governmental software, typesetting and database management and employs approximately 600 people. ArtCarved Rings has approximately 900 employees and manufactures class rings, promise rings and commercial rings.

EMPLOYMENT BY INDUSTRY IN THE AUSTIN
METROPOLITAN STATISTICAL AREA (a)

Employment Characteristics

Industrial Classification	12 Months Ended December 31 1989		12 Months Ended December 31 1990		12 Months Ended December 31 1991		12 Months Ended December 31 1992		Month Ended August 30 1993(b)	
	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total
Manufacturing	44,700	12.3%	49,000	12.9%	51,100	13.1%	52,900	13.0%	55,400	13.4%
Government	102,900	28.3	107,600	28.4	110,600	28.3	111,300	27.4	102,600	24.8
Trade	78,100	21.5	78,200	20.6	79,100	20.2	83,400	20.5	87,000	21.1
Services and Miscellaneous	90,600	24.9	96,400	25.5	101,200	25.8	107,500	26.4	112,400	27.3
Finance, Insurance and Real Estate	23,600	6.5	23,500	6.2	23,300	5.9	23,700	5.8	24,500	5.9
Contract Construction	11,600	3.2	11,900	3.1	12,700	3.2	14,000	3.4	16,400	4.0
Transportation and Utilities	11,300	3.1	11,900	3.1	12,800	3.3	13,400	3.3	13,800	3.3
Mining	600	0.2	700	0.2	700	0.2	800	0.2	800	0.2
Total	363,400	100.0%	379,200	100.0%	391,500	100.0%	407,000	100.0%	412,900	100.00%

(a) Austin MSA includes Travis, Hays, & Williamson Counties.
(b) Subject to revision.

Source: Texas Employment Commission.

AVERAGE ANNUAL UNEMPLOYMENT RATE

	<u>Austin</u>	<u>Travis County</u>	<u>Texas</u>	<u>USA</u>
1981	4.6 %	4.5 %	5.3 %	7.6 %
1982	5.2	5.1	6.9	9.7
1983	4.4	4.3	8.0	9.6
1984	3.3	3.2	5.9	7.5
1985	4.4	4.3	7.0	7.2
1986	5.9	5.7	8.9	7.0
1987	6.9	6.7	8.4	6.2
1988	6.2	6.1	7.3	5.5
1989	5.6	5.4	6.7	5.3
1990	5.0	4.7	6.2	5.5
1991	5.2	4.9	6.6	6.7
1992	5.7	5.3	7.5	7.3
1993 (August)	5.1	4.7	6.7	6.5

Source: Texas Employment Commission.

CITY SALES TAX COLLECTIONS (In Millions)

<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>
1-1-88	\$2.539	1-1-89	\$2.873	1-1-90	\$3.289	1-1-91	\$3.654	1-1-92	\$3.654
2-1-88	5.353	2-1-89	6.086	2-1-90	6.306	2-1-91	6.363	2-1-92	7.085
3-1-88	2.170	3-1-89	2.779	3-1-90	3.112	3-1-91	3.775	3-1-92	3.369
4-1-88	2.740	4-1-89	2.840	4-1-90	2.818	4-1-91	3.557	4-1-92	4.066
5-1-88	4.639	5-1-89	4.969	5-1-90	5.649	5-1-91	5.707	5-1-92	5.497
6-1-88	2.775	6-1-89	3.033	6-1-90	3.087	6-1-91	3.846	6-1-92	4.203
7-1-88	2.772	7-1-89	3.117	7-1-90	3.300	7-1-91	4.182	7-1-92	4.142
8-1-88	4.530	8-1-89	4.932	8-1-90	5.533	8-1-91	5.581	8-1-92	6.072
9-1-88	2.890	9-1-89	3.286	9-1-90	3.292	9-1-91	3.660	9-1-92	4.476
10-1-88	2.826	10-1-89	3.149	10-1-90	3.613	10-1-91	3.966	10-1-92	4.200
11-1-88	4.810	11-1-89	5.400	11-1-90	5.080	11-1-91	5.080	11-1-92	6.094
12-1-88	2.815	12-1-89	3.437	12-1-90	3.344	12-1-91	3.344	12-1-92	4.308
<u>Period</u>	<u>Amount</u>								
1-1-93	\$4.120								
2-1-93	8.532								
3-1-93	4.477								
4-1-93	4.074								
5-1-93	6.669								
6-1-93	4.697								
7-1-93	7.036								
8-1-93	4.683								

Source: City of Austin, Budget Department.

TEN LARGEST EMPLOYERS
January 1993

<u>Employer</u>	<u>Product or Services</u>	<u>Number of Employees</u>
University of Texas	Education and Research	20,341
Texas Department of Transportation	State Agency	15,514
Austin Independent School District	Education	8,400
The City of Austin	City Government	8,229
Motorola Corporation	Semi-conductors	7,500
I.B.M. Corporation	Personal Systems & Advanced Workstations	7,000
Texas Department of Public Safety	State Law Enforcement Agency	5,600
Dell Computer Corporation	Design/Develop/Manufacture/Service/Support IBM-PC compatible computers and peripherals	4,800
I.R.S./Austin Center	Federal Government	4,200
H.E.B. Stores Inc.	Grocery Store Chain	4,071

Source: Austin Chamber of Commerce.

Transportation

Activity at Austin's Port of Entry increased by 17.4% over the previous fiscal year, from 7,415 shipments in 1991 to 8,707 in 1992. The Port recorded 8,549 shipments for the first eleven months of the 1993 fiscal year ending August. Rail facilities are furnished by the Missouri Pacific and Austin & Northwestern. Amtrack 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/Trailways and Kerrville through one terminal.

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. The metropolitan transit authority reduced the one percent sales tax to three quarters of a percent, effective April 1, 1989. Capital Metro began operations on July 1, 1985 and has expanded from 87 to 459 buses, with an average weekday boarding of 94,000. In addition, Capital Metro operates the nostalgic "Dillo" trolleys which serve over 2,300 riders daily in the Central Business District. On September 1, 1988, consolidation of Capital Metro with the University of Texas shuttle bus system occurred, resulting in a doubling of Capital Metro's ridership.

Austin's Robert Mueller Municipal Airport is served by 9 major airlines: American, America-West, Continental, Delta, Northwest, Southwest, TWA, United and U.S. Air. In addition, one commuter airlines, Conquest, serves Austin. 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. However, in recent years the City's growth has slowed, induced by a decline in the Texas economy. Real estate values have also declined.

POPULATION

Year	Austin (1)		Travis County (1)		Texas (2)		United States (2)	
	Population	% Change	Population	% Change	Population	% Change	Population	% Change
1940	87,930	---	111,053	---	6,414,824	---	132,165,000	---
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
1975	302,500	19.3	361,100	22.2	12,237,000	9.3	213,051,000	4.8
1980	345,496	14.2	419,573	16.2	14,228,383	16.3	222,100,000	4.3
1981	355,117	2.8	440,896	5.1	14,552,414	2.3	229,348,000	3.3
1982	367,550	3.5	463,302	5.1	15,280,000	5.0	231,543,000	1.0
1983	375,000	2.0	486,847	5.1	15,345,000	0.4	234,545,000	1.3
1984	403,723	7.7	511,588	5.1	15,989,000	4.2	237,457,000	1.2
1985	406,584	0.7	527,120	3.0	16,370,000	2.4	238,740,000	0.5
1986	431,851	6.2	551,101	4.5	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	1.0	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	16,986,910	-2.7	249,632,692	0.8
1991	460,998	2.3	580,441	0.7	17,349,000	2.1	252,177,000	1.0
1992	467,908	1.5	587,496	1.2	17,615,745	1.5	255,020,000	1.1
1993	476,602	1.9	596,915	1.6	17,805,566	1.1	N/A	

(1) All years except census years are estimates from the City's Department of Planning. Census years are from U.S. Bureau of the Census.

(2) Bureau of the Census 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
1980	158,843	111,016	103,813	\$ 447,523,177	\$37,600,880	\$ 485,124,057
1981	167,844	115,307	108,445	535,384,300	31,047,240	566,431,540
1982	182,725	120,137	113,389	666,475,158	6,873,777	673,348,935
1983	196,700	123,243	118,583	833,404,101	5,387,588	838,791,689
1984	222,985	129,266	121,956	1,148,420,526	7,645,698	1,156,066,224
1985	244,602	132,756	122,060	1,117,963,792	38,422,995	1,156,386,787
1986	256,684	135,432	123,032	711,952,255	59,190,359	771,142,614
1987	254,840	133,738	122,212	401,020,594	33,243,846	434,264,440
1988	255,470	133,471	121,041	352,811,070	26,174,678	378,985,748
1989	257,525	136,233	109,366	361,440,727	12,516,321	373,957,048
1990	275,840	137,936	111,114	309,999,799	48,312,493	358,312,292
1991	281,926	142,721	131,713	311,962,347	29,126,669	341,089,016
1992	295,347	141,210	139,529	435,653,697	5,162,800	440,216,497

Source: City of Austin and Southern Union Gas Company.

Wealth and Income Indicators

The Austin MSA compares favorably with both the state and the nation in per capita effective buying income, 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	\$ 28,679	\$15,475	18.6%	25.9%	17.8%	22.3%	\$10,555
Austin Metropolitan Area	31,835	15,640	16.8%	24.5%	18.7%	26.5%	7,961
Texas	30,122	13,769	17.7%	24.7%	17.9%	24.7%	7,236
USA	32,073	14,702	16.8%	24.9%	19.1%	26.2%	7,181

* Group A - \$10,000 - \$19,999; B - \$20,000 - 34,999; C - \$35,000 - 49,999; D - \$50,000 and over.

Source: 1992 Survey of Buying Power, Sales and Marketing Management.

Housing Units

The average rental rate for a new 725 square foot apartment in the Austin MSA is \$493 per month, and the City's occupancy rate remains high at 98% for the third quarter of 1993.

RESIDENTIAL SALES DATA

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume</u>	<u>Average Price</u>
1980	5,171	\$341,431,670	\$ 66,028
1981	5,066	364,189,995	71,889
1982	3,789	304,434,895	80,347
1983	4,905	433,914,953	88,464
1984	7,228	735,359,285	101,738
1985	6,950	738,539,095	106,265
1986	5,379	585,703,995	108,887
1987	5,616	574,049,020	102,217
1988	5,914	535,734,485	90,587
1989	6,746	577,200,327	85,562
1990	7,672	650,153,100	84,744
1991	8,336	744,095,191	89,263
1992	8,914	947,245,641	106,265
1993 (August)	6,414	726,363,031	113,246

Source: Austin Board of Realtors

CITY-WIDE AUSTIN OFFICE VACANCY RATE

<u>Year</u>	<u>Vacancy Rate</u>
1988	33%
1989	28
1990	23
1991	20
1992	14
1993 (1st quarter)	14

Source: Collins, Warren & Associates.

Education

The Austin Independent School District had an enrollment of 68,620 for the spring of 1993. This reflects an increase of 2.7% in enrollment from the 1992 year. The District includes 100 campus buildings.

AUSTIN INDEPENDENT SCHOOL DISTRICT

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
1979/80	56,508	52,070
1980/81	54,401	50,302
1981/82	54,012	50,175
1982/83	54,661	51,231
1983/84	55,690	52,137
1984/85	57,839	54,628
1985/86	58,791	55,317
1986/87	59,572	56,179
1987/88	60,312	56,670
1988/89	62,028	59,475
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817

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 48,554 in the spring of 1993 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 Balcones 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 1992 edition of the Texas Banking Red Book, there are 19 banks and bank branches serving the Austin area. Several major bank holding companies and savings and loan institutions have experienced losses as result of non-performing energy and real estate loans resulting in banks being closed, merged or placed under operating restrictions by federal and state regulators.

Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in Travis County were \$941.2 million in 1992. There are more than 11,000 hotel rooms available within the City.

Existing City convention and meeting facilities include the new Convention Center, 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, an 17,000-seat arena at the University of Texas, and the Texas Exposition and Heritage Center and the Austin Opera House. The Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Opera House, currently being renovated, has a concert seating capacity of 1,700 and 9,000 square feet of exhibit space.

APPENDIX C
FINANCIAL STATEMENTS OF THE
CITY OF AUSTIN, TEXAS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the combined balance sheets of the Utility Funds of the City of Austin, Texas as of September 30, 1992 and 1991, and the related combined statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in note 1, the combined financial statements referred to above present only the financial activities of the Utility Funds and are not intended to present fairly the financial position, results of operations and cash flows of the City of Austin, Texas in conformity with generally accepted accounting principles.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Utility Funds of the City of Austin, Texas at September 30, 1992 and 1991, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the combined financial statements of the Utility Funds taken as a whole. The supplemental schedules on pages B-8, B-9 and B-10 are presented for purposes of additional analysis and are not a required part of the combined financial statements of the Utility Funds. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements of the Utility Funds and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements of the Utility Funds taken as a whole.

KPMG Peat Marwick

Austin, Texas
January 15, 1993, except for
Note 16C as to which the date
is February 23, 1993.

UTILITY FUNDS
COMBINING BALANCE SHEET
September 30, 1992
With comparative totals for September 30, 1991

CITY OF AUSTIN, TEXAS

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Combined Totals	
			1992	1991
ASSETS				
Current assets:				
Cash on hand	\$ 21,280	8,700	29,980	22,480
Pooled investments and cash	17,857,720	11,007,754	28,865,474	27,266,344
Working capital advances	5,320,181	-	5,320,181	4,789,156
Accounts receivable	81,523,591	27,380,895	108,904,486	113,056,345
Less allowance for doubtful accounts	(41,330,102)	(12,107,025)	(53,437,127)	(51,906,692)
Net accounts receivable	40,193,489	15,273,870	55,467,359	61,149,653
Inventories, at cost	44,141,689	368,350	44,510,039	45,957,977
Prepaid expenses and other assets	2,439,072	78,320	2,517,392	2,123,720
Unrecovered fuel revenue	1,188,419	-	1,188,419	-
Deferred litigation costs	-	-	-	2,110,374
Deferred costs	61,944	-	61,944	-
Total current assets	111,223,794	26,736,994	137,960,788	143,419,704
Restricted assets:				
Revenue bond debt service:				
Cash	1	-	1	13,317
Investments, at cost	54,499,534	19,128,717	73,628,251	73,930,503
Accrued interest	4,207,105	1,724,477	5,931,582	6,274,883
Total revenue bond debt service	58,706,640	20,853,194	79,559,834	80,218,703
Revenue bond retirement reserve:				
Cash	-	-	-	1,238
Investments, at cost	114,788,954	51,132,504	165,921,458	175,905,611
Total revenue bond retirement reserve	114,788,954	51,132,504	165,921,458	175,906,849
Tax and revenue bond debt service:				
Cash	-	1	1	888
Pooled investments and cash	-	-	-	44,757
Investments, at cost	-	94,376	94,376	395,953
Accrued interest	-	-	-	644
Total tax and revenue bond debt service	-	94,377	94,377	442,242
Construction account:				
Pooled investments and cash	101,419,354	32,796,805	134,216,159	178,758,223
Due from other funds	22,586	33,569	56,155	-
Advances to other funds	180,700	268,545	449,245	-
Other receivables	239,553	125,585	365,138	17,934,601
Total construction account	101,862,193	33,224,504	135,086,697	196,692,824
Decommissioning account:				
Pooled investments and cash	673,434	-	673,434	674,336
Investments held by trustee	10,120,859	-	10,120,859	6,888,578
Accrued interest on investments	179,128	-	179,128	119,841
Total decommissioning account	10,973,421	-	10,973,421	7,682,755
Investments and cash held by trustee	2,000,014	1,404,475	3,404,489	4,201,915
Pooled investments and cash restricted for:				
Purchase of nuclear fuel inventory	17,420,636	-	17,420,636	14,387,738
Customer deposits	3,904,142	1,338,847	5,242,989	5,411,470
Escrow deposits	1,023,479	13,451	1,036,930	784,747
Total restricted assets	\$ 310,679,479	108,061,352	418,740,831	485,729,243

(continued)

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

**UTILITY FUNDS
COMBINING BALANCE SHEET
September 30, 1992
With comparative totals for September 30, 1991**

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

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Combined Totals	
			1992	1991
ASSETS, CONTINUED				
Utility plant, at cost:				
Property, plant and equipment in service	\$ 1,979,033,888	1,208,229,791	3,187,263,679	3,088,696,686
Less accumulated depreciation	(498,858,341)	(247,466,283)	(746,324,624)	(663,184,546)
Net property, plant and equipment in service	1,480,175,547	960,763,508	2,440,939,055	2,425,512,140
Construction in progress	106,502,297	209,828,109	316,330,406	261,956,491
Nuclear fuel, net of amortization of \$51,092,575 in 1992 and \$33,900,394 in 1991	37,297,128	--	37,297,128	44,885,776
Plant held for future use	38,450,429	--	38,450,429	43,226,142
Net utility plant	1,662,425,401	1,170,591,617	2,833,017,018	2,775,560,549
Other receivables	--	--	--	1,912,317
Investment in municipal utility districts	--	27,449,126	27,449,126	78,643,491
Unamortized loss on refundings	--	53,004,704	53,004,704	32,404,890
Deferred costs and expenses	151,111,655	9,867,334	160,978,989	123,908,107
Bond issue cost, net of amortization of \$1,796,907 in 1992, and \$1,534,129 in 1991	8,862,170	4,197,934	13,060,104	9,376,542
Total assets	2,244,302,499	1,399,909,061	3,644,211,560	3,650,974,843
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Accounts payable	26,913,833	1,227,302	28,141,135	18,661,483
Accrued payroll	1,598,114	1,002,440	2,600,554	1,671,288
Accrued compensated absences	2,955,950	2,187,630	5,143,580	4,729,272
Construction contracts payable	--	2,420,010	2,420,010	3,168,926
Municipal utility district contracts payable	--	2,025,000	2,025,000	2,610,000
Interest payable on other debt	53,964	2,934,439	2,988,403	2,349,938
Deferred fuel revenue	--	--	--	1,692,154
Water improvement district bonds payable	--	195,000	195,000	176,000
Capital lease obligations payable	1,237,386	450,000	1,687,386	1,607,329
Other liabilities	3,786,898	1,182,971	4,969,869	3,359,877
Total current liabilities	36,546,145	13,624,792	50,170,937	40,026,067
Liabilities payable from restricted assets				
Liabilities payable from debt service				
Accrued interest payable	48,752,663	20,410,972	69,163,635	71,869,086
Revenue bonds payable within one year	11,530,951	3,964,049	15,495,000	29,005,000
Tax and revenue bonds payable within one year	--	195,000	195,000	170,000
Total liabilities payable from debt service	60,283,614	24,570,021	84,853,635	101,044,086
Liabilities payable from construction account:				
Accounts payable	13,473,108	3,053,320	16,526,428	3,754,712
Retainage payable	120,137	--	120,137	120,137
Total liabilities payable from construction account	13,593,245	3,053,320	16,646,565	3,874,849
Decommissioning expense payable	10,973,421	--	10,973,421	7,682,755
Nuclear fuel expense payable	17,420,636	--	17,420,636	14,387,738
Customer deposits	3,904,142	1,338,847	5,242,989	5,411,470
Escrow deposits	1,023,479	13,451	1,036,930	784,747
Total liabilities payable from restricted assets	\$ 107,198,537	28,975,639	136,174,176	133,185,645

(continued)

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

**UTILITY FUNDS
COMBINING BALANCE SHEET
September 30, 1992
With comparative totals for September 30, 1991**

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

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Combined Totals	
			1992	1991
LIABILITIES AND FUND EQUITY, CONTINUED				
Long-term liabilities:				
Compensated absences	\$ 4,181,402	1,726,701	5,908,103	5,388,057
Construction contracts payable	—	3,970,289	3,970,289	5,906,055
Tax and revenue bonds payable, net of discount of \$69,840 in 1992 and \$79,908 in 1991	—	4,565,160	4,565,160	4,750,092
Municipal utility district contracts payable	—	126,415,000	126,415,000	127,885,000
Prior lien revenue bonds, net of discount of \$76,741,288 in 1992 and \$62,557,743 in 1991, and inclusive of premium of \$23,856,908 in 1992 and \$377,379 in 1991	1,352,731,223	651,135,171	2,003,866,394	1,955,255,132
Subordinate lien revenue bonds, net of discount of \$11,298,450 in 1992 and \$12,575,510 in 1991	267,967,417	60,989,134	328,956,551	348,779,489
Capital appreciation revenue bond interest payable	17,788,712	5,909,745	23,698,457	14,915,337
Water improvement district bonds payable	—	1,061,000	1,061,000	1,256,000
Unamortized gain on refundings	9,513,260	—	9,513,260	51,813,011
Capital lease obligations payable	18,849,742	12,350,000	31,199,742	32,880,917
Deferred credits	—	7,129,221	7,129,221	20,502,323
Total long-term liabilities	1,671,031,756	875,251,421	2,546,283,177	2,569,331,413
Total liabilities	1,814,776,438	917,851,852	2,732,628,290	2,742,543,125
Fund equity				
Contributions (to) municipality	(9,651,619)	(455,319)	(10,106,938)	(4,554,165)
Contributions from State and Federal governments	263,330	42,536,464	42,799,794	44,474,321
Contributions in aid of construction	42,910,335	212,976,333	255,886,668	256,994,247
Total contributions	33,522,046	255,057,478	288,579,524	296,914,403
Retained earnings:				
Reserved for revenue bond retirement	114,788,954	51,132,504	165,921,458	175,906,849
Unreserved	281,215,061	175,867,227	457,082,288	435,610,466
Total retained earnings	396,004,015	226,999,731	623,003,746	611,517,315
Total fund equity	429,526,061	482,057,209	911,583,270	908,431,718
Total liabilities and fund equity	\$ 2,244,302,499	1,399,909,061	3,644,211,560	3,650,974,843

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

UTILITY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year ended September 30, 1992
With comparative totals for year ended September 30, 1991

CITY OF AUSTIN, TEXAS

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Combined Totals	
			1992	1991
OPERATING REVENUES	\$ 426,070,449	152,205,834	578,276,283	571,816,378
EXPENSES				
Operating expenses before depreciation	211,779,895	62,969,312	274,749,207	271,461,552
Depreciation	56,698,707	29,487,297	86,186,004	82,205,844
Total operating expenses	268,478,602	92,456,609	360,935,211	353,667,396
Operating income before nonoperating revenues (expenses) and operating transfers	157,591,847	59,749,225	217,341,072	218,148,982
NONOPERATING REVENUES (EXPENSES)				
Interest	22,794,154	8,243,923	31,038,077	42,874,767
Interest on revenue bonds and other debt	(145,939,234)	(65,929,054)	(211,868,288)	(218,782,122)
Amortization of bond issue cost	(312,669)	(159,153)	(471,822)	(397,254)
Amortization of refunding gain/loss	4,996,233	(1,447,399)	3,548,834	3,755,242
Amortization of deferred assets	(3,652,549)	(590,612)	(4,243,161)	(4,011,685)
Amortization of coal and nuclear fuel inventory	(5,575,917)	-	(5,575,917)	(5,575,917)
Amortization of deferred depreciation	13,088,341	12,193,063	25,281,404	6,900,478
Deferred nuclear fuel revenue	(3,032,897)	-	(3,032,897)	(7,394,043)
Depreciation taken on contributions	2,041,154	9,118,917	11,160,071	10,688,938
Loss on disposal of assets	(1,159,417)	(60,659)	(1,220,076)	(2,363,848)
Total nonoperating revenues(expenses)	(116,752,801)	(38,630,974)	(155,383,775)	(174,305,444)
Costs to be recovered in future years	21,507,743	3,498,925	25,006,668	22,990,072
Income before operating transfers	62,346,789	24,617,176	86,963,965	66,833,610
Operating transfers out				
General fund	(57,383,894)	(15,853,824)	(73,237,718)	(63,054,576)
Other funds	(1,240,181)	(1,647,737)	(2,887,918)	(3,628,620)
Total operating transfers out	(58,624,075)	(17,501,561)	(76,125,636)	(66,683,196)
Income before extraordinary gain (loss)	3,722,714	7,115,615	10,838,329	150,414
Extraordinary gain (loss) revenue bond extinguishments	985,620	(337,518)	648,102	(425,037)
Net income (loss)	4,708,334	6,778,097	11,486,431	(274,623)
Retained earnings at beginning of year	391,295,681	220,221,634	611,517,315	611,791,938
Retained earnings at end of year	\$ 396,004,015	226,999,731	623,003,746	611,517,315

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

UTILITY FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year ended September 30, 1992
With comparative totals for year ended September 30, 1991

CITY OF AUSTIN, TEXAS

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Combined Totals	
			1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 431,281,919	154,640,408	585,922,327	586,510,014
Cash payments to suppliers for goods and services	(130,152,508)	(28,836,232)	(158,988,740)	(184,182,890)
Cash payments to employees for services	(50,003,715)	(31,958,404)	(81,962,119)	(71,044,742)
Other operating revenues	(9,507,301)	-	(9,507,301)	(9,829,368)
Net cash provided by operating activities	241,618,395	93,845,772	335,464,167	321,453,014
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers out	(58,624,075)	(17,501,561)	(76,125,636)	(66,683,196)
Contributions (to) municipality	-	-	-	(1,115,620)
Interest paid on revenue notes and other debt	(220,876)	(76,931)	(297,807)	(1,466,703)
Increase in deferred assets	(369,113)	-	(369,113)	(5,163,099)
Net cash (used) by noncapital financing activities	(59,214,064)	(17,578,492)	(76,792,556)	(74,428,618)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the sale of revenue bonds	-	940,000	940,000	4,440,000
Principal paid on long-term debt	(28,967,449)	(6,384,109)	(35,371,558)	(28,096,248)
Proceeds from the sale of equipment	-	-	-	134,155
Accrued interest received	2,535,510	1,681,287	4,216,797	952,689
Interest paid on revenue bonds and other debt	(137,940,877)	(60,507,277)	(198,448,154)	(203,411,563)
Acquisition and construction of capital assets	(63,623,819)	(34,375,346)	(97,999,165)	(101,007,195)
Contributions (to) from municipality	(241,611)	(1,238,866)	(1,480,477)	2,241,965
Contributions from State and Federal governments	-	-	-	522,409
Contributions in aid of construction	2,411,891	5,031,697	7,443,588	6,209,859
Bond issuance costs	(5,270)	(3,102)	(8,372)	(8,919)
Cash paid for revenue bond extinguishments	(19,909,526)	(4,894,042)	(24,803,568)	(6,523,842)
Cash paid for revenue bond refundings	(525,200)	(593,512)	(1,118,712)	-
Cash received (paid) for contract revenue bond refundings	-	430,625	430,625	(6,899,507)
Cash paid for note refunding	-	-	-	(12,566,472)
Cash paid for nuclear fuel inventory	(9,603,533)	-	(9,603,533)	(2,183,030)
Cash received from annexation of North Central Austin Growth Corridor	-	-	-	6,577,916
Increase(decrease) in escrow deposits	251,450	734	252,184	(391,662)
Net cash (used) by capital and related financing activities	(255,638,434)	(99,911,911)	(355,550,345)	(340,009,445)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investment securities	(4,521,216,914)	3,868,766,899	(652,450,015)	(589,198,271)
Proceeds from sale and maturities of investment securities	4,530,236,433	(3,870,430,717)	659,805,716	591,600,511
Proceeds from settlement annuity	16,213,911	-	16,213,911	14,823,714
Interest on investments	23,842,353	8,789,409	32,631,762	43,098,558
Net cash provided by investing activities	49,075,783	7,125,591	56,201,374	60,324,512
Net decrease in cash and cash equivalents	(24,158,320)	(16,519,040)	(40,677,360)	(32,660,537)
Cash and cash equivalents at beginning of year	168,478,380	63,089,073	231,567,453	264,227,990
Cash and cash equivalents at end of year	\$ 144,320,060	46,570,033	190,890,093	231,567,453

(continued)

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

UTILITY FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year ended September 30, 1992
With comparative totals for year ended September 30, 1991

CITY OF AUSTIN, TEXAS
(Continued)

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Combined Totals	
			1992	1991
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 157,591,847	59,749,225	217,341,072	218,148,982
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	56,774,778	29,487,297	86,262,075	82,288,226
Allowance for uncollectible accounts	841,638	688,796	1,530,434	8,730,655
Amortization	12,636,430	-	12,636,430	9,577,072
Change in assets and liabilities:				
(Increase) in working capital advances	(531,025)	-	(531,025)	(1,447,001)
Decrease in accounts receivable	994,297	3,157,562	4,151,859	6,475,264
(Increase) decrease in inventory	1,468,152	(20,214)	1,447,938	(9,840,718)
(Increase) decrease in prepaid expenses	(382,510)	(11,162)	(393,672)	(1,576,841)
Decrease in deferred litigation costs	2,110,374	-	2,110,374	7,941,200
(Increase) decrease in deferred costs	(302,921)	-	(302,921)	1,355,969
Increase in accounts payable	9,068,236	411,417	9,479,653	184,964
Increase in accrued payroll and compensated absences	1,254,048	609,572	1,863,620	1,386,440
(Decrease) in claims payable	-	-	-	(5,103,251)
(Decrease) in deferred fuel revenue	(1,692,154)	-	(1,692,154)	(1,153,336)
(Increase) in unrecovered fuel revenue	(1,188,419)	-	(1,188,419)	-
Increase (decrease) in other liabilities	12,247	(323,585)	(311,338)	521,276
Increase in decommissioning expense payable	3,290,666	-	3,290,666	3,178,432
Increase (decrease) in customer deposits	(265,345)	96,864	(168,481)	(426,987)
Decrease in investment in internal service funds	-	-	-	1,212,668
(Increase) in deferred Fayette coal expense	(61,944)	-	(61,944)	-
Total adjustments	84,026,548	34,096,547	118,123,095	103,304,032
Net cash provided by operating activities	\$ 241,618,395	93,845,772	335,464,167	321,453,014
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
Municipal utility district assets placed in service	\$ -	47,199,042	47,199,042	24,016,736
Increase in deferred assets/expenses	6,405,321	775,857	7,181,178	34,471,059
Deferred loss on extinguishments of debt	37,303,519	22,047,214	59,350,733	24,357,509
Bonds issued for advance refundings	378,795,421	256,671,856	635,467,277	281,665,000
Bond discounts and issue costs on advance refundings	19,796,323	13,978,464	33,774,787	(11,990,000)
Bond premium on advance refundings	(17,160,417)	(6,600,798)	(23,761,215)	-
Reduction of long-term debt due to advance refundings	(346,625,640)	(230,059,361)	(576,685,001)	(287,115,000)
Unamortized bond discounts/issue costs on advance refundings	(7,092,255)	(2,154,607)	(9,246,862)	4,765
Increase in nuclear fuel expense payable	(3,032,897)	-	(3,032,897)	(7,394,043)
Tax and revenue bonds assumed from annexation	-	-	-	7,470,000
Increase in capital appreciation bond interest payable	(6,297,123)	(2,485,997)	(8,783,120)	(6,523,432)
Fixed assets contributed (to) from other funds	(1,172,238)	(909,372)	(2,081,610)	1,263,958
Fixed asset contributions from annexation	-	-	-	5,738,364
Contributed facilities from developers	-	697,647	697,647	191,602
Amortization of bond discounts/issue costs	(4,372,733)	(1,551,513)	(5,924,246)	(5,340,662)
Amortization of deferred gain (loss) on refundings	4,996,233	(1,447,399)	3,548,834	3,755,242
Amortization of deferred assets	(3,652,549)	(590,612)	(4,243,161)	(4,011,685)
Amortization of coal and nuclear fuel inventory	(5,575,917)	-	(5,575,917)	(5,575,917)
Amortization of deferred depreciation	13,088,341	12,193,063	25,281,404	6,900,478
Depreciation taken on contributions	2,041,154	9,118,917	11,160,071	10,688,938
Loss on disposal of assets	(1,159,417)	(60,659)	(1,220,076)	(2,363,848)
Cost to be recovered in future years	21,507,743	3,498,925	25,006,668	22,990,072
Gain (loss) on extinguishment of debt	985,620	(337,518)	648,102	(425,037)
Reduction in other receivables	\$ (1,912,317)	-	(1,912,317)	-

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

UTILITY FUNDS
STATEMENT OF REVENUES
Year ended September 30, 1992
With comparative totals for year ended September 30, 1991

CITY OF AUSTIN, TEXAS

	1992	1991
Electric		
Domestic and rural residential	\$ 161,387,519	162,317,275
Commercial general	234,463,453	229,823,507
City utility departments	8,444,235	8,533,025
Public street lighting	4,358,334	4,397,009
City general government departments	3,261,744	4,406,552
Sales to other utilities	6,424,205	6,375,981
Rent from electric property	239,329	258,359
Customers' forfeited discounts and penalties	3,123,235	2,845,825
Miscellaneous	4,368,395	3,508,438
Operating revenues	426,070,449	422,465,971
Interest	22,794,154	29,161,255
Total electric	448,864,603	451,627,226
Waterworks		
Urban	62,726,778	58,643,829
Rural	6,111,573	6,377,144
City utility departments	523,257	501,193
City general government departments	937,644	1,075,788
Sales to other utilities	6,147,122	5,939,760
Water connections	295,203	314,462
Customers' forfeited discounts	566,911	533,720
Miscellaneous	241,426	369,164
Operating revenues	77,549,914	73,755,060
Interest	3,505,697	5,962,310
Total waterworks	81,055,611	79,717,370
Sewer System		
Urban	65,038,093	64,624,395
Rural	2,719,489	2,636,595
City utility departments	45,203	140,195
City general government departments	421,397	441,454
Services to other utilities	2,481,548	3,566,308
Sewer connections	274,117	292,001
Customers' forfeited discounts	549,748	499,259
Miscellaneous	3,126,325	3,395,140
Operating revenues	74,655,920	75,595,347
Interest	4,738,226	7,751,202
Total sewer	79,394,146	83,346,549
Total operating and interest revenues	\$ 609,314,360	614,691,145

See accompanying independent auditors' report.

UTILITY FUNDS**CITY OF AUSTIN, TEXAS****STATEMENT OF EXPENSES BEFORE INTEREST AND DEPRECIATION****Year ended September 30, 1992****With comparative totals for year ended September 30, 1991**

	1992	1991
Electric		
Production, excluding joint facilities	\$ 49,701,485	46,478,476
Joint facilities production	113,435,529	117,666,827
Transmission and distribution	20,733,739	17,910,074
Customer accounting and collection	11,357,826	14,805,497
Jobbing and contract work	29,886	(116,115)
Design engineering	7,029,043	6,013,090
Administrative and general	8,792,387	8,941,105
Interdepartmental services	700,000	700,000
Total electric	211,779,895	212,398,954
Waterworks		
Purification	9,167,925	8,496,279
Distribution	12,816,603	12,805,908
Customer accounting and collection	5,247,294	4,377,629
Jobbing and contract work	(56,032)	(149,213)
Design engineering	1,600,287	203
Administrative and general	5,090,376	6,298,985
Total waterworks	33,866,453	31,829,791
Sewer System		
Sewer lines	7,734,044	8,182,839
Sewage treatment plant	12,092,846	12,382,501
Customer accounting and collection	3,268,692	2,771,880
Jobbing and contract work	20,321	(21,411)
Design engineering	1,117,129	1,574,902
Administrative and general	4,869,827	2,342,096
Total sewer	29,102,859	27,232,807
Total expenses before interest, depreciation and nonoperating items	\$ 274,749,207	271,461,552

See accompanying independent auditors' report.

**UTILITY FUNDS
COMBINING SCHEDULE OF CHANGES IN FIXED ASSETS AND ACCUMULATED DEPRECIATION
Year ended September 30, 1992**

	Assets				Accumulated Depreciation			
	Balance September 30, 1991	Additions	Retirements	Transfers from Construction Work in Progress	Transfers from (to) Other Funds (1)	Balance September 30, 1992	Balance September 30, 1991	Current Depreciation & Amortization
Plant in service								
Electric	\$ 1,946,043,267	8,366,005	(4,081,203)	28,652,466	53,353	1,979,033,888	444,509,156	56,774,778
Waterworks	496,596,826	25,611,037	(114,992)	6,436,935	(11,742)	528,517,864	101,957,419	11,399,457
Sewer system	646,056,793	24,312,254	(128,953)	9,720,214	(250,381)	679,711,927	116,417,971	18,097,840
	3,088,696,886	58,289,296	(4,323,148)	44,809,615	(208,770)	3,187,263,679	663,184,546	86,262,075
Construction in progress								
Electric	67,445,222	67,786,056	152,373	(27,683,411)	(1,197,945)	106,502,297	-	-
Waterworks	144,592,680	15,536,316	-	(6,436,935)	(1,012,598)	152,669,473	-	-
Sewer system	49,928,579	17,962,869	-	(9,720,214)	(1,012,598)	57,158,636	-	-
	261,966,491	101,285,243	152,373	(43,840,560)	(3,223,141)	316,330,406	-	-
Electric nuclear fuel	78,786,170	9,003,533	-	-	-	88,389,703	33,900,394	17,192,181
Electric plant held for future use	43,226,142	-	-	(4,775,713)	-	38,450,429	-	-
Total utility plant	\$ 3,472,665,469	169,176,072	(4,170,775)	(3,806,658)	(3,431,911)	3,630,434,217	697,084,940	103,454,256

	Electric	Waterworks	Sewer System	Total
Plant in service				
Land and land rights	\$ 28,032,032	28,083,878	8,120,653	62,246,563
Buildings and improvements	1,192,155,102	410,790,556	478,814,382	2,079,760,040
Machinery and equipment	716,478,954	48,613,156	150,412,905	915,505,015
Completed assets, unclassified	42,367,800	42,020,274	44,363,997	128,752,061
Less accumulated depreciation				
Net plant in service	1,979,033,888	528,517,864	679,711,927	3,187,263,679
Construction in progress, including costs incurred on projects under joint construction	496,655,341	113,235,229	134,231,054	744,121,624
Nuclear fuel net of amortization	1,480,175,547	415,282,635	545,480,873	2,440,939,055
Plant held for future use	106,502,297	132,669,473	57,158,036	316,330,406
Net utility plant	37,297,128	-	-	37,297,128
	38,450,429	-	-	38,450,429
Total	1,662,425,401	567,952,108	802,639,509	2,833,017,018
(1) Transfers from (to) other funds and account groups are as follows				
Enterprise funds:				
Utility and other	(288)	(2,664)	2,932	-
Internal service fund	67,306	9,169	-	76,565
Fleet Maintenance	(1,211,720)	(1,030,846)	(1,265,910)	(3,508,476)
General fixed assets	(1,144,592)	(1,024,341)	(1,262,978)	(3,431,911)
Total transfers	\$	\$	\$	\$

See accompanying independent auditors' report.

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 and provides services, as are authorized by its charter, to advance the welfare, health, morals, comfort, safety, and convenience of the City and its inhabitants. The financial statements included herein are only those of the Utility Funds which include:

Electric Light and Power System: To account for the operations of the electric utility which is managed by the Electric Department.

Waterworks and Sewer System: To account for the operations of the water and wastewater utility which are managed by the Water and Wastewater Department.

The Utility Funds do not present the financial position and results of operations of the City of Austin, Texas, as a whole, in accordance with generally accepted accounting principles.

This report includes the financial statements required to account for those activities, organizations and functions related to the Utility Funds and controlled by or dependent upon the Utility Funds' governing body, the City Council. The criteria for including activities used by the Utility Funds' in preparing its financial statements are in conformity with the National Council of Governmental Accounting (NCGA) Statement 3, *Defining the Governmental Reporting Entity*. Control by or dependence on the Utility Funds was determined on the basis of budget adoption, authority to establish rates, outstanding debt secured by revenues of the Utility Funds, the Utility Funds' obligation to finance any deficits that may occur, funding and selection of governing authority, and other evidence of financial interdependence and the ability to exercise oversight responsibility.

City of Austin Deferred Compensation Plan for City Employees

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees (including Utility Fund employees), permits them to defer a portion of their salary until future years. The City does not make any contributions to the plan. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Deferred compensation is available to employees' beneficiaries in case of death.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

In management's opinion, the City has no liability for losses under the plan. However, the City does have the duty of due care that would be required of an ordinary prudent investor. The City believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

All assets of the Plan are held by an independent administrator whose activity is monitored by a Board consisting of City employees. It is appropriate to include this entity in the City of Austin Comprehensive Annual Financial Report (CAFR) since the City has title to these assets. The deferred compensation plan is reported as an agency fund in the CAFR, but is not included in the Utility Financial Statements.

1 -- REPORTING ENTITY, continued

Joint Operations

The Utility Funds have entered into participation agreements on the following joint projects and based upon the above criteria the City's share of these joint projects is included in these financial statements:

South Texas Project -- operation of a nuclear power plant;

Fayette Power Project -- operation of two coal-fired generating units,

Brushy Creek Water Control and Improvement District No. 1 of Williamson and Milam Counties--construction and operation of a wastewater collection and treatment system; and

Various utility construction projects--construction of certain contract facilities consisting of additions, improvements and extensions of the City's Waterworks and Sewer System.

Additional disclosure concerning these joint operations is provided in Notes 11 and 12.

2 -- SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City relating to the accompanying Utility Funds' financial statements conform to generally accepted accounting principles (GAAP) 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 Utility Funds.

Basis of Presentation

The Utility Funds are major Enterprise Funds of the City. The operations of the funds are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, retained earnings, revenues and expenses.

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 Electric Light and Power System Fund and Waterworks and Sewer System Fund are primarily supported by electric, water and wastewater user charges.

Basis of Accounting

Basis of accounting refers to the time at which revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized by the Utility Funds. Under the accrual basis of accounting, 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

Revenues in the Utility Funds are recognized as billed to customers on a cycle basis. Electric rates include a fixed rate and a fuel recovery cost adjustment factor which allows recovery of coal, gas, purchased power and other fuel costs. The City defers the revenues received for replacement of nuclear fuel inventory until the fuel is purchased. Unbilled revenues are recorded to the extent that actual fuel costs differ from amounts included in customer bills. Unrecovered fuel revenue reflected on the balance sheet of the Utility Funds as of September 30, 1992 was considered in developing the monthly fuel factor for November 1992.

**UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992**

CITY OF AUSTIN, TEXAS

2 – SIGNIFICANT ACCOUNTING POLICIES, continued

Rates

The City Council has exclusive original jurisdiction over utility rates and other services. The determination of utility rates is based on the cost of operations and a debt service coverage approach. Historically, rates have been set by the City Council to be effective for the rate year beginning November 1 of each year.

Pooled Investments and Cash

Cash balances of all City funds (except for general obligation and revenue bond debt service funds, revenue bond retirement reserve funds, revenue note fund, and pension trust funds) are pooled and invested. Investments purchased with pooled cash, consisting primarily of U.S. government obligations, U.S. agency obligations and repurchase agreements, are recorded at cost, which approximates market. 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, classified as "advanced pooled investments and cash," are not allocated any interest earnings nor charged interest expense.

Investments

Investments in certificates of deposit, U.S. government obligations, State and local government obligations and other investments are recorded at cost. Amortization of premium and accretion of discount on investment purchases are not recorded over the term of the investment; however, the effect of this policy on these financial statements is immaterial.

Inventories

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

<u>Fund</u>	<u>Inventory Valuation Method</u>
Electric:	
Fuel oil and coal	Last-in, first-out
Materials, supplies, Fayette fuel oil and nuclear fuel	Average cost
Water:	
Materials and supplies	Average cost
Wastewater:	
Materials and supplies	Average cost

Inventory uses the consumption method and records expenses or capital additions when used.

Utility Plant

Utility Plant owned by the Utility Systems is stated at historical cost. Maintenance and repairs are charged to operations as incurred, and improvements and betterments, which extend the useful lives of fixed assets, are capitalized. Interest paid on long-term debt in the Utility Funds is not capitalized unless such debt is issued to pay the interest costs incurred during construction.

Depreciation of plant and equipment classified by functional components is provided by the straight-line method over their estimated useful lives. Estimated useful lives for the Utility Funds' plant assets are as follows:

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

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

2 – SIGNIFICANT ACCOUNTING POLICIES, continued

When utility plant is retired from service or otherwise disposed of, a gain or loss on disposal of assets is recognized.

Contributions of funds from Federal, State, or local grants, restricted for the purpose of 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 accounts.

Long-Term Debt

Revenue bonds that have been issued to fund capital projects of the Utility Funds are to be repaid from net revenues of the Utility Systems. Such debt is recorded in the Utility Funds.

Compensated Absences

All full-time employees accumulate vacation benefits in varying annual amounts up to a maximum allowable accumulation of 240 hours. Sick leave benefits are earned by all full-time employees at a rate of twelve days per year and may be accumulated without limit. Upon termination, an employee is reimbursed for all accumulated vacation days. If the terminating employee has at least five years continuous service, 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.

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.

Pension Plans

It is the policy of the City to fund pension costs annually. Pension costs are composed of normal costs and, where applicable, amortization of unfunded prior service cost. (See Note 6)

Federal and State Grants, Entitlements and Shared Revenues

Grants, entitlements and shared revenues received for operating purposes, or which may be used for either operations or capital expenditures at the discretion of the Utility Systems, are recognized in the Utility Funds. Grant monies restricted for acquisition or construction of capital assets are recorded as contributed equity in the Utility Funds.

Intergovernmental Revenues, Receivables and Liabilities

Intergovernmental revenues and related receivables arise through funding received from Federal and State grants. These revenues and receivables are earned through expenditure of monies 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 units 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.

Non-recurring or non-routine transfers of equity between funds are treated as residual equity transfers. Residual equity transfers to the Utility Funds are treated as contributed capital, and such transfers from Utility 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.

UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992

CITY OF AUSTIN, TEXAS

2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

Reclassifications

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

Deferred Expenses

The Utility Funds are reported in accordance with Statement of Financial Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*. Certain utility expenses that do not require funds currently are deferred to future periods in which they are intended to be recovered by rates. Likewise, certain credits to income are deferred to future periods in which they are matched with related costs. Deferred expenses will be recovered in these future periods by setting rates sufficient to provide funds for the related debt service requirements.

Statement of Cash Flows

For purposes of the statement of cash flows, the Utility Funds consider 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. Capital leases represent the City's predominant non-cash activity. However, 1992 capital lease transactions are not material to the Utility Funds.

3 -- POOLED INVESTMENTS AND CASH

The following summarizes the amounts of pooled investments and cash by account at September 30:

	<u>1992</u>	<u>1991</u>
Current	\$ 28,865,474	27,266,344
Construction	134,216,159	178,758,223
Customer deposits	5,242,989	5,411,470
Tax and revenue bonds	--	44,757
Restricted for nuclear fuel inventory	17,420,636	14,387,738
Decommissioning account	673,434	674,336
Escrow deposits	1,036,930	784,747
	<u>\$ 187,455,622</u>	<u>227,327,615</u>

4 -- INVESTMENTS

Investments owned by the Utility Funds of the City at September 30, 1992, are shown in the table below:

Descriptions	Interest Rates	Par Value	Cost	Market Value	Unrealized Gain
Restricted Investments					
Revenue bond debt service:					
Obligations of the US Govt. and its agencies	5.20% - 5.75%	\$ 73,792,682	73,628,251	73,763,775	135,524
Revenue bond retirement reserve					
Obligations of the US Govt. and its agencies	5.35% - 14.29%	166,653,802	165,921,458	171,356,412	5,434,954
Tax and revenue bond debt service:					
Obligations of the US Govt. and its agencies	5.28%	94,376	94,376	94,376	--
TOTAL		<u>\$ 240,540,860</u>	<u>239,644,085</u>	<u>245,214,563</u>	<u>5,570,478</u>

UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992

CITY OF AUSTIN, TEXAS

4 - INVESTMENTS, continued

Investments

Texas statutes authorize the City to invest in (1) obligations of the U.S. Treasury or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (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 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; (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-registered, no load money market mutual funds with a dollar weighted average portfolio maturity of 120 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 organized in accordance with the Interlocal Cooperation Act (Article 4413 (320), V.T.C.S.), as amended, whose assets consist of the obligations described in (1) through (8) above; and (11) common trust funds or comparable investment devices owned or administered by banks domiciled in Texas. Fund assets shall consist exclusively of obligations described in (1) through (8) above

The Utility Funds' investments 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 Utility Funds 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 broker or dealer, or by the City's trust department or agent, but not in the City's name. (See table below.)

	Category			Carrying Amount	Market Value
	1	2	3		
Investments					
Obligations of the US Govt. and its agencies	\$ 239,644,085	--	--	239,644,085	245,214,563
TOTAL	<u>\$ 239,644,085</u>	<u>--</u>	<u>--</u>	<u>239,644,085</u>	<u>245,214,563</u>

**UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992**

CITY OF AUSTIN, TEXAS

5 -- FIXED ASSETS

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

	<u>1992</u>	<u>1991</u>
Land and land rights	\$ 62,247	60,276
Buildings and improvements	2,079,760	2,081,523
Machinery and equipment	916,505	836,952
Completed assets not classified	128,752	109,945
Total in Service	<u>3,187,264</u>	<u>3,088,696</u>
Less accumulated depreciation	<u>(746,325)</u>	<u>(663,184)</u>
Net property and equipment in service	2,440,939	2,425,512
Construction in progress	316,330	261,956
Nuclear fuel (net of amortization)	37,297	44,886
Plant held for future use	38,451	43,226
	<u>\$ 2,833,017</u>	<u>2,775,580</u>

Construction in progress includes various capital projects that are primarily funded by revenue bonds.

The City anticipates the need for numerous additional utility-related projects over the next several years. However, the City has no formal commitments to utility projects other than those currently under construction.

Estimated unfunded future expenditures for capital projects will be funded from operations, issuance of additional revenue bonds, or from alternative methods of financing. Authorization to issue additional revenue bonds may be requested from the qualified voters of the City. However, it is the opinion of legal counsel that the City Council is not legally required to secure voter approval to authorize and issue additional revenue bonds.

The following tabulation presents the estimated unfunded future expenditures for capital projects and related bonds authorized, but unissued as of September 30, 1992, (in thousands of dollars):

	<u>Total Estimated Cost</u>	<u>Expenditures Incurred to September 30, 1992</u>	<u>Estimated Future Expenditures</u>	<u>Net Amounts Available in (Borrowed From) Construction Accounts</u>	<u>Estimated Unfunded (Overfunded) Future Expenditures</u>	<u>Bonds Authorized Unissued at September 30, 1992</u>
Projects funded by revenue bonds for the utility funds:						
Electric systems improvements, general	834,265	583,841	250,424	82,349	168,075	272,620
Electric systems improvements, Fayette Power Project Units I and II	7,401	4,810	2,591	2,854	(263)	--
Electric systems improvements, South Texas Project (1)(2)	954,015	937,790	16,225	3,066	13,159	289,768
Water improvements	663,498	331,814	331,684	7,377	324,307	311,947
Wastewater improvements	563,606	395,021	168,585	22,794	145,791	224,179
Total projects funded principally by revenue bonds	<u>3,022,785</u>	<u>2,253,276</u>	<u>769,509</u>	<u>118,440</u>	<u>651,069</u>	<u>1,098,514</u>
Less:						
Amounts related to plant in service	2,018,599	1,859,888	158,711			
Amounts related to deferred assets	38,608	38,608	--			
Plant held for future use	38,450	38,450	--			
Amounts related to construction in progress	<u>\$ 927,128</u>	<u>316,330</u>	<u>610,798</u>			

(1) Excludes nuclear fuel costs.

(2) Proceeds from the Brown and Root Settlement of \$52,658,000 were authorized to fund electric system improvements and have been included in this schedule.

**UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992**

CITY OF AUSTIN, TEXAS

6 -- RETIREMENT PLAN

a -- General

The Utility Funds participate in funding a contributory, defined benefit retirement plan referred to as the City of Austin Employees' Retirement and Pension Fund. This plan is a City-wide single employer funded plan that covers substantially all full-time employees. Prior to August 26, 1991, City and employee contributions to the Employees' Fund were governed by City Council ordinance. Since August 26, 1991, City and employee contributions are governed by State law. The City's total retirement plan expense for the year ended September 30, 1992, was approximately \$21,040,000, which includes amortization of prior service cost. Contributions to the plan at September 30, 1992, and net assets available for benefits at December 31, 1991, are as follows (in thousands of dollars):

	<u>1992</u>	<u>1991</u>
Contributions for the year ended September 30:		
City	\$ 13,724	12,234
Employees	13,724	12,224
Total Contributions	<u>27,448</u>	<u>24,458</u>
Net assets available for benefits at December 31, 1991 and 1990	<u>\$ 414,570</u>	<u>365,319</u>

As of September 30, 1992, 6,968 City employees were participating in the fund, of which 1,937, or 28%, were Utility employees.

b -- Contribution Method and Benefits

The following is a summary of contribution methods and benefits

CITY OF AUSTIN EMPLOYEES' RETIREMENT AND PENSION FUND

Authority establishing contributions obligation: State Legislation (1)

Frequency of contribution: Biweekly

Employee's contribution (% of earnings): 7.0%

City's contribution (% of earnings): 7.0% (2)

Period required to vest: 5 years

Eligibility for distribution of retirement benefits to member or beneficiary: Age 55 with 20 years of creditable service or age 62, regardless of number of service years, or 30 years creditable service, regardless of age.

Increase in Benefits: Benefits may be increased annually by the amount of increase in the Consumer Price Index, up to 3%. Beginning January 1, 1992, benefits may be increased annually from 3% to 4%. Increases must be approved by the Board and actuaries of the Fund. 1991--3%, 1990--3%

Terms of Benefits: Terms of benefits are determined by certain elections made by the member, the member's level of earnings and length of service. Benefits are distributed in equal monthly installments over a period of time, or in a lump sum in the event of death. Distributions are also available in the event of total and permanent disability.

c -- Actuarial Present Value of Vested Benefits

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted be approved by a qualified actuary. The actuary certifies that the contribution commitment by the participants and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the unfunded actuarial accrued liability, if any exists, and the number of years needed to amortize the unfunded actuarial accrued liability. The Employees' Fund is fully funded (based on assets valued at adjusted market value).

(1) As of August 26, 1991, City and employee contributions for the Employees' Fund are governed by State legislation. Prior to August 26, 1991, City and employee contributions were governed by City Council Ordinance.

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

UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992

CITY OF AUSTIN, TEXAS

6 -- RETIREMENT PLAN, continued

Calculations of the actuarially computed value of vested benefits were made by actuaries for the Employees' Retirement and Pension Fund as of December 31, 1991. The following actuarial cost method and significant assumptions underlying the actuarial calculation were used in the determination of the required plan funding level.

Actuarial cost method: Entry age normal cost
Assumed rate of return on investments: 8%
Retirement age: Dependent on entry age and length of service
Assets valuation basis: Adjusted market value

Other significant assumptions used for the Pension Fund are the assumed employee turnover, salary increases and mortality rates, which are based on published statistical data.

The amount shown below as the "pension benefit obligation" is a standardized measure of the present value of pension benefits estimated to be payable in the future as a result of employee service to date. These benefits have been adjusted for the effects of projected salary increases.

The pension benefit obligation is the actuarial present value of credited projected benefits and is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. This measure is independent of the actuarial funding method used to perform the actuarial valuation.

The pension benefit obligation as of December 31, 1991, is based on actuarial valuations for the Employees' Retirement and Pension Fund as of December 31, 1991, and on the plan in effect on that date. Significant actuarial assumptions used include:

	<u>City Employees</u>
Rate of return on the investment of present and future assets (compounded annually)	8.00%
Average projected salary increases, attributable to inflation (compounded annually)	6.50%
Additional projected salary increases, attributable to merit, promotion, and longevity	1.50%
Post retirement benefit increases	none

Pension benefit obligation as of December 31, 1991, is as follows (in thousands of dollars):

	<u>City Employees</u>
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 137,696
Current employees:	
Accumulated employee contributions	106,520
Employer-financed vested	105,518
Employer-financed nonvested	3,894
Total pension benefit obligation	353,628
Net assets available for benefits (at book value)	414,570
Unfunded (assets in excess of) pension benefit obligation	\$ (60,942)
Net assets available for benefits (at market value)	\$ 506,388

6 -- RETIREMENT PLAN, continued

d -- Changes Related to Actuarial Assumptions

CITY OF AUSTIN EMPLOYEES' RETIREMENT AND PENSION FUND

1991

1. Maximum cost-of-living adjustment that can be annually granted was increased from 3% to 4% beginning January 1, 1992. This change was reflected in the latest actuarial valuation.

There were no changes related to actuarial assumptions in 1990.

e -- Changes in Plan Provisions

CITY OF AUSTIN EMPLOYEES' RETIREMENT AND PENSION FUND

1991

1. Participation in the Proportionate Retirement Program allowing members to combine service with service credit effective August 26, 1991.
2. A 3% cost-of-living increase was approved effective January 1, 1991.

1990

1. Beginning January 1, 1992, the maximum cost-of-living adjustments that can be annually granted with the approval of the Fund's actuary and Board was increased to 4%. A 3% cost-of-living increase was approved, effective January 1, 1990.
2. The benefit formula multiplier was increased to 2.1% per year of service, effective February 1, 1990.
3. Annuitants were granted one-time increases ranging from 15% for those retiring before 1969 to .5% for those retiring from September 30, 1988 through December 31, 1989, with five increase levels between, depending upon retirement date

f -- Federal Income Taxes

The pension fund is a public employees' pension plan and is exempt from Federal income taxes and the provisions of the Employee Retirement Income Security Act of 1974.

g -- Plan Administration Costs

Plan administration costs that are being paid partially by the Utility Fund include audit fees and actuarial fees (valuations performed in alternating years). The Pension fund is responsible for all administrative costs.

h -- Historical Trend Information

Unaudited historical trend information required by GASB Statement No. 5 (implemented in 1987), designed to provide details regarding the Funds' progress in accumulating assets to pay benefits when due and to summarize operating results, is presented in separately issued retirement fund financial statements.

**UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992**

CITY OF AUSTIN, TEXAS

6 -- RETIREMENT PLAN, continued

Analysis of funding progress for the plan at December 31 is as shown below (in thousands of dollars):

	1991	1990	1989	1988
Net assets available for benefits	414,570	365,319	329,325	297,846
Pension benefit obligation	353,628	317,848	279,636	259,914
Percentage funded	117.2%	114.9%	117.8%	114.6%
Unfunded (assets in excess of) pension benefit obligation	(60,942)	(47,471)	(49,689)	(37,932)
Employer contribution	12,660	11,425	10,598	11,246
Annual covered payroll	180,853	163,216	151,400	175,720
Employer contribution as a percent of covered payroll	7.0%	7.0%	7.0%	6.4%

i -- Subsequent Events

Net assets available for benefits (unaudited) increased \$57,876,000 for the year ended December 31, 1992. The net increase is the result of recurring pension activity such as contributions received, investment income, benefits paid and contributions refunded.

7 -- REVENUE BONDS AND OTHER LONG-TERM DEBT

a -- General

The Utility Funds of the City derive their funding for capital projects from the issuance of revenue bonds, other sources of financing, and net revenues of the Utility Funds that are not restricted for debt service or other uses. The following table summarizes utility revenue bonds and other long-term financing transactions for the year ended September 30, 1992, (in thousands of dollars):

	Subordinate Lien Bonds	Prior Lien Bonds	Total
Balance payable, net of discount and inclusive of premium - October 1, 1991	\$ 368,564	1,964,476	2,333,040
Debt issued, net of discount and inclusive of premium	940	612,613	613,553
Debt repaid, defeased, or refunded, net of discount	(31,005)	(572,455)	(603,460)
Amortization of bond discount and premium	1,146	4,039	5,185
Balance payable, net of discount and inclusive of premium - September 30, 1992	<u>\$ 339,645</u>	<u>2,008,673</u>	<u>2,348,318</u>

The total combined utility system obligations at September 30, 1992, consist of \$2,063,452,775 prior lien bonds and \$351,045,000 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$2,551,631,216 at September 30, 1992. Revenue bonds authorized and unissued amount to \$1,098,514,000 at that date.

UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992

CITY OF AUSTIN, TEXAS

7 -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

b -- Revenue Bond Refunding Issues

The City's Utility Funds have refunded various issues of revenue bonds, notes, and certificates of obligation through refunding revenue bonds. These refunding bonds are collateralized by the net revenues of the Utility Funds, as defined in the respective bond indentures. 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 has 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.

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 1992 (in thousands of dollars):

Series	Bonds Dated	Original Amount Issued	Outstanding at September 30, 1992
		\$	\$
1982 Refunding	March 1982	598,000	327,285
1985	March 1985	225,000	28,200
1985A	November 1985	162,000	22,125
1985 Refunding	October 1985	454,950	63,260
1986A	April 1986	325,000	103,200
1986C	November 1986	137,915	129,820
1986 Refunding	March 1986	545,145	221,110
1987	May 1987	65,000	10,605
1988	July 1989	65,800	32,875
1988AB Refunding	October 1988	369,901	369,076
1989	July 1989	65,800	65,240
1990	August 1990	6,395	5,635
1990AB Refunding	February 1990	236,009	226,104
1991 Refunding	March 1991	143,740	138,540
1991A Refunding	June 1991	57,080	53,910
1992 Refunding	March 1992	265,806	265,806
1992A Refunding	May 1992	351,706	351,706

7 -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

The following bonds were refunded in fiscal year ended September 30, 1992:

Refunded by Series 1992 Refunding in March 1992 (in thousands of dollars):

Series	Amount Refunded
	\$
1986A	200,000
1987	26,590

In April 1992, the City delivered \$265,806,181 of Combined Utility Systems Revenue Refunding Bonds Series 1992 to refund \$226,590,000 of previously issued Combined Utility Systems Revenue Bonds. This refunding is considered a legal defeasance of debt. The refunding resulted in a reduction in cash flow requirements to service the debt of \$12,739,538. An economic savings of \$10,358,407 was recognized on this transaction. An accounting loss of \$22,510,967, which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on the refunding.

Refunded by Series 1992A Refunding in May 1992 (in thousands of dollars):

Series	Amount Refunded
	\$
1985	32,320
1986	300,375

In June 1992, the City issued \$351,706,095 of Combined Utility System Revenue Refunding Bonds Series 1992A to refund \$332,695,000 of previously issued Combined Utility Systems Revenue Refunding Bonds and Combined Utility Systems Revenue Bonds. This refunding is considered a legal defeasance of debt. The refunding resulted in a reduction in cash flow requirements to service the debt of \$19,730,492. An economic savings of \$15,780,214 was recognized on this transaction. An accounting loss of \$33,197,258, 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 defeased in September 1992 (in thousands of dollars):

Series	Amount Refunded
	\$
1982	11,250
1985	2,550
1986A	4,400
1986	1,750
1986C	1,870
1988B	825
1989	340
1990B	475

In September 1992, the City defeased \$23,460,000 of Combined Utility Revenue Bonds, with a cash payment of \$25,711,577. \$25,710,377 was placed in an irrevocable escrow account that was 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.

7 -- REVENUE BONDS AND OTHER LONG-TERM DEBT, continued

c -- Revenue Bond Indenture Requirements

The City is required by bond indentures to pledge the net revenues of the 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 \$79,559,834 including accrued interest at September 30, 1992, are restricted within the Utility Funds 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 \$165,921,458 of investments at cost at September 30, 1992, is also restricted within the Utility Funds. 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.

d -- Refunds Payable on Construction Contracts

Refunds payable on construction contracts of approximately \$6,390,299 at September 30, 1992, excluding accrued interest, represent contractual obligations of the Waterworks and Sewer System 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 Waterworks and Sewer System 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 Waterworks and Sewer System Fund as a contribution in aid of construction.

UTILITY FUNDS
NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 1992

CITY OF AUSTIN, TEXAS
(Continued)

8 - DEBT SERVICE REQUIREMENTS

The following is a summary of the City's debt service requirements for all funds at September 30, 1992:

Fiscal Year Ended September 30	Prior and Subordinate Lien Revenue	Municipal Utility District Contracts	Assumed Water District Improvement Bonds	Assumed Tax and Revenue Bonds	Utility Debt Total
1993	\$ 194,256,608	10,404,586	254,586	522,861	205,438,641
1994	210,826,003	10,800,671	153,779	505,630	222,286,083
1995	233,641,747	11,271,213	153,633	513,449	245,580,042
1996	241,933,498	11,410,389	152,272	529,498	254,025,658
1997	246,072,198	12,394,026	155,598	513,355	259,125,177
1998	246,225,184	12,091,863	157,400	522,095	258,996,542
1999	242,971,922	12,468,991	152,850	528,925	256,122,688
2000	244,289,398	12,678,657	121,875	543,825	257,613,755
2001	239,219,424	12,942,364	149,675	546,275	252,857,738
2002	235,915,659	12,305,781	105,575	546,900	248,873,915
2003	214,327,005	12,673,631	--	580,675	227,581,311
2004	227,643,640	12,831,427	--	575,925	241,050,992
2005	221,803,305	13,033,771	--	595,581	235,432,657
2006	215,853,273	13,076,519	--	617,050	229,546,842
2007	214,055,342	13,184,438	--	--	227,239,780
2008	188,017,456	13,371,082	--	--	201,388,538
2009	175,785,336	13,503,164	--	--	189,288,500
2010	174,534,988	13,638,388	--	--	188,173,376
2011	174,231,638	315,984	--	--	174,547,622
2012	168,473,728	312,363	--	--	168,786,091
2013	164,300,498	312,450	--	--	164,612,948
2014	143,791,846	311,063	--	--	144,102,908
2015	143,049,710	--	--	--	143,049,710
2016	83,062,547	--	--	--	83,062,547
2017	63,941,637	--	--	--	63,941,637
2018	22,682,882	--	--	--	22,682,882
2019	13,239,850	--	--	--	13,239,850
2020	12,960,944	--	--	--	12,960,944
2021	9,041,725	--	--	--	9,041,725
Requirements at September 30, 1992	\$ 4,966,128,991	225,322,821	1,557,243	7,642,045	5,200,651,100

UTILITY FUNDS
NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 1992

CITY OF AUSTIN, TEXAS
(Continued)

8 -- DEBT SERVICE REQUIREMENTS, continued

The following is a schedule of debt service requirements for the Utility Funds as of September 30, 1992

Fiscal Year Ended September 30	Outstanding Prior Lien Bonds			Outstanding Subordinate Lien Bonds			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal (1)	Interest	Total
1993	\$ 4,705,000	135,660,233	140,365,233	10,790,000	43,101,375	53,891,375	15,495,000	178,761,608	194,256,608
1994	13,525,000	132,415,228	145,940,228	23,140,000	41,745,775	64,885,775	38,665,000	174,161,003	210,826,003
1995	39,632,200	130,601,384	170,233,584	24,630,000	38,778,163	63,408,163	64,262,200	169,379,547	233,641,747
1996	52,460,330	127,146,380	179,606,710	26,540,000	35,786,788	62,326,788	79,000,330	162,933,168	241,933,498
1997	60,830,580	123,097,143	183,927,723	29,360,000	32,784,475	62,144,475	90,190,580	155,881,618	246,072,198
1998	65,147,960	118,504,424	183,652,384	33,635,000	28,937,800	62,572,800	98,782,960	147,442,224	246,225,184
1999	69,282,460	113,687,274	182,969,734	35,720,000	24,282,188	60,002,188	105,002,460	137,969,462	242,971,922
2000	65,232,526	118,524,872	183,757,398	41,380,000	19,132,000	60,512,000	106,612,526	137,656,872	244,269,398
2001	64,540,742	119,040,394	183,581,136	42,295,000	13,343,288	55,638,288	106,835,742	132,383,682	239,219,424
2002	68,384,638	116,066,958	184,451,596	44,125,000	7,339,063	51,464,063	112,509,638	123,406,021	235,915,659
2003	81,029,643	112,390,312	193,420,555	48,475,000	2,431,450	50,906,450	99,504,643	114,822,362	214,327,005
2004	120,485,743	105,393,122	225,878,865	350,000	1,414,775	1,764,775	120,835,743	106,807,897	227,643,640
2005	131,278,325	88,760,005	220,038,330	370,000	1,394,975	1,764,975	131,648,325	90,154,980	221,803,305
2006	134,104,465	79,984,733	214,089,198	390,000	1,374,075	1,764,075	134,494,465	81,358,808	215,853,273
2007	140,688,555	71,624,709	212,293,267	410,000	1,352,075	1,762,075	141,078,558	72,976,784	214,055,342
2008	124,694,528	61,559,090	186,253,618	435,000	1,328,838	1,763,838	125,129,528	62,887,928	188,017,456
2009	90,776,993	80,244,118	171,021,111	460,000	1,304,225	1,764,225	94,236,993	81,548,343	175,785,336
2010	77,744,068	95,095,757	172,839,825	415,000	1,280,163	1,695,163	78,159,068	96,375,920	174,534,988
2011	79,567,574	93,395,314	172,962,888	--	1,268,750	1,268,750	79,567,574	94,664,064	174,231,638
2012	76,787,117	90,417,861	167,204,978	--	1,268,750	1,268,750	76,787,117	91,686,611	168,473,728
2013	105,556,488	57,475,260	163,031,748	--	1,268,750	1,268,750	105,556,488	58,744,010	164,300,498
2014	120,735,000	21,788,096	142,523,096	--	1,268,750	1,268,750	120,735,000	23,056,846	143,791,846
2015	122,158,885	19,622,075	141,780,960	--	1,268,750	1,268,750	122,158,885	20,890,825	143,049,710
2016	50,807,916	13,495,256	64,303,172	18,125,000	634,375	18,759,375	68,932,916	14,129,631	83,062,547
2017	53,616,905	10,324,732	63,941,637	--	--	--	53,616,905	10,324,732	63,941,637
2018	14,794,131	7,888,751	22,682,882	--	--	--	14,794,131	7,888,751	22,682,882
2019	11,470,000	1,769,850	13,239,850	--	--	--	11,470,000	1,769,850	13,239,850
2020	11,895,000	1,065,944	12,960,944	--	--	--	11,895,000	1,065,944	12,960,944
2021	8,540,000	501,725	9,041,725	--	--	--	8,540,000	501,725	9,041,725
Requirements at September 30, 1992	\$ 2,063,452,775	2,247,541,600	4,310,994,375	351,045,000	304,089,616	655,134,616	2,414,497,775	2,551,631,216	4,966,128,991

(1) Principal is due annually on November 15 or May 15, according to the dates the bonds were sold, and interest is due semiannually on November 15 and May 15. Interest rates on revenue bonds outstanding range from 5.0% to 14.0%.

**UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992**

CITY OF AUSTIN, TEXAS

8 -- DEBT SERVICE REQUIREMENTS, continued

The following schedule represents the debt service requirements at September 30, 1992, for assumed Water District Improvement Bonds:

Fiscal Year Ended September 30	Principal	Interest	Total
1993	\$ 195,000	59,586	254,586
1994	104,000	49,779	153,779
1995	109,000	44,633	153,633
1996	113,000	39,272	152,272
1997	122,000	33,598	155,598
1998	130,000	27,400	157,400
1999	132,000	20,850	152,850
2000	107,000	14,875	121,875
2001	141,000	8,675	149,675
2002	103,000	2,575	105,575
	<u>\$ 1,256,000</u>	<u>301,243</u>	<u>1,557,243</u>

The following schedule represents the Funds debt service requirements at September 30, 1992, for assumed North Central Austin Growth Corridor MUD #1 Unlimited Tax and Revenue Bonds, Series 1986 and 1987:

Fiscal Year Ended September 30	Principal	Interest	Total
1993	\$ 195,000	327,861	522,861
1994	195,000	310,630	505,630
1995	220,000	293,449	513,449
1996	255,000	274,499	529,499
1997	255,000	258,355	513,355
1998	280,000	242,095	522,095
1999	305,000	223,925	528,925
2000	340,000	203,825	543,825
2001	365,000	181,275	546,275
2002	390,000	156,900	546,900
2003	450,000	130,675	580,675
2004	475,000	100,925	575,925
2005	525,000	70,581	595,581
2006	580,000	37,050	617,050
	<u>\$ 4,830,000</u>	<u>2,812,045</u>	<u>7,642,045</u>

UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992

CITY OF AUSTIN, TEXAS

9 -- INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at September 30, 1992, are as follows:

	Current		Long-Term	
	Due From Other Funds	Due To Other Funds	Advance To Other Funds	Advance From Other Funds
Enterprise Funds				
Utility Funds:				
Receivable from Solid Waste Services Fund	\$ 22,610	--	180,881	--
Receivable from Airport Fund	2,656	--	21,250	--
Receivable from Drainage Fund	5,559	--	44,472	--
Internal Service Funds:				
Receivable from Fleet Maintenance Fund	25,330	--	202,642	--
Enterprise Funds				
Solid Waste Services Fund Payable to Utility Funds	--	22,610	--	180,881
Airport Fund Payable to Utility Funds	--	2,656	--	21,250
Drainage Fund Payable to Utility Funds	--	5,559	--	44,472
Internal Service Funds				
Fleet Maintenance Fund: Payable to Utility Funds	--	25,330	--	202,642
	<u>\$ 56,155</u>	<u>56,155</u>	<u>449,245</u>	<u>449,245</u>

10 -- INTERFUND TRANSFERS

The operating transfers for the Utility Funds include the following:

Operating Transfer In	Operating Transfer Out	1992 Amount	1991 Amount
General Fund	Utility Funds	\$ 73,237,718	63,054,576
Internal Service Funds General Service funds	Utility Funds	--	1,775,000
Trust and Agency Funds: Liability Reserve Fund	Utility Funds	1,127,327	1,000,000
Worker's Compensation Fund	Utility Funds	1,760,591	853,620
Total Trust and Agency Funds		<u>2,887,918</u>	<u>1,853,620</u>
Total Transfers		<u>\$ 76,125,636</u>	<u>66,683,196</u>

**UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992**

CITY OF AUSTIN, TEXAS

10 – INTERFUND TRANSFERS, continued

Contributed Capital Activity

Summary of contributed capital activity for the year ended September 30, 1992:

	Water	Wastewater	Electric
September 30, 1991 balance	\$ 118,373,039	142,147,248	36,394,116
(To) from municipality	(1,190,747)	(957,491)	(3,326,165)
In aid of construction	1,590,112	4,214,232	2,495,251
Depreciation taken	(3,689,361)	(5,429,556)	(2,041,154)
September 30, 1992 balance	<u>\$ 115,083,043</u>	<u>139,974,433</u>	<u>33,522,048</u>

11 – JOINT OPERATIONS

The City has entered into several participating agreements on joint projects. In accordance with NCGA Statement 7, *Financial Reporting for Component Units within the Governmental Reporting Entity*, such joint operations have been evaluated to determine under the criteria set forth in NCGA Statement 3 (see Note 1) which fall within the definition of the reporting entity. The following joint operations meet the criteria for inclusion in the reporting entity and are included (combined) in the City's financial statements. The South Texas Project (see Note 12) also meets the criteria for inclusion and 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 1,100 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 Light and Power System Fund. In addition, each participant has the obligation to finance its portion of any deficits that may occur.

The following is a summary of financial information taken from the Project's audited financial statements, dated June 30, 1992, and 1991, the Project's fiscal year end. These statements were not examined by the City's auditors.

Amounts presented are in thousands of dollars

	June 30, 1992			June 30, 1991		
	Total	COA	LCRA	Total	COA	LCRA
Assets	\$ 89,647	31,608	58,039	86,474	33,484	52,990
Liabilities	12,808	3,194	9,614	13,122	3,086	10,036
Equity	76,839	28,414	48,425	73,352	30,398	42,954
Revenues	1,751	866	885	2,238	1,158	1,080
Expenses	163,362	58,106	105,256	176,331	61,887	114,444
Net Expenses						
Incurred	\$ 161,611	57,240	104,371	174,093	60,729	113,364

11 -- JOINT OPERATIONS, continued

b -- Utility Construction Contracts with Municipal Utility Districts

The City has certain contractual commitments with several Municipal Utility Districts (MUDs) for the construction of certain additions, improvements and extensions of the City's Waterworks and Sewer System. These MUDs are authorized to issue contract revenue bonds to finance the construction of such improvements. The City's commitment exists in either of two forms:

- (1) The City becomes the owner of the improvements upon completion of the construction and makes payments equal to debt service on the MUDs' bonds. Sources of such payment are MUD customers' user fees, surplus net revenues of the City's Waterworks and Sewer System and, if necessary, City ad valorem taxes.
- (2) The City makes payments equal to the principal only on the MUDs' bonds from the same sources mentioned above. The utility construction contract between the MUDs and the City provides that the City will own and operate the water and wastewater improvements upon completion of construction, retirement of all bonds, or upon annexation of the MUDs.

Under these contracts, the MUDs have issued \$202,055,000 City of Austin, Texas Contract Revenue Bonds (original issues) to provide funding for construction costs of the contract facilities. Certain Contract Revenue Bonds have been refunded, defeased, and assumed (MUD annexation) leaving bonds outstanding of \$128,440,000.

On February 27, 1992, the Maple Run at Austin MUD delivered \$17,955,000 of Contract Revenue Refunding Bonds, Series 1992 to refund \$17,400,000 of District's previously issued Contract Revenue Bonds, Series 1986. This refunding is considered a legal defeasance of debt for the MUD. The refunding resulted in a cumulative reduction in debt service requirement of \$3,456,949. An economic savings of \$745,547 was recognized on this transaction. An accounting loss of \$2,348,236 was recognized by the MUD on the refunding.

The bonds are limited obligations of the MUDs payable from and collateralized by a first lien on and pledge of payments to be made by the City pursuant to the utility construction contracts wherein the City has agreed to make semiannual payments in amounts sufficient to pay principal and interest on the bonds when due. A substantial portion of these bonds is collateralized by a subordinate lien on and pledge of the net revenues of the City's Waterworks and Sewer System on a parity with all subordinate lien revenue bonds. The remainder of the bonds are collateralized by a pledge of surplus net revenues of such system and, if necessary, ad valorem City taxes.

To the limited extent of the MUDs' obligation to pay a pro rata share of debt service, the bonds are additionally collateralized by a payable from a levy by the MUD of an annual ad valorem tax without limit as to rate or amount upon all taxable property within the MUD.

Upon completion of the contract facilities, the City's investment in the MUDs will be reclassified as property, plant and equipment. In FY91-92, the City reclassified \$47,199,042 of investment in MUD as property, plant and equipment.

UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1992

CITY OF AUSTIN, TEXAS

11 -- JOINT OPERATIONS, continued

Following is a schedule of outstanding contract revenue bonds at September 30, 1992, and related debt service requirements (including amounts outstanding for which the District is obligated to pay):

	Outstanding Bonds at September 30, 1992	Aggregate Debt Service Requirements
Wells Branch MUD (formerly North Austin Growth Corridor MUD #1)	\$ 5,400,000	7,532,935
South Austin Growth Corridor MUD #1	1,300,000	2,133,156
N. Austin MUD #1	18,330,000	32,821,756
Circle C MUD #3	33,490,000	59,659,494
Circle C MUD #4	3,300,000	6,783,950
Southland Oaks MUD	23,255,000	42,713,497
Maple Run at Austin MUD	20,680,000	33,908,223
Village at Western Oaks MUD	22,685,000	39,769,810
	<u>\$ 128,440,000</u>	<u>225,322,821</u>

UTILITY FUNDS
NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 1992

CITY OF AUSTIN, TEXAS
(Continued)

11 - JOINT OPERATIONS, continued

At the time of preparation of these financial statements, financial information was available for the MUDs. The following information is taken from the most recent audited financial statements, which are for the fiscal year ended September 30, 1991:

		MUD Fiscal Year Ended September 30, 1991									
		Wellis Branch MUD (formerly N. Austin Growth Corridor MUD #1	South Austin Growth Corridor MUD No. 1	North Austin MUD No. 1	Circle C MUD No. 3	Circle C MUD No. 4	Southland Oaks MUD	Maple Run at Austin MUD	Village at Western Oaks MUD	Total	
Assets	\$	25,123,478	9,861,704	49,481,427	32,219,559	7,742,872	3,641,855	17,782,041	22,521,829	168,374,565	
Liabilities		12,039,836	7,830,633	25,974,199	34,157,254	7,430,379	2,441,465	7,055,303	22,743,633	119,672,702	
Equity	\$	13,083,642	2,031,071	23,507,228	(1,937,695)	312,493	1,200,390	10,726,738	(222,004)	48,701,863	