



Control Number: 42867



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SOAH DOCKET NO. 473-14-5138.WS
PUC DOCKET NO. 42857

PETITION OF NORTH AUSTIN § BEFORE THE STATE OFFICE
MUNICIPAL UTILITY DISTRICT NO. 1, §
NORTHTOWN MUNICIPAL UTILITY §
DISTRICT, TRAVIS COUNTY WATER §
CONTROL AND IMPROVEMENT §
DISTRICT NO. 10 AND WELLS §
BRANCH MUNICIPAL UTILITY § OF
DISTRICT §
FROM THE RATEMAKING ACTIONS §
OF THE CITY OF AUSTIN §
AND REQUEST FOR INTERIM RATES §
IN WILLIAMSON AND TRAVIS §
COUNTIES § ADMINISTRATIVE HEARINGS

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NORTH AUSTIN UTILITY DISTRICT NO. 1'S
FIRST SUPPLEMENTAL RESPONSE TO CITY OF AUSTIN'S
SECOND REQUEST FOR PRODUCTION OF DOCUMENTS

TO: City of Austin, by and through its attorney of record, Stephen P. Webb and Gwendolyn Hill Webb, Webb & Webb, 712 Southwest Tower, 211 East 7th Street, Austin, Texas 78701.

COMES NOW, North Austin Utility District No. 1 ("North Austin" or "Petitioner"), in the above-styled and numbered cause, and serves this, its First Supplemental Response to the City of Austin's Second Request for Production of Documents.

Respectfully submitted,

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The Carlton Law Firm, P.L.L.C.
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Austin, Texas 78746
Telephone: (512) 614-0901
Fax: (512) 900-2855

By: 

JOHN J. CARLTON

COUNSEL FOR PETITIONER

CERTIFICATE OF SERVICE

I certify that I served a true and correct copy of the foregoing document on all parties of record in this proceeding on this 21st day of November, 2014 via hand delivery, facsimile, electronic mail, overnight mail, U.S. mail and/or certified mail.


JOHN J. CARLTON

PRODUCTION REQUESTS

The following requests pertain to the written prefiled testimony of David Malish and Thomas Arndt for North Austin Municipal Utility District No. 1.

16. Please provide any and all documents regarding the need or reasons for NAMD1's issuance of bonds to construct water and wastewater in the early 1980's to the present.

Response: Responsive documents will be produced.

18. Please provide any and all documents regarding the need or reasons for NAMD1 issuing the \$37,000,000 in general obligation bonds to purchase water or wastewater internal facilities.

Response: Responsive documents will be produced.

23. Please provide any and all documents regarding NAMD1's bond issue representations to future bond holders for sufficient water and wastewater services available to all developments in NAMD1's tax base.

Response: Responsive documents will be produced.

RESPONSE TO REQUEST NO. 16, 18, 23

\$16,300,000
North Austin Municipal Utility District No. 1
City of Austin, Texas Contract Revenue Bonds, Series 1985

Dated Initially: December 1, 1985

Due: November 15, as shown below

The Bonds will be issued as fully registered bonds in denomination of \$5,000 or any integral multiple thereof. Principal and semiannual interest (May 15 or November 15, first interest payment due May 15, 1986) will be payable by Texas Commerce Bank National Association, Houston, Texas, Trustee, Registrar and Paying Agent.

The Bonds are subject to redemption prior to maturity as described herein.

In the opinion of Bond Counsel, interest on the Bonds will be exempt from Federal income taxes under existing statutes, regulations, published rulings and court decisions.

The Bonds are special obligations of the District payable from and secured by a first lien on and pledge of the payments to be made by the

CITY OF AUSTIN, TEXAS

Pursuant to the Utility Construction Contract dated February 21, 1984 between the District and the City, wherein the City has agreed to make semi-annual payments from the net revenues of the waterworks and sewer system in amounts sufficient to pay principal of and interest on the Bonds when due.

MATURITY SCHEDULE

<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
\$275,000	1990			\$ 725,000	2000		
300,000	1991			800,000	2001		
325,000	1992			900,000	2002		
350,000	1993			975,000	2003		
400,000	1994			1,075,000	2004		
450,000	1995			1,200,000	2005		
500,000	1996			1,325,000	2006		
550,000	1997			1,475,000	2007		
600,000	1998			1,625,000	2008		
650,000	1999			1,800,000	2009		

(plus accrued interest)

The Bonds are offered for delivery when, as and if issued, subject to the unqualified approval of the Attorney General of the State of Texas and of Brown, Maroney, Rose, Barber & Dye, Austin, Texas, Bond Counsel, whose approving opinion will be printed on the Bonds. It is expected that the Bonds will be available for delivery in Austin, Texas on or about December 3, 1985.

The date of this Official Statement is September 26, 1985.

Sealed Bids to be Opened 12:00 P.M., C.S.T., Tuesday, October 29, 1985

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

Elected Officials		
<u>Name</u>	<u>Position</u>	<u>Occupation</u>
Steve D. Pena	President	Partner/Pena Swayze & Co. — Certified Public Accountants
Charles Morrison	Vice President	Owner/Morrison Properties — Real Estate Investor
David W. Gray	Secretary/Treasurer	Partner/Haynie & Kallman, Inc. — Registered Civil Engineer
Ben J. Dukes	Assistant Secretary	Executive Director/Austin Assn. of General Contractors
Barrett D. Allison	Director	Vice President/Retama Development Corp. — Land Developer

CITY OF AUSTIN, TEXAS

Elected Officials (Terms Expire 5-15-87)			
Frank Cooksey	Mayor	Mark Rose	Council Member
John Trevino, Jr.	Mayor Pro-Tem	Smoot Carl-Mitchell	Council Member
Dr. Charles E. Urdy	Council Member	George Humphrey	Council Member
Sally Shipman	Council Member		

Appointed Officials

<u>Name</u>	<u>Position</u>	<u>Length of Employment With City</u>
Jorge Carrasco	City Manager	10 Years
Gary L. Hunt	Assistant City Manager/Utilities	(1)
Paul C. Isham	City Attorney	1 Year
James E. Aldridge	City Clerk	10 Years
Virginia Rutledge	Director of Financial Services	(2)
John B. Moore	Director of Electric Utility	14 Years
James E. Thompson	Director of Water and Wastewater	12 Years

- (1) Mr. Hunt, formerly general manager and chief operating officer of the Illinois Commerce Commission, joined the City in January 1985.
- (2) Ms. Rutledge, formerly director of finance of the City of Memphis, Tennessee, joined the City in July 1985.

DISTRICT CONSULTANTS AND ADVISORS

District Manager	Am-Tex Corporation Austin, Texas
Consulting Engineers	Carlson & Dippel, Inc. Austin, Texas
General Counsel	Armbrust & Brown Austin, Texas
Bond Counsel	Brown, Maroney, Rose Barber & Dye Austin, Texas
Financial Advisors	Texas Capital Markets Group, Inc. Austin, Texas

This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman, or any other person has been authorized to give any information or to make any representation, other than those contained herein, in connection with the offering of these Bonds, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion herein are subject to change without notice and neither expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

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OFFICIAL STATEMENT

relating to

\$16,300,000

North Austin Municipal Utility District No. 1 City of Austin, Texas Contract Revenue Bonds, Series 1985

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to set forth information concerning the North Austin Municipal Utility District No. 1 (the "District"), the City of Austin, Texas, (the "City") and \$16,300,000 aggregate principal amount of the District's City of Austin, Texas Contract Revenue Bonds, Series 1985 (the "Series 1985 Bonds"). The Bonds are authorized to be issued pursuant to Chapter 54, Texas Water Code, as amended, and Article 1109j, Vernon's Annotated Texas Civil Statutes, as amended, and a Resolution which will be adopted by the District on October 29, 1985 (the "Bond Resolution").

PURPOSE OF THE BONDS

The Bonds are being issued to provide funds to discharge costs and expenses incurred or to be incurred by the District incident to the construction of certain wastewater transmission facilities (the "Contract Facilities") for the City of Austin, Texas and for the purpose of providing funds to refund the \$8,800,000 Bond Anticipation Note, Series 1984, issued by the District to provide a portion of the cost of the Contract Facilities.

SECURITY FOR THE BONDS

Pledge of the Bond Resolution

The principal of and interest on the Bonds are payable from and secured by a first lien on and pledge of the payments (the "City Contract Payments") to be made by the City to Texas Commerce Bank National Association, Houston, Texas, the trustee (the "Trustee") in accordance with the Bond Resolution and the Utility Construction Contract dated as of February 21, 1984 between the District and the City (the "Contract"). Pursuant to the Contract, the Bond Resolution and the Trust Indenture dated as of November 1, 1985 between the District and the Trustee (the "Trust Indenture"), the City has agreed to make each such City Contract Payment to the Trustee for deposit into the Debt Service Fund in aggregate amounts sufficient to pay and redeem the principal of, premium, if any, and interest on the Bonds when due.

Under the Contract, the City has pledged the "Net Revenues" of the City's Waterworks and Sewer System to the payment and security of the City Contract Payments and the Bonds. Such pledge is on a parity and of equal dignity with the pledge of the "Net Revenues" of the City's Waterworks and Sewer System securing the City's outstanding Electric, Water and Sewer Refunding Revenue Bonds, \$590,470,000 Series 1982 (the "City Series 1982 Bonds") and other bonds ranking on a parity therewith which may hereafter be issued (the "Subordinate Lien Bonds"), and any Separate Lien Obligations (as hereinafter defined) of the City's Waterworks and Sewer System, and is subject only to the prior lien and pledge of the "Net Revenues" of the City's Waterworks and Sewer System to the payment and security of the City's combined utility systems prior lien revenue bonds and contractual obligations (the "Prior Lien Bonds"). The Contract, and all payments required to be made by the City under the Contract, constitute a "Separate Lien Obligation" of the City's Waterworks and Sewer System, which, under the provisions of the ordinances authorizing the outstanding City Series 1982 Bonds and Prior

Lien Bonds, is an obligation of the City which is payable from the Net Revenues of the City's Waterworks and Sewer System.

Rate Covenants

The City has agreed, pursuant to the Contract, to establish rates and charges for the facilities and services of the City's Electric System and the City's Waterworks and Sewer System (collectively, the "City's Systems") to provide "Gross Revenues" in each Fiscal Year sufficient (i) to pay the maintenance and operation expenses of the City's Systems, (ii) to fund the reserves required for Prior Lien Bonds, Subordinate Lien Bonds, Separate Lien Obligations and other obligations or evidences of indebtedness payable only from and secured solely by a lien on and pledge of the combined "Net Revenues" of the City's Systems, (iii) to produce "Net Revenues" (after satisfaction of the amounts required in (i) and (ii) above) equal to at least the sum of (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations (including the City Contract Payments) plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness, except Prior Lien Bonds and Separate Lien Obligations, payable solely from the secured solely by a lien on and pledge of the "Net Revenues" of either the City's Electric System or the City's Waterworks and Sewer System, or both.

The Contract additionally provides that the City shall establish and maintain rates and charges for water and wastewater services which will annually produce "Net Revenues" of the City's Waterworks and Sewer System at least equal to 1.25 times the combined annual payments to be made during a fiscal year on all Separate Lien Obligations (including the City contract Payments) of the City's Waterworks and Sewer System for purposes of paying or representing the payment of principal of an interest on all indebtedness incurred by reason of, resulting from or issued pursuant to such Separate Lien Obligations.

Reserve Fund

Simultaneously with the delivery of the Bonds to the initial purchaser thereof, the District will deposit in the Reserve Fund, from the proceeds from the sale of the Bonds, the average annual principal and interest requirement of \$1,875,000*. When and if the Reserve Fund at any time contains less than the maximum annual requirement (calculated on a fiscal year basis) for the payment of principal of and interest on the Bonds, (the "Required Reserve") (other than as the result of the issuance of Additional Bonds) the City has agreed, pursuant to the Contract, to cure the deficiency in the Required Reserve within twelve (12) months from the date of the occurrence of the deficiency.

Issuance of Additional Bonds by the District

The District has reserved the right, upon the approval of the City, to issue additional parity bonds to finance the cost of the Contract Facilities or the refunding of the outstanding Bonds, as described more particularly below in "SUMMARY OF THE BOND RESOLUTION — Issuance of Additional Bonds by the District". Any such additional Bonds would be governed by the Bond Resolution and the Trust Indenture. The Bond Resolution also recognizes that the District will issue bonds to finance the District's System and that such bonds will have a first lien on and pledge of the Net Revenues of the District's System (the "System Bonds"); and that the District has reserved the right to issue additional System Bonds on a parity with the System Bonds.

The District presently has a voted authorization of \$73,100,000. Of this amount, only \$16,300,000 is expected to be issued (the "Bonds") to finance construction of the Contract Facilities. In addition, the District expects to issue a total of \$11,000,000 in System Bonds and \$12,000,000 in Contract Bonds.

- * Subject to change.

Annexation of the District by the City

Under the Agreement Concerning Creation and Operation of the North Austin Municipal Utility District No. 1, dated February 21, 1984 between the City, the Developers (as hereinafter defined) and the District (the "Creation Agreement"), the District may be annexed and dissolved by the City upon certain terms and conditions and in certain circumstances. Upon annexation and dissolution of the District, the City would assume the Bonds and other obligations of the District, which pursuant to State law would become payable from ad valorem taxes levied and collected on all taxable property within the City. Upon annexation and dissolution of the District, the City has an option to redeem the Bonds, as described below in "DESCRIPTION OF THE BONDS".

Issuance of Additional Obligations by the City

The City has reserved the right under the Contract and the Bond Resolution to issue bonds and enter into contractual obligations on a parity with or superior to the City Contract Payments.

Pursuant to the provisions of the ordinances authorizing the City's outstanding Prior Lien Bonds and Subordinate Lien Bonds, prior to the issuance of additional Prior Lien Bonds or Subordinate Lien Bonds by the City, a certificate or opinion of a certified public accountant shall be obtained to the effect that, according to the books and records of the City, the Net Earnings for the preceding fiscal year or for 12 consecutive months out of the 15 months immediately preceding the month the ordinance authorizing the Prior Lien Bonds or Subordinate Lien Bonds is adopted were at least equal to the sum of (i) 1.10 times the average annual requirement for the payment of principal and interest (or other similar payment) for the outstanding Subordinate Lien Bonds and all other outstanding Subordinate Lien Bonds and all other outstanding obligations that are payable only from and secured solely by a lien on and pledge of the Net Revenues of either the City's Electric System or the City's Waterworks and Sewer System, or both, other than Prior Lien Bonds and Separate Lien Obligations, after giving effect to the Subordinate Lien Bonds, if any, then proposed and (ii) 1.25 times the average annual requirement for the payment of principal and interest (or other similar payment) for all outstanding Prior Lien Bonds and Separate Lien Obligations, after giving effect to the Prior Lien Bonds, if any, then proposed. In making a determination of the Net Earnings, the accountant may take into consideration a change in the rates and charges for services and facilities afforded by either the City's Electric System or the City's Waterworks and Sewer System, or both, that became effective at least sixty (60) days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the accountant's certificate or opinion.

In the alternative, with respect to Prior Lien Bonds and Subordinate Lien Bonds issued to finance properties and facilities which by their nature, and as incorporated into the City's Systems, either or both, will add additional capacity, or are to replace existing capacity, of the City's Systems, either or both, or substantially increase revenue-producing capabilities (a "Capital Addition"), a certificate of an independent engineer shall be obtained to the effect that based on a report prepared by such independent engineer relating to such Capital Addition and the City's Systems, the projected Net Earnings for each of the five fiscal years subsequent to the date the Capital Addition is estimated to become commercially operative will be equal to at least the sum of (i) 1.25 times the average annual requirements for the payment of the principal and interest (or other similar payments) for Prior Lien Bonds and Separate Lien Obligations then outstanding or incurred and all Prior Lien Bonds estimated to be issued, if any, during the period through the fifth fiscal year subsequent to the date the Capital Addition is estimated to become commercially operative, for property improvements which will constitute enlargements, extensions, betterments, or repairs to the then existing facilities or properties of the City's Systems, either or both, and for all Capital Additions then in progress or then being initiated and (ii) 1.10 times the average annual requirements for the payment of principal and interest (or similar payments) for Subordinate Lien Bonds and all other obligations, other than Prior Lien Bonds or Separate Lien Obligations, payable solely from the Net Revenues of the City's Systems, either

or both, which are then outstanding or incurred and all Subordinate Lien Bonds or such other obligations estimated to be issued, if any, during the period through the fifth fiscal year subsequent to the date the Capital Addition is estimated to become commercially operative, for property improvements or any combination of property improvements which will constitute enlargements, extensions, betterments, or repairs to the then existing facilities or properties of the City's Systems, either or both, and for all Capital Additions then in progress or then being initiated. The term "Net Earnings" shall mean the Gross Revenues of the City's Waterworks and Sewer System after deducting the maintenance and operating expenses of said system, but not expenditures which, under standard accounting practice, should be charged to capital expenditures.

Once a Capital Addition has been initiated by obtaining such certificate of an independent engineer and the Prior Lien Bonds or Subordinate Lien Bonds are delivered therefor, the City reserves the right to issue additional Prior Lien Bonds and Subordinate Lien Bonds, as the case may be, in such amounts as may be necessary to complete the acquisition and construction thereof and make the same commercially operative; provided that the City make a forecast for a period extending five years beyond the estimated commercial operation date of the Capital Addition demonstrating the City's Systems ability to pay all obligations payable from Net Revenues of either the City's Electric System or the City's Waterworks and Sewer System, or both, to be outstanding after the issuance of the additional Prior Lien Bonds or Subordinate Lien Bonds then being issued and have the reasonableness of such forecast confirmed by an independent engineer. No historical test or initial certification as to the Capital Addition is required for the completion of the South Texas Project for which bonds have been issued.

The City has the right to issue or incur additional Separate Lien Obligations.

Application of Gross Revenues of the City's Systems

The ordinance authorizing the City Series 1982 Bonds establishes an Electric Fund into which Gross Revenues derived from the operation of the City's Electric System are deposited and a Water and Sewer Fund into which Gross Revenues derived from the operation of the City's Waterworks and Sewer System are deposited. The revenues so deposited are used; first, to pay the Maintenance and Operating Expenses of the respective system; second, to make deposits into special funds and accounts created in connection with Prior Lien Bond; third, to make the required deposits into the Reserve Fund securing the Prior Lien Bonds and the City Series 1982 Bonds; fourth, to make deposits in the Interest and Redemption Fund for the payment of principal of an interest on the City Series 1982 Bonds, and to pay the City Contract Payments and other Separate Lien Obligations, if any, of the respective systems payable on a parity with the City Series 1982 Bonds; and fifth, for any lawful City purpose.

DESCRIPTION OF THE BONDS

Principal Amount, Date, Interest Rates and Maturities

The Bonds will be issued in the aggregate principal amount of \$16,300,000, will bear interest at the rates per annum set forth on the cover page hereof, payable semi-annually on May 15 and November 15 of each year, commencing May 15, 1986, will be dated the May 15 or November 15 to which interest has been paid or duly provided for except that if any Bond shall be authenticated on a May 15 or November 15 to which interest has been paid it shall be dated as of such date, or if it shall be authenticated prior to May 15, 1986, it shall be dated December 1, 1985 and will mature on November 15 in the years and in the principal amounts set forth on the cover page hereof. The Bonds will be issued as fully registered Bonds without coupons in the denomination of \$5,000 or any integral multiple thereof for any one maturity. The Trustee has been appointed Paying Agent/Registrar for the Bonds.

Record Date

The Record Date with respect to each interest payment date is the last business day of the month immediately preceding the month in which such interest payment date occurs.

Optional Redemption

The Bonds will be redeemable on or after November 15, 1996 at the option of the District as directed by the City, as a whole at any time or in part in principal amounts of \$5,000 or any multiple thereof on any interest payment date at the respective redemption prices, expressed as percentages of the principal amount of the Bonds to be redeemed, set forth below, together with accrued interest to the redemption date:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption</u> <u>Prices</u>
November 15, 1996 to November 14, 1997	101½%
November 15, 1997 to November 14, 1998	101
November 15, 1998 to November 14, 1999	100½
November 15, 1999 and thereafter	100

Extraordinary Optional Redemption

On any date following the date which is four years after the date of the annexation of the District in its entirety by the City, the subsequent dissolution of the District, and the City's assumption of the District's obligations, including the Bonds, the Bonds are subject to optional redemption and may be redeemed prior to their scheduled maturities, by the Trustee at the option of the City. The Bonds may be so redeemed as a whole on any date at the redemption price (expressed as a percentage of principal amount) applicable to the date of redemption falling within the applicable redemption period, as set forth in the following schedule, plus accrued interest to the date of redemption:

<u>Redemption Period</u>	<u>Redemption</u> <u>Price</u>
Date of Delivery of the Bonds to November 14, 1996	103 %
November 15, 1996 to November 14, 1997	101½
November 15, 1997 to November 14, 1998	101
November 15, 1998 to November 14, 1999	100½
November 15, 1999 and thereafter	100

Notice of Redemption

At least thirty (30) days prior to any date on which any of the Bonds are to be redeemed, a written notice of redemption identifying the Bonds or portions thereof to be redeemed will be published at least once in a newspaper, journal or publication of general circulation in The City of New York, New York and in the State of Texas. A similar notice will be mailed by the District to the registered owner of each Bond to be redeemed at the address appearing on the bond registration books maintained by the Registrar. Failure to mail or receive any such notice, or any defect therein or in the mailing thereof, shall not affect the validity of the proceedings for the redemption of such Bonds.

THE DISTRICT

The District was created by order of the Texas Water Commission on November 15, 1983 and confirmed by an election held within the District on February 18, 1984. The District contains 997.690 acres of land and is located adjacent to the Northwestern City limits approximately ten miles from the central business district of the City. A portion of the District lies partially within the City limits approximately 11.61 acres.

The creation of the District is in conformity with the City's municipal utility district policy and in support of its growth management plan, known as the Austin Tomorrow Comprehensive Plan. The District is located within area IV, as described in the City's master plan.

Of the 997.690 acres located within the District, approximately 917 acres can be developed. Of these 917 acres, approximately 285 acres have already been developed.

The District presently has 323 homes constructed and 48 under construction.

The status of construction within the District, as of August 1, 1985 is set forth below:

Type Construction	No. of Lots Under Construction	Sold Under Construction	Unsold Under Construction	Completed Sold	Completed Unsold
Single Family					
Section 22	9	0	0	156	26
23	33	2	19	73	42
26A	137	0	0	0	0
26B	105	0	10	2	19
27A	137	0	0	0	0
27B	124	0	0	0	0
28	215	0	0	0	0
29	<u>144</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	904	2	29	231	87
Retail					
Section 24	2	0	0	0	0
Multifamily					
Section 25	4	0	0	0	0

The assessed valuation of the District as of January 1, 1984 was \$2,291,000. The District has estimated a tax rate of \$0.40 per \$100 assessed valuation for the 1985-86 fiscal year. The local centralized appraisal district has appraised the land within the District at \$41,459,568.

THE DEVELOPERS

Joint Venture

The land within the District is being developed for residential, multifamily, commercial and retail use pursuant to a Milwood Joint Venture II Agreement, a partnership agreement between Bill Milburn, Inc. (Milburn), Palmar Association, Ltd. (Palmar), Austin White Lime and A. H. Robinson III (collectively, the "Developers").

Milburn

Pursuant to the Joint Venture Agreement, Milburn is responsible for the planning and management of development of the property held by the Developers. Its activities include platting, obtaining approval of plats in the subdivisions, coordinating and obtaining approvals and permits from cities, counties, and other governmental entities and authorities which have authority over the activities and the properties located inside the District; providing job supervision, inspection and quality control with respect to the development of the property in the District; conducting sales and/or lease programs relating to tracts or sites and the property located inside the District; and supervising the management of the development of the properties generally.

Milburn, one of the largest individually-owned homebuilding and development firms in the nation (45th-1981), has operated in the City since 1961. Milburn is presently developing land and building homes in Austin, Cedar Park, Oak Hill and Round Rock, Texas. Current subdivision activity includes Milwood, Anderson Mill West, Maple Run, Texas Oaks, Shadow Ridge Crossing, Fern Bluff, The

Settlement, Stony Brook, Oakmont Crossing, Willow Run and Windmill Run. Milburn has developed more than 4,000 acres and built and sold over 15,000 homes in the past 15 years.

Palmar

Pursuant to the Joint Venture Agreement, Palmar is in the Joint venture partnership with Bill Milburn, Inc.. Palmar is a limited partnership consisting of various members of the Robinson family, which own the land within the District. General partners of Palmar Association are A. H. Robinson III and J. O. Robinson. Bill Milburn, Inc. is the managing venture partner; however, there are certain decisions, such as financing and land planning which require joint approval of both venture partners.

THE CONTRACT FACILITIES

The proceeds from the sale of the Bonds will be used to fund system improvements to Lake Creek, Rattan Creek and permanent Walnut Creek Wastewater Systems. System improvements to Lake Creek include lift station improvements of 20,500 gpm capacity, 8 inch force main for Lake Creek to 8 inch Walnut Creek gravity main, 14 inch force main for Lake Creek to Rattan Creek lift station, 24 inch force main for Lake Creek lift station to 48 inch Bull Creek Interceptor gravity main and 10,000 feet of 48 inch gravity main to Bull Creek Interceptor. System improvements to Rattan Creek include 800 gpm wet well lift station capacity, and 21,979 feet of 14 inch force main for Rattan Creek lift station to Bull Creek Lateral "A". System improvements to Permanent Walnut Creek Wastewater System included various line improvements of 8 inch to 20 inch gravity wastewater main and related appurtenances.

The improvements to the City's wastewater system will provide extensions to the northeast and northwest boundaries of the District and will provide service to adjacent areas. Upon completion of construction, the City will own and operate the wastewater improvements (the "Contract Facilities"), but has agreed to reserve adequate capacity therein to serve all land within the District.

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds:	
Proceeds from the Bonds (1)	\$15,974,000
Remaining Proceeds and Interest Earnings from the Bond Anticipation Note, Series 1984 as currently estimated(2)	<u>3,000,000</u>
Total Sources of Funds	\$18,974,000
Uses of Funds:	
Refunding of Bond Anticipation Note, Series 1984	\$ 9,570,000
Deposits to the Debt Service Fund(3)	3,423,000
Deposits to the Reserve Fund(4) (5)	1,875,000
Deposits to the Construction Fund	3,764,273
Administration, Legal, Fiscal and other costs of issuance	<u>341,727</u>
Total Uses of Funds	\$18,974,000

(1) \$16,300,000 less maximum bond discount of \$326,000.

(2) The District issued on December 31, 1984, \$8,800,000 to provide funds to initiate the construction of Contract Facilities.

(3) The District will capitalize two year's interest at the rate of the Bonds.

(4) Equal to the average annual principal and interest requirements of the Bonds.

(5) Subject to Change.

DEBT SERVICE REQUIREMENTS OF THE BONDS

Fiscal Year Ending Sept. 30	Principal	Interest (1)	Total
1986.....		\$ 779,683	\$ 779,683
1987.....		1,711,500	1,711,500
1988.....		1,711,500	1,711,500
1989.....		1,711,500	1,711,500
1990.....		1,711,500	1,711,500
1991.....	\$ 275,000	1,697,062	1,972,062
1992.....	300,000	1,666,874	1,966,874
1993.....	325,000	1,634,062	1,959,062
1994.....	350,000	1,598,625	1,948,625
1995.....	400,000	1,559,250	1,959,250
1996.....	450,000	1,514,625	1,964,625
1997.....	500,000	1,464,750	1,964,750
1998.....	550,000	1,409,625	1,959,625
1999.....	600,000	1,349,250	1,949,250
2000.....	650,000	1,283,625	1,933,625
2001.....	725,000	1,211,437	1,936,437
2002.....	800,000	1,131,374	1,931,374
2003.....	900,000	1,042,124	1,942,124
2004.....	975,000	943,687	1,918,687
2005.....	1,075,000	836,062	1,911,062
2006.....	1,200,000	716,624	1,916,624
2007.....	1,325,000	584,062	1,909,062
2008.....	1,475,000	437,062	1,912,062
2009.....	1,625,000	274,312	1,899,312
2010.....	1,800,000	94,500	1,894,500
	<u>\$16,300,000</u>	<u>\$30,074,675</u>	<u>\$46,374,675</u>

(1) Interest calculated at 10.5% for purposes of illustration.

SUMMARY OF THE CREATION AGREEMENT

Under state law the City is required to give its consent to the creation of the District. The vehicle for this consent is an ordinance passed by the City, a part of which includes the Creation Agreement. The Developers have assigned certain of their rights and duties under the Creation Agreement to the District. The following is a summary of certain terms and conditions of the Creation Agreement, but is not a complete description and is qualified by reference to the Creation Agreement, copies of which are available from the District.

By passage of the ordinance the City has unconditionally granted its consent to the creation of the District. In the Creation Agreement the District has agreed to issue bonds only for purposes approved by the City. The Creation Agreement makes reference to and acknowledges the Contract.

In the Creation Agreement, the City has contracted to provide water and wastewater service to all of the users within the District. The District itself will be a customer of the City and will receive service on the same basis as other water districts. The District has agreed to set rates for its customers comparable to those rates established by the City for its customers who reside outside of the city limits. The District has also agreed to collect a surcharge in addition to its normal rates.

The Creation Agreement provides that the Developer will serve as project manager for the construction of the facilities constituting the District's System. Those facilities will be reviewed and approved by the appropriate state agencies and the City prior to construction.

The District agrees that it will not serve customers outside of its boundaries and that it will not annex additional land into the District without the prior approval of the City. The Creation Agreement also provides that the City shall not be liable for the failure to provide water and wastewater service where that failure results from conditions beyond the City's control. In addition, the City has the right to limit service to the District on the same basis and to the same extent that it limits service to other customers.

The Creation Agreement contains certain provisions which limit the right of the City to annex the land within the District.

The District and the City have agreed to certain land use controls including use density limitations for property located within the boundaries of the District. Prior to development, the land in the District must be subdivided in accordance with state law. The Creation Agreement is for a term not to exceed 40 years.

SUMMARY OF THE CONTRACT

Following is a summary of certain provisions of the Contract. Reference is hereby made to the full and complete Contract for further information, copies of which are available upon request from the District.

Obligation of District to Acquire

The District has agreed to finance, acquire and construct the Contract Facilities.

Obligation of the District to Provide Financing for Contract Facilities

For purposes of financing the costs of the Contract Facilities, the District has agreed to issue and sell the Bonds. The District and the City have agreed that all Bonds issued by the District pursuant to the provisions of the Contract shall be payable solely from the City Contract Payments, as described in "Payments by the City" below.

Prior to the passage of any resolution authorizing the issuance of Bonds, a substantial draft of such resolution, including any trust indenture authorized therein to secure the Bonds, shall be delivered to and approved by the City. Such approval, if and when given, shall constitute the acknowledgement and agreement of the City that such Bonds are to be issued in accordance with and in compliance with the Contract and the Trust Indenture. Any holder of the Bonds is entitled to rely fully and unconditionally on any such approval. All payments by the City shall be paid to the Paying Agent/Registrar for the Bonds (Trustee).

Conveyance, Ownership and Operation of Contract Facilities

In consideration of the payments to be made by the City as specified in the Contract, the District has agreed that the Contract Facilities, upon final completion of the purchase and construction and acceptance thereof by the City, shall be conveyed by the District to the City and the City shall thereafter have the sole responsibility for the maintenance and operation of the Contract Facilities at its expense.

Payments by the City

City's Obligation to Make Payments. In consideration of the conveyance of the Contract Facilities to the City, the City has agreed to pay directly to the Trustee the City Contract Payments in an amount equal to the total principal, interest, premium, if any and Trustee and paying agent's fees and other

charges and expenses which may accrue in connection with the payment and discharge of the Bonds, including any amounts to be deposited in the Reserve Fund. Upon the City's approval of a substantial draft of the Bond Resolution and the issuance and delivery of the Bonds, the City's obligation to make the City Contract Payments shall become the absolute and unconditional binding obligation of the City, until the entire principal of, premium, if any, and interest on the Bonds have been paid or provided for.

Pledge of Net Revenues of City's Waterworks and Sewer System. All payments required to be made by the City under the Contract, constitutes a "Separate Lien Obligation", which, under the provisions of the ordinances authorizing the outstanding City Series 1982 Bonds and Prior Lien Bonds, is an obligation of the City which is payable from the Net Revenues of the City's Waterworks and Sewer System. The City has pledged the Net Revenues of the City's Waterworks and Sewer System, with the exception of those Net Revenues in excess of the amounts required for payment of the City Contract Payments, equally and ratably, to the payment and security of the Bonds and to the City Contract Payments. Such lien and pledge is on a parity and of equal dignity with the lien and pledge of the Net Revenues of the City's Waterworks and Sewer System securing the City's outstanding Subordinate Lien Bonds, and any other Separate Lien Obligations of the City's Waterworks and Sewer System which may hereafter be issued, and is subject only to the prior lien and pledge of the Net Revenues of the City's Waterworks and Sewer System to the payment and security of the City's Prior Lien Bonds.

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

In addition, the Contract provides that the City shall establish and maintain rates and charges for the facilities and services of the City's Waterworks and Sewer System which will annually produce Net Revenues of the City's Waterworks and Sewer System at least equal to 1.25 times the combined annual payments to be made during a Fiscal Year on all Separate Lien Obligations of the City's Waterworks and Sewer System for purposes of paying or representing the payment of principal of and interest on all indebtedness incurred by reason of, resulting from or issued pursuant to such Separate Lien Obligations (the "City Contract Rate Covenant"). For purposes of computing the anticipated Net Revenues of the City's Waterworks and Sewer System for purposes of complying with the City Contract Rate Covenant, the "Gross Revenues" of the City's Waterworks and Sewer System shall be increased by the anticipated amount of the District Available Revenues. District Available Revenues are the amounts provided in the District's budget each for the payment of the District's Pro Rata Share with respect to the Bonds.

Term of Contract

The Contract will be in force and effect for so long as the Bonds, or any of them, remain outstanding and unpaid, provided that in no event shall the term of the Contract exceed forty (40) years from the date of execution of the Contract by the District (2-21-84).

Remedies Upon Default

The Contract does not specify an exclusive remedy for any default, but all remedies (other than termination) existing at law or in equity may be availed of by the District or the City and shall be cumulative. In addition, the District and the City have agreed that each shall have available to it the equitable remedies of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination) which may also be available to the District or the City.

SUMMARY OF THE BOND RESOLUTION

The Bond Resolution prescribes the form of the Bond and terms, conditions and provisions for the payment of the principal of, and premium, if any, and interest on the Bonds. The following is a summary of certain terms and provisions of the Bond Resolution, but the summary is not a complete description and is qualified by reference to the Bond Resolution, copies of which are available from the District upon request. The Bond Resolution will be adopted by the District on October 29, 1985.

Security of the Bonds

The Bond Resolution provides that the Bonds are secured by and payable from a first lien on and pledge of the City Contract Payments.

Application of Moneys Under the Bond Resolution

All moneys received pursuant to the Bond Resolution will be applied in the manner therein specified and will be deposited into the separate funds created and established under the Bond Resolution for the purpose of providing for the construction of the Contract Facilities, and for the payment of and reserve for the payment of the Bonds, all as set forth below.

Construction Fund. Pursuant to the Trust Indenture, the Trustee shall hold the Construction Fund in trust for the benefit of the owners of the Bonds. All of the proceeds from the sale and delivery of the Bonds will be deposited to the Construction Fund and thereafter transfers will be immediately made to the Debt Service Fund in an amount sufficient, together with investment earnings, to fund interest on the Bonds for two years; to the Reserve Fund in the amount necessary to establish the Required Reserve; and to the holder of the District's Bond Anticipation Note, Series 1984 in an amount necessary to refund such Note. Thereafter, disbursements shall be made from the Construction Fund in order to pay for the cost of the Contract Facilities, including expenses incurred in connection with the issuance and sale of the Bonds, upon requisition of moneys therein by the District as specified in the Bond Resolution.

Debt Service Fund. The Debt Service Fund shall be held in trust by the Trustee for the benefit of the owners of the Bonds.

City Payment Obligation. On or before the last business day prior to each interest payment date, principal payment date or optional redemption date, the City shall deposit into the Debt Service Fund such amounts which, together with the other amounts then on deposit, including the District's Pro Rata Share of any corresponding amount, will be sufficient to make such interest payment, principal payment, or to pay such redemption price. The City shall also, at such times as may be required, make such deposits with the Trustee which, when taken together with any amounts deposited by the District for such purposes, are sufficient to make any required payment into the Reserve Fund or to pay the fees and expenses of the Trustee and paying agent. In the event the City should fail to make any of its required payments into the Debt Service Fund, such required payment shall continue as an obligation of the City until fully paid.

The Debt Service Fund shall be used by the Trustee only to pay the principal of, redemption premium, if any, and interest on the Bonds and any Additional Bonds.

Reserve Fund. The Reserve Fund shall be held in trust by the Trustee for the benefit of the owners of the Bonds. After the initial deposit from the Construction Fund equal to the Required Reserve as described above, other deposits shall be made as necessary to maintain the Required Reserve in the manner set forth in the Bond Resolution. Disbursements from the Reserve Fund shall be for the purpose of making any debt service payment on the Bonds for which adequate funds are not available in the Debt Service Fund.

All funds, to the extent they are not insured by the Federal Deposit Insurance Corporation or a successor, will be secured as provided by law.

Investments of Moneys

Moneys deposited into the Debt Service Fund, the Reserve Fund and the Construction Fund will be invested in direct or indirect obligations of the United States or the State of Texas, or certificates of deposit of state or national banks or savings and loan associations within the State of Texas. With the exception of interest and income derived from investments made from the Reserve Fund, which shall be credited to the Debt Service Fund so long as the Required Reserve is maintained, interest and income derived from such investment shall be credited to, and any losses debited to, the fund or account from which the investment was made. The City and the District will share in any income credited to, or losses debited to, the Debt Service Fund, the Reserve Fund and the Construction Funds, in accordance with their proportionate interests in such Funds, based on the District's Pro Rata Share. The District and the City shall not be responsible to the owners of the Bonds for any loss arising out of the sale of any investment, except for losses resulting from the Trustee's willful or negligent failure to make or sell any investment within a reasonable time after proper direction to do so, or losses resulting from the making or selling of any investment which was not authorized by proper direction.

Additional Bonds of the District

The District has reserved the right, upon the request of the City, to issue additional bonds (the "Additional Bonds") for the purpose of financing the Cost of the Contract Facilities or for the refunding of any outstanding Bonds or any Additional Bonds. When issued and delivered such Additional Bonds shall be payable from the Debt Service Fund, and shall be payable from and secured by a first lien on and pledge of City Contract Payments, and shall be secured by the Trust Indenture, in the same manner and to the same extent as, and be on a parity with, all then outstanding Bonds and Additional Bonds. It is provided in the Bond Resolution, however, that no series or issue of Additional Bonds shall be issued unless certain terms and conditions are met and certain certificates delivered, as set forth more particularly in the Bond Resolution.

In addition, in the case of any Additional Bonds the proceeds of which are to be used solely for the purpose of paying the Cost of completion of that portion of the Contract Facilities defined as the Lines Project in the Contract, the City shall make a forecast (the "Forecast") of the operations of the City's Waterworks and Sewer System demonstrating, for the period (the "Forecast Period") of each ensuing fiscal year of the City through the 5th fiscal year of the City subsequent to the latest estimated date the Lines Project is expected to be commercially operative, the ability of said system to pay all obligations payable solely from the Net Revenues of said system to be outstanding after the issuance of the Additional Bonds then being issued, and an independent engineer shall review such Forecast and shall execute a certificate to the effect that such Forecast is reasonable, and, based thereon (and such other factors deemed to be relevant), the Net Revenues of the City's Waterworks and Sewer System will be adequate for the Forecast Period to pay all obligations, payable solely therefrom, to be outstanding after the issuance of the Additional Bonds then being issued.

In the alternative, in the case of Additional Bonds the proceeds of which are to be used for any purpose other than refunding any outstanding Bonds or any Additional Bonds or paying the Cost of completion of the Lines Project, a certificate or opinion of a certified public accountant will be secured by the City to the effect that, according to the books and records of the City, the Net Earnings

for the preceding fiscal year of the City or for 12 consecutive months out of the 15 months immediately preceding the month the resolution authorizing the Additional Bonds is adopted are at least equal to (A) the sum of all amounts required to be deposited from the City's Water and Sewer System Fund (i) in any special funds or accounts created for the payment and security of the Prior Lien Bonds, (ii) in the Interest and Redemption Fund and Reserve Fund for the payment of principal of and interest on the City Series 1982 Bonds and other bonds and obligations outstanding on a parity therewith and (iii) to establish and maintain the required reserve as provided in the City's Bond Ordinance authorizing the City Series 1982 Bonds or any other ordinance relating to obligations for which the reserve fund for the City Series 1982 Bonds was created and established to pay, plus (B) an amount equal to 1.25 times the combined annual payments to be made during a fiscal year of the City on all Separate Lien Obligations of the City's Waterworks and Sewer System for purposes of paying or representing the payment of, principal of and interest on all indebtedness incurred by reason of, resulting from or issued pursuant to such Separate Lien Obligations. In making a determination of the Net Earnings, the accountant shall include in Net Earnings the District Available Revenues and may take into consideration a change in the rates and charges for services and facilities afforded by the City's Waterworks and Sewer System that became effective at least sixty (60) days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings of the City's Waterworks and Sewer System for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion. The term "Net Earnings" shall mean the Gross Revenues of the City's Waterworks and Sewer System after deducting the maintenance and operating expenses of said system, but not expenditures which, under standard accounting practice, should be charged to capital expenditures.

The Bond Resolution specifically recognizes the right of the City to issue bonds on a parity with or superior to the City Contract Payments. The Bond Resolution also recognizes that the District will issue its System Bonds to finance the District's System and that such bonds will have a first lien on and pledge of the Net Revenues of the District's System; and that the District has reserved the right to issue additional System Bonds on a parity with the System Bonds.

Amendments to Bond Resolution and Supplemental Trust Indentures

The Trust Indenture and the Bond Resolution may be amended by the District with the consent of the City (and of the Trustee for amendments to the Trust Indenture), for the purpose of amending the District's Pro Rata Share, curing any ambiguity or correcting or supplementing any defective or inconsistent provision, or making any other change that does not in any respect materially and adversely affect the interest of the owners of the Bonds or Additional Bonds. The holders of the Bonds and any Additional Bonds aggregating 51% in aggregate principal amount of the outstanding Bonds and any Additional Bonds must approve any other amendment to the Trust Indenture or the Bond Resolution. However, without the consent of the owner of each outstanding Bond and any Additional Bonds affected thereby, the terms and conditions of the Bonds, the Additional Bonds, the Bond Resolution or the Trust Indenture may not be amended so as to:

- (a) Change the Debt Service Fund requirements, Reserve Fund requirements, interest payment dates or the maturity or maturities of the outstanding Bonds or Additional Bonds; or
- (b) Reduce the rate of interest borne by any of the outstanding Bonds or Additional Bonds; or
- (c) Reduce the amount of the principal of, premium, if any, or interest payable on the outstanding Bonds or Additional Bonds, or impose any condition with respect to payments; or
- (d) Modify the terms of payment of principal of, premium, if any, or interest on the outstanding Bonds or Additional Bonds, or impose any conditions with respect to payments; or

(e) Affect the rights of the owners of less than all of the Bonds or Additional Bonds then outstanding; or

(f) Decrease the minimum percentage of the principal amount of Bonds or Additional Bonds necessary for consent to such amendment; or

(g) Alter the obligation of the City to pay the City Contract Payments in the manner and to the extent provided in the Contract, the Bond Resolution and the Trust Indenture.

The Bond Resolution also provides for the execution of a Trust Indenture and incorporates the form of the Trust Indenture in the Bond Resolution.

SUMMARY OF THE TRUST INDENTURE

The Trust Indenture creates an express trust to which the District assigns all of its right, title and interest in and to, and grants a security interest in, the Contract, including specifically the City Contract Payments, the Debt Service Fund, the Reserve Fund and the Construction Fund. The Trustee accepts such assignment and covenants to discharge the duties detailed in the Trust Indenture, but the District has expressly acknowledged that the sole responsibility of the Trustee with respect to the Contract shall be the enforcement on behalf of the owners of the Bonds of the obligation of the City to make or pay the City Contract Payments. The following is a summary of certain terms and provisions of the Trust Indenture, but is not a complete description and is qualified by reference to the Trust Indenture, copies of which are available from the District.

In accepting the trust, the Trustee also agrees to act as the Paying Agent and Registrar for the Bonds and to authenticate the Bonds. The Trustee further agrees to hold and administer the Debt Service Fund, the Reserve Fund and the Construction Fund. The Trustee is required to maintain separate records and books and to render an annual report. The books and records are available for inspection by the District, the City and the owner of any Bond.

The Trustee is appointed the agent and representative of the owners of the Bonds with power to enforce the Contract, the Trust Indenture and the Bond Resolution. No owner of any Bond will have any right to institute any suit, action or proceeding for the enforcement of the Trust Indenture, the Contract or the Bond Resolution, or for the execution of any trust under the Trust Indenture, or for the appointment of a receiver, or enforcement of any remedy under the Trust Indenture, except pursuant to the terms of the Trust Indenture.

In the case of any default under the provisions of the Bonds, the Contract, the Bond Resolution or the Trust Indenture, the Trustee may, in addition to any other remedies available to it, enforce any covenant in the Bonds, the Contract, the Bond Resolution or the Trust Indenture through the remedies of mandamus or specific enforcement, or by the appointment of a receiver. In the event of any such default, the Bonds may not be declared immediately due and payable by the Trustee or the Bondholders. Any moneys received by the Trustee pursuant to any action taken as a result of an event of default shall, after payment of the fees and expenses of the Trustee, be applied in the manner prescribed in the Trust Indenture to the payment of principal of and interest on the Bonds.

Except for the failure of the City to make City Contract Payments or for a default in the payment of any amount with respect to the Bonds when and as they become due and payable, which failure or default shall not have been remedied and made good, the Trustee shall waive any event of default and its consequences upon the written request of the owners of a majority in aggregate principal amount of all the Bonds then outstanding. In case of any such waiver the District, the Trustee, the City and the owners of the Bonds shall be restored to their former positions and rights under the Trust Indenture, but no such waiver or decision shall extend to any subsequent or other event of default, or any right consequent thereon.

The Trust Indenture provides that the Trustee shall be compensated from the Debt Fund Service and that the Trustee's expenses, advances and counsel fees will be paid from the same fund. The Trustee's responsibility is limited and the Trustee shall not be liable for action taken in good faith and shall not be required to expend its own funds or take any action which would conflict with any rule of law or the terms of the Trust Indenture. The Trust Indenture also provides that the Trustee may own Bonds and will have the same rights as if it were not Trustee. In addition, the Trust Indenture also makes provision for the resignation or removal of a Trustee and the appointment of a Successor Trustee.

RATINGS

Applications for contract ratings on this issue have been made to Moody's Investors Service, Inc. and Standard & Poor's Corporation. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

TAX EXEMPTION

The delivery of the Bonds is subject to an opinion of Brown, Maroney, Rose, Barber & Dye, Austin, Texas, Bond Counsel to the District ("Bond Counsel"), to the effect that interest on the Bonds is exempt from federal income taxation under existing statutes, regulations, published rulings and court decisions. The laws, regulations, court decisions and administrative regulations and rulings upon which the conclusion stated in Bond Counsel's opinion will be based are subject to change by the Congress, the Treasury Department, and later judicial and administrative decisions.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS IN TEXAS

Section 54.515, Chapter 54, Texas Water Code states that the bonds of the District are legal and authorized investments for banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, trustees, and for the other political corporations or subdivisions of the State of Texas. The statute further provides that the Bonds are eligible to secure the deposit of any and all public funds of the State of Texas and any and all public funds of cities, towns, villages, counties, school districts, or other political corporations or subdivisions of the State of Texas; and the bonds are lawful and sufficient security for said deposits to the extent of their market value.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such institutions or entities or which might otherwise limit the suitability of the bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes, and, consequently, the District makes no representation that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The District will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and, based upon examination of such transcript of proceedings, the unqualified approving legal opinion of Bond Counsel to like effect and the effect that the interest of the Bonds is exempt from federal income taxation under the existing statutes, regulations, published rulings and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the validity of said Bonds will also be furnished.

Brown, Maroney, Rose, Barber & Dye in its capacity as Bond Counsel was not requested to and did not assume responsibility for the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Creation Agreement, the Contract, the Bond Resolution, the Trust Indenture and the Bonds in the Official Statement and Notice of Sale to verify that such descriptions conform to the provisions thereof.

The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. Bond Counsels' legal opinion will be printed on the Bonds.

AUTHENTICITY OF FINANCIAL INFORMATION

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

The information contained in Appendices A and B has been obtained from the City, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the District.

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Texas Capital Markets Groups, Inc. (the "Financial Advisor"). The fees to be paid the Financial Advisor for services rendered in connection with the sales and issuance of the Bonds are contingent upon the date and issuance of the Bonds.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the initial purchaser of the Bonds from the District (the "Purchaser") will be furnished a certificate, executed by proper officers of the District, acting solely in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in the Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe that they are untrue in any material respect. In rendering such certificate, the official executing the certificate may state that he has relied in part on his examination of the records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

At the time of payment for and delivery of the Bonds, the Purchaser will be furnished a certificate, executed by proper officers of the City, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (c) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City. In rendering such certificate, the official executing the certificate may state that he has relied in part on his examination of the records of the City relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the City.

The Bond Resolution authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment hereto, and authorize its further use in the reoffering of the Bonds by the Purchaser.

STEVE D. PENA
President
North Austin Municipal Utility District No. 1

September 26, 1985

APPENDIX A
INFORMATION REGARDING THE UTILITY SYSTEM
OF THE CITY OF AUSTIN, TEXAS

THE SYSTEMS

The City owns and operates an Electric Light and Power System and a Waterworks and Sewer System which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and sewer services. The City owns all the facilities of the Waterworks and Sewer System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility which is under construction. Additionally, the City owns three gas/oil-fired electric generation facilities. A description of the Systems' service areas, operations and responsibilities, existing facilities and current construction follows.

Employee Relations

The Systems have approximately 1,958 full-time employees with average tenures of approximately 10 years. A number of the Systems' employees are members of the American Federation of State, County, and Municipal Employees ("AFSCME"). Pursuant to V.A.T.C.S., Article 5154c, the City cannot recognize or negotiate with any collective bargaining group. AFSCME currently serves as an advisory and lobbying body for its members. The Systems have never experienced a strike or a job action, both of which would be illegal under State law. The City considers its employee relations to be excellent.

THE ELECTRIC UTILITY

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City</u>
John B. Moore	Director of Electric Utility	14 Years
H. L. Peterson	Deputy Director of Electric Utility	36 Years
Joseph Malaski	Chief Financial Officer	(1)
Cathy Baumgardner	Manager Administration and Community Services	4 Years
Laura Doll	Manager Policy Planning	3 Years
Chester Falk	Manager Transmission and Distribution	31 Years
Chris Ioannou	Manager Generation	26 Years
Sam Jones	Manager System Control	24 Years
David Kasper	Manager Fiscal Services	12 Years
Milton Lee	Manager Generation Planning	1 Year
Gilbert Pokorny	Manager Generation Engineering	39 Years
Gene Preston	Manager System Planning	14 Years
Gilbert Smith	Manager Transmission and Distribution Engineering	16 Years

(1) Mr. Malaski, former Chief Auditor of the Illinois Commerce Commission, joined the City in June 1985 as Chief Financial Officer for the Electric Utility.

Generation

The present operational generating facilities are as follows:

<u>Unit</u>	<u>Year Installed</u>	<u>Turbine Generator Nameplate Rating (MVA)</u>	<u>Net Capacity (MW)</u>	<u>Fuel</u>
Base Load				
Fayette Power Project				
Unit No. 1	1979	341.8	275	coal
Unit No. 2	1980	341.8	275	coal
Total Base Load Capacity ..			550	
Intermediate and Peaking Load				
Seaholm Power Plant				
Turbine Generator	1951	23.53	18	gas/No. 5 oil backup
Turbine Generator	1951	23.53	18	gas/No. 5 oil backup
Turbine Generator	1955	23.53	19	gas/No. 5 oil backup
Turbine Generator	1955	23.53	14	gas/No. 5 oil backup
Turbine Generator	1958	51.20	36	gas/No. 5 oil backup
Holly Street Power Plant				
Turbine Generator	1960	133.70	97	gas/No. 5 oil backup
Turbine Generator	1964	133.70	97	gas/No. 5 oil backup
Turbine Generator	1966	224.00	165	gas/No. 5 oil backup
Turbine Generator	1974	234.00	182	gas/No. 5 oil backup
Decker Power Station				
Turbine Generator	1970	414.98	310	gas/No. 2 oil backup
Turbine Generator	1977	486.00	400	gas or Nos. 1 through 5 oil
Total Intermediate and Peaking Capacity			1,356	
Total Capacity			1,906	

See caption "Fuel Supply; Coal; Gas and Oil" for a discussion of the contracts for fuel for the above units.

Fayette Power Project. The City is a 50% owner in the Fayette Power Project consisting of two coal fired units and related facilities with a net capacity of 1100 MW. A third unit is being constructed at the Fayette site but the City is not participating. The Fayette Power Project is a joint power project undertaken by the Lower Colorado River Authority ("LCRA") and the City. Pursuant to the participation agreement, LCRA was appointed Project Manager and established a Management Committee composed of two representatives from each participant to direct the development and operation of the project. The participation agreement provides that all covenants, obligations and liabilities incurred under the participation agreement are several and not joint and collective. The Fayette Power Project is located approximately 8½ miles east of LaGrange, between LaGrange and Fayetteville in Fayette County. Coal deliveries began in January 1979. Unit No. 1 and common facilities went into commercial operation June 16, 1979. Unit No. 2 is identical to Unit No. 1 and went into commercial operation May 1980.

South Texas Project. The City is a 16% owner in the South Texas Project ("STP") consisting of two 1,250 MW nuclear generating units which are under construction. STP is located between Bay City and Palacios in Matagorda County. The participants in the project are two investor-owned utilities, Houston Lighting and Power Company ("HLP") (30.8%) and Central Power and Light Company (25.2%), and two municipal entities, City Public Service of San Antonio (28%) and the City. Pursuant to the participation agreement in STP, HLP was designated as the Project Manager and a Management

Committee composed of representatives of each participant was established. The decision-making authority of the representatives on the Management Committee is determined by the participant's share of STP. The participation agreement provides that all covenants, obligations and liabilities incurred under the participation agreement are several and not joint and collective.

The turbine generator for Unit No. 1 is virtually complete, the condensers, and the low pressure and high pressure heaters have been installed and most major pieces of equipment have been set. The river intake structure has been turned over to HLP and filling of the cooling reservoir was begun in July, 1983. The nuclear reactor vessel and four large steam generators for both units have been installed. The electrical generator for Unit No. 2 has been set and the installation of the steam turbine and condensers for Unit No. 2 is underway.

In April 1980 the U.S. Nuclear Regulatory Commission ("NRC") issued a report on the results of its three-month investigation of the adequacy of the construction and inspection procedures relating to quality assurance and safety for STP. The report concluded that HLP and Brown & Root, Inc. ("Brown & Root") while acting as the principal contractor for STP, had failed to establish and maintain a program of quality assurance and quality control required to assure that STP would be constructed in accordance with NRC requirements. The report included findings that quality control inspectors had been harassed, threatened and intimidated by construction personnel. While such acts were not found to have caused major deficiencies in any of the construction already completed, the report concluded that the potential for future significant construction deficiencies existed if the quality assurance program for STP was not improved prior to proceeding to the more complex construction stages. The report also found that certain of STP's quality assurance procedures were inadequate, including those related to welder qualification, concrete placement and testing of soil densities. Based on such report the Director of the NRC's Office of Inspection and Enforcement fined HLP \$100,000. The NRC ordered HLP to show cause why safety-related construction activities on STP should not cease 90 days from the date of the order and until such time as HLP complied with certain specified steps designed to assure the NRC that the program for quality assurance and quality control at STP met NRC standards and that certain of the procedural deficiencies found in the report had been corrected. HLP responded to the Show Cause Order within the time constraint established by the NRC. The NRC considered the informational response by HLP. Subsequent to an NRC public hearing, HLP submitted restart programs in three specific areas where HLP had suspended safety-related work activity; structural welding, pipe welding, and complex concrete placements. HLP and NRC agreed on limited controlled restart in these areas. However, construction did not reach planned levels because of other work which had to be performed to correct deficiencies found during the suspension periods, changes required in the design of certain plant components and a lack of sufficient engineering support to meet construction schedules.

In September 1981, HLP, in its capacity as Project Manager removed Brown & Root as architect-engineer and construction manager for STP and signed a letter of intent with Bechtel Power Corporation ("Bechtel") for Bechtel to assume responsibility for the engineering, design and construction management services necessary to complete STP. Although HLP asked Brown & Root to continue performing the project's construction work Brown & Root advised HLP in early November 1981 that it would withdraw completely from the project. See "Litigation" for discussion of subsequent legal action taken against Brown & Root by the STP participants.

In February 1982, Ebasco Services Inc. ("Ebasco") was selected as the new constructor, subject to final contract negotiations, completed in 1983. The transition from Brown & Root to Bechtel and Ebasco is complete. In December, 1982, HLP executed a contract with Bechtel Energy Corporation, a subsidiary of Bechtel, for engineering design and construction management services necessary to complete STP.

The original construction permits for the two units at STP, scheduled to expire in May 1982 and October 1983, respectively, have been extended by the NRC to December 1987 for Unit No. 1 and December 1989 for Unit No. 2. In June 1982 Ebasco resumed non-safety related construction work at

the site. Safety related construction work resumed in August 1982. In January 1984, Ebasco started an accelerated construction program.

In August of 1982 Bechtel released the new cost estimate and construction schedule for the South Texas Project. This report indicated that the total project cost, exclusive of fuel, would be approximately \$5.5 billion (assuming no required major design modifications) and that the completion dates would be June, 1987 for Unit No. 1 and June, 1989 for Unit No. 2. On November 17, 1983, Bechtel issued an updated forecast, projecting the same completion dates and total cost estimates. In December 1984, Bechtel issued a forecast which retained the same completion dates and total costs as the previous forecast. No assurance can be given that the project cost will not exceed this estimate or that the completion date will not be delayed. As of July, 1985, Unit No. 1 was 85.2% complete and Unit No. 2 was 55.7% complete. The City's expenditure for its share of STP construction and nuclear fuel costs through July 31, 1985, approximately \$628.85 million, has been provided from bond and note proceeds. The City's remaining costs are estimated at approximately \$339.47 million.

The NRC is conducting hearings in connection with HLP's application for operating licenses for each of the STP units to consider, among other things, whether previous problems associated with STP's quality assurance and quality control programs affect HLP's qualifications to become a licensee. The NRC also proposes investigating HLP's treatment of a May 1981 report of an independent consulting firm retained by HLP. It has been determined that some design modifications or changes will be required with respect to the heating, ventilation and air conditioning design before operating licenses can be obtained for STP. In January 1983, the NRC staff issued a report regarding previously cited construction concerns or deficiencies stating that such matters have either been completed or that satisfactory action has been initiated to insure correction.

In May 1984, members of the STP project management team received the results of a NRC evaluation and analysis performed under the Systematic Assessment of Licensee Performance ("SALP") review process for the period of December 1, 1982 through November 30, 1983. The project management team was assessed in 13 functional areas that are significant to nuclear safety. Three of the 13 areas received a category 3 rating which stipulates that licensee management attention is acceptable, but weaknesses are evident. The SALP report commented that the three areas were on their way to being significantly resolved, if not already resolved, and that the next review should reveal improved performance. The remaining 10 areas of review received average or better than average performance ratings.

In January 1985, as part of a HLP rate proceeding, the Public Utility Commission of Texas (the "PUC") ordered that a separate proceeding be docketed by PUC staff to gather evidence and evaluate the economic viability of completing Unit No. 2 of STP. A proceeding, Docket No. 6184, has been instituted concerning the economic viability of Unit No. 2. It is anticipated that the PUC will hold a hearing on this matter in the spring of 1986. Also, as part of the findings in the rate proceeding, the PUC found that:

- (1) The decision to pursue the nuclear power option was reasonable.
- (2) HLP did not meet its burden of proof that STP had been efficiently and prudently planned and managed, although there were no specific findings of imprudence.
- (3) Limited documentation was available due in large part to the protective order issued in the HLP and Brown & Root litigation.

The PUC stated that, due to the limited purpose of its review of STP, its findings with respect to STP would not be in any way binding on the PUC in any future proceedings. HLP has taken exception to the PUC's findings regarding the planning and management of STP and asserts that the economic viability of both units at that project has already been demonstrated by previous independent studies.

On November 3, 1981, the City conducted a referendum on the following question: "shall the City Council of the City of Austin, Texas be authorized to sell all of Austin's sixteen percent (16%) interest in the South Texas Project (Nuclear)." A majority of those voting in the referendum voted to give the City Council such authority. The participation agreement for STP sets forth the procedures for the

transfer of an interest in STP. If the City attempts to sell its ownership share of STP, the City must obtain a written offer 7 months prior to the date on which a transfer is to be consummated from any person, entity or other participant who is ready, willing and able to acquire the City's share of STP, setting forth the consideration and other terms of the offer. Each of the other participants in STP have the right of first refusal to acquire such interest within 3 months after the service of such written notice. Any proposed transfer must be consummated within the 7 months following such notice and if such transfer is not consummated by the proposed date of transfer, the City must give another complete right of first refusal to the remaining participants before the City shall be free to transfer said ownership interest to another party. If the City is successful in transferring its share of STP, the City will remain liable and obligated for the performance of all the terms and conditions of the participation agreement unless the other participants agree otherwise.

In January 1983 the voters authorized \$97 million of Combined Utility Systems Revenue Bonds for STP. A suit challenging the election was instituted in February 1983 which was finally resolved by the U.S. Supreme Court denying certiorari in April of 1984. Such \$97 million of Combined Utility Systems Revenue Bonds for STP were included in the City's Series 1984 bond issue. The City currently estimates that it will have funds to pay the costs of STP until the end of December, 1985. The City has not attempted to vote any other revenue bonds for STP, but has authorized the issuance of \$605 million of revenue bonds which are currently the subject of a validation proceeding in which one of the parties from the election lawsuit and others have intervened. The City has issued \$76.7 million from this authorization and anticipates issuing additional bonds for this purpose in November 1985. See "Litigation" for additional information.

In August 1983, the City retained Merrill Lynch Capital Markets to be its exclusive agent to negotiate a sale of its interest in STP. To date, no definitive offers have been received for all or any part of the City's interest. In the event that the City is unable to find a buyer for its interest in STP prior to completion, its share of construction, engineering and fuel participation payments, are anticipated to be financed from the sale of System revenue obligations.

HLP and the other participants have sued Brown & Root and its parent corporation, Halliburton Company. In addition, the City has filed suit against HLP and its parent company, Houston Industries, Inc., seeking to have HLP ordered to take over the City's ownership interest in STP and repay all moneys the City has or will have paid with respect to STP. SEE "LITIGATION" for additional information.

The City has evaluated its alternatives for continued participation in STP in the event the City cannot divest itself of its ownership interest, and the effect of such continued participation in the light of (1) the City's projected electric generation requirements (see "The Electric Utility — Electric Generation Plan"), (2) the November 1983 Bechtel cost and schedule estimates, (3) the impact upon City electric rates, (4) the City's decision not to participate in the Fayette 3 lignite fired generating unit and (5) available financing techniques. On February 8, 1984 the City Council unanimously passed a resolution (1) confirming the City's commitment to comply with all of its legal obligations with respect to STP; (2) expressing the intention to authorize an electric rate increase sufficient to finance the remainder of the City's STP payment obligations; (3) expressing the intention to authorize the issuance of \$605 million of electric revenue bonds to finance the remainder of the City's STP payment obligations and the filing of a lawsuit to confirm the validity of such bonds, due to the fact that such bonds would be authorized without prior voter approval, as permitted by Texas state law although contrary to the provisions of the City's charter; and (4) authorizing a study of the economic feasibility of completing STP and a study of the economic feasibility of converting STP to a coal-fired plant.

At the City's request in June 1984, the four partners in STP agreed to commission a study of the feasibility of converting STP to a coal-fired plant. The study, performed by Sargent & Lundy, was completed and released in August 1985. The conclusion was that conversion of STP to a coal-fired facility was technically feasible but economically not justifiable.

On October 4, 1984 the City Council adopted a resolution in favor of cancellation of STP but also reaffirmed its intention to meet its obligations.

The City is currently involved in negotiations for the settlement of several lawsuits related to STP, as well as the sale, transfer or exchange of its interest in STP. The negotiations have included discussions relative to the City selling or exchanging its interest in STP for an amount which could be significantly less than its total investment in the project to date and the City could remain contingently liable for debt assumed by a purchaser or transferee and for future funding obligations of such purchaser or transferee. See "Litigation — STP Litigation".

Waste to Energy Power Project. On September 8, 1984, \$70 million was approved by the voters for a 600 ton per day refuse waste to energy electric generating plant (approximately 15 to 20 MW). The firm of Henningson, Durham and Richardson was retained to design this facility. Design is currently underway with commercial operation projected for July 1988.

Gas Turbine Project. On September 8, 1984, \$28 million for the installation of approximately 100 MW of gas turbine generation was approved by the voters. Stone and Webster was retained as consulting engineer for the project. Site selection, equipment selection and preliminary engineering have begun. Commercial operation is projected for June 1987.

Longhorn Dam Project. At an election held October 22, 1983, the City's voters authorized \$10 million in Combined Utility Systems revenue bonds to finance construction of a proposed 3 MW hydroelectric project. R.W. Beck and Associates was retained as engineers for the project which is currently under design. The project is estimated to be on line July 1987.

Alternate Energy Sources. At a bond election held October 22, 1983 the voters of the City authorized \$25 million in Combined Utility Systems revenue bonds for the purpose of funding various alternate energy projects. Requests for proposals were solicited for a solar photovoltaic generation plant and were received in July 1985. While the contract has not yet been awarded it is anticipated that a 300 kW electric generating plant costing an estimated \$3 million will be completed in late 1986. Other specific projects have not been selected at this time, but consideration will be given to solar thermal generation units, fuel cells, cogeneration systems, and load control equipment.

Conventional System Improvements

During the next 6 years, it is anticipated the Electric Utility could require approximately \$1,207 million for conventional system improvements (excluding STP progress payments). Such improvements will include generation projects, major transmission and substation projects, distribution projects, and streetlighting projects. It is anticipated that such improvements will be financed as follows: (1) the issuance of Prior Lien Bonds which will make available \$952 million for such improvements, (2) the application of \$106 million of anticipated surplus net revenues and amounts on hand, and (3) receipts aggregating \$149 million anticipated from contributions in aid of construction from existing fees and charges for meter hook-ups and distribution system expenses.

In addition, the City Manager has recommended to the City Council that a bond election be held on November 5, 1985 to fund the first three years of a proposed Capital Improvement Program. The recommendation includes funding of (1) \$277,076,000 (including a 12% reserve fund deposit) for transmission and distribution improvements and (2) \$65,615,000 for resource management, including residential and annual rebates and incentives. The proposed Capital Improvement Program does not

include funding for the next major generation addition. (See "Electric Generation Plan"). A breakdown of the funding requirement is as follows:

Transmission	\$ 80,427,000
Distribution	76,055,000
Substations	94,703,000
Streetlighting	10,631,000
Miscellaneous	15,260,000
Total	277,076,000
Resource Management	65,615,000
Grand Total	<u>\$342,681,000</u>

Decisions by the City Council on the final amounts and timing of the bond election are expected during September 1985.

Electric Generation Plan

Planning future Electric Utility needs is based on a range derived from varying assumptions of economic growth and the impact of the City's conservation and load management programs. The forecasted average growth in peak demand ranges from 4.9% to 5.7% annually for the period 1985 through 2014. The forecast anticipates the recent rapid growth to continue for several years. The growth rate is projected to moderate after 1990 as the service area development matures and the conservation program cumulative savings grow.

The long-range electric generation plan for the City is updated annually following the preparation of a new electric energy and demand forecast and the analysis of other recent data about electric generation options available to the City. The 1985 Generation Plan, issued in July 1985, was developed by the Electric Utility after reviewing a study of generation alternatives conducted for Austin by Energy Management Associates (EMA), a national consulting firm specializing in independent analyses of generation planning issues for electric utilities. The electric generation plan serves as the basis for the City's generation planning efforts and for decisions which will be made by the City Council and the citizens of the City concerning the provision of electric service for the City's current and future ratepayers.

The Electric Utility has recommended a generation planning approach designed to allow Austin maximum flexibility in meeting its long-term electricity needs. The recommendations of the 1985 Generation Plan provide a balanced approach to the Electric Utility's generation planning goals and objectives:

- Meet long-term customer demand for electricity.
- Maintain electric utility service at adequate levels of reliability.
- Minimize costs to ratepayers.
- Diversify energy resources.
- Implement cost-effective demand-side programs.
- Maintain planning flexibility.

To meet these objectives, the following steps are recommended:

- Defer a commitment to the next major generation investment.
- Immediately acquire a power plant site.
- Pursue purchase of electricity from cogenerators and other electricity suppliers.

- Investigate the feasibility of a combination gas/coal generation facility.
- Investigate the feasibility of alternative coal technologies.
- Pursue opportunities to acquire fuel supplies and reserves.

Transmission and Distribution System

The transmission and distribution lines of the Electric Utility are described as follows:

<u>Miles</u>	<u>Description</u>
55	345 kV transmission line (Fayette Power Project)
94	345 kV transmission line (South Texas Project)
61	345 kV transmission line (Fayette Power Project) (50% ownership with LCRA)
189	69 kV and 138 kV transmission line
7,224	12 kV overhead distribution lines
2,182	12 kV underground distribution lines

The Electric Utility owns the following transmission substations:

Austrop	Holman	Lytton Springs	Pilot Knob
Decker Plant	Holly Plant	Seaholm Plant	

The Electric Utility owns the following distribution substations:

<u>Name</u>	<u>Capacity (MVA)</u>	<u>Name</u>	<u>Capacity (MVA)</u>
Austin Dam	16	McNeil	72
Barton	48	Magnesium	32
Bee Creek	32	Marshall Ford	15
Bergstrom	36	North	48
Brackenridge	112	Northland	58
Burleson	48	Oak Hill	24
Cardinal Lane	58	Pedernales	48
Commons Ford	30	Salem Walk	72
Daffin Gin	24	Seaholm	48
Fiskville	48	Sprinkle	24
Hamilton	48	Steck	16
Harris	48	Summit	96
HiCross	48	Walnut Creek	48
Jett	24	Warren	32
Kingsbery	48	Wheless Lane	48
Koenig Lane	64	Williamson	48
Lakeshore	20		

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

The Electric Utility is interconnected with the LCRA with whom the City has a power interchange agreement. The Electric Utility is also interconnected with HLP, City Public Service Board of San Antonio and Central Power and Light Company. The City is a member of the Electric Reliability Council of Texas ("ERCOT"), an organization made up of major investor-owned and municipal systems, a state river authority, a municipal joint agency, plus a number of cooperatives and small municipalities. As a participant in ERCOT, the City's Electric Utility is able to buy from and sell

to other members of such system. The diversification of the fuel sources of the member systems increases the potential for economic interchanges among the respective systems. The Electric Utility is able to sell its power to other members during periods of excess capacity, and purchase from other members during periods of high demand. This arrangement generally provides for the possibility of maximizing the use of the less expensive fuel sources by all members of the interconnected system.

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

Power and Energy Sales Contracts

In 1978 the City entered into a contract with HLP for the sale to HLP of up to 500 MW of power and energy. The contract has been supplemented twice, increasing the amount of power and energy which may be purchased by HLP to 800 MW. The contract presently runs through 1987. HLP is obligated under the contract to pay a capacity charge and an energy charge. The City is not subject to penalty in the event all or a portion of the capacity contracted for is not made available to HLP. However, the capacity charge is subject to reduction to reflect the amount of capacity actually made available to HLP. The energy charge entitles the City to recover fuel costs, the operation and maintenance expense incurred in generating energy delivered to HLP and transmission losses resulting from the delivery of energy to HLP. The City has complete discretion as to the fuel mix used to generate energy sold to HLP. Under the contract the City primarily utilizes its gas fired intermediate and peaking load units to generate the energy sold to HLP to ensure that the City's ratepayers realize the benefits of the lower cost Fayette Power Project Units. 1985 capacity payments under the contract will be \$19,500,000. Since the City cannot currently supply 800 MW on demand per the contract, it is anticipated that the capacity payments may be reduced in 1986 and 1987. Also, it is anticipated that HLP will not seek to renew the contract upon its expiration in 1987.

The City has a contract with University of Texas at Austin for the supply by the City of 25 MW of supplemental standby power and energy. This contract has produced revenue of approximately \$60,000 per month in 1985. The contract may be terminated by either party after 36 months written notice, or sooner, if both parties so agree.

Purchased Power Contracts

In October, 1984, the City signed a contract with the Valley View Energy Corporation to purchase up to 100 MW of electric power from Valley View, from facilities located in the Texas Panhandle and fueled by cattle manure. Approximately 50 MW will be available in late 1986, with an additional 50 MW available in 1988. Valley View is responsible for making wheeling arrangements for the delivery of such power and energy. The contract is for a 30 year period beginning in 1986, and provides for a capacity payment and an energy payment for each kWh of energy delivered to Austin. Unanticipated wheeling and construction delays may delay the above in-service dates.

The capacity payment under the contract will be 3.21¢ per kWh beginning in 1986 and escalating at 2% per year, and the energy payment will be based on Austin's average monthly cost of fossil fuel. When both units are operating fully, the pricing arrangements are forecasted to result in payments by Austin of approximately \$46 million per year.

Historical Demand and Electric Light and Power System Sales

The following table summarizes historical demand and Electric Light and Power System annual sales from 1974 to 1984:

	Net Service Area Generation MWh(1)	Annual Increase %	Service Area Peak Demand MW (1)	Annual Increase %
1974	2,629,522	.8%	660	4.4%
1975	2,734,982	4.0%	681	3.2%
1976	2,811,172	2.8%	711	4.4%
1977	3,076,248	9.4%	774	8.9%
1978	3,252,633	5.7%	763	(1.4%)
1979	3,246,307	(.2%)	743	(2.6%)
1980	3,611,076	11.2%	849	14.3%
1981	3,738,744	3.5%	888	4.6%
1982	4,292,365	14.8%	1,013	14.1%
1983	4,411,201	2.8%	1,101	8.7%
1984	5,098,251	15.6%	1,210	9.9%
Annual Compounded Increase 1974-1984		6.8%		6.2%

(1) Service area energy (MWh) and demand (MW) values are sensitive to temperature variations. The historic energy and demand values have not been adjusted for normalized temperature.

Projected Aggregate Peak and Energy Requirements

The following table summarizes the aggregate peak demand and energy requirements projected by the City and reviewed by independent consultants as a part of the Generation Plan.

Fiscal Year Ending September 30	Demand (MW) (1)	Energy Sales (GWh) (1)
1985	1,296	5,026
1986	1,387	5,367
1987	1,477	5,725
1988	1,570	6,094
1989	1,665	6,465
1990	1,762	6,853
1991	1,852	7,203
1992	1,944	7,561
1993	2,045	7,954
1994	2,151	8,366
1995	2,261	8,794
Projected Annual Compounded Increase 1985-1995	5.7%	5.8%

(1) Forecasts assume mid-level economic growth and mid-level participation in City conservation and load management programs. Peak demand of 1,320 MW occurred September 3, 1985.

Sales of Excess Capacity

The following table, prepared by the City, summarizes the total capacity requirements of the Electric Utility through 1995, after taking into account a 20% reserve requirement utilized for system reliability purposes by ERCOT members, the resources available (without regard to STP) to meet such requirements, the capacity available for sales outside the Electric Utility, and present contract commitments for sales of excess capacity:

Year	Projected System Peak (MW)	Required (1) Net System Capability (MW)	Existing Net System Capability (MW)	Proposed Capacity Additions (MW)			Net System Capability After Additions (MW)	Reserve Capacity (MW)	Reserve Margin (%)	Sales Contract (MW)
				Coal	Gas	Other				
1985	1,296	1,555	1,900				1,900	604	46.6	800(4)
1986	1,387	1,664	1,900				1,900	513	37.0	800(4)
1987	1,477	1,772	1,900		105	101(2)	2,106	629	42.6	800(4)
1988	1,570	1,884	1,900			20(3)	2,126	556	35.4	
1989	1,665	1,998	1,900		105		2,231	566	34.0	
1990	1,762	2,114	1,900		140		2,371	609	34.6	
1991	1,852	2,222	1,864		140		2,475	623	33.6	
1992	1,944	2,333	1,864		140		2,615	671	34.5	
1993	2,045	2,454	1,864		140		2,755	710	34.7	
1994	2,151	2,581	1,864	400			3,155	1,004	46.7	
1995	2,261	2,713	1,831				3,122	861	38.1	

(1) Required minimum capacity assuming 20% reserve margin.

(2) Includes: Longhorn Hydro — 3 MW and Valley View — 98 MW.

(3) Refuse Plant — 20 MW.

(4) During system peak demand periods sales may be limited pursuant to contract.

Annual Summary of Customer Consumption and Average Price

The Electric Utility delivers electricity to approximately 235,000 customers (an increase of approximately 10% over the previous year) within its service area. The kilowatt-hour sales distributed by customer classification served by the Electric Utility are shown in the following table:

	12 Months Ended June 30,		Fiscal Year Ended September 30		
	1985	1984	1984	1983	1982
ALL CUSTOMERS					
Average Monthly kWh Per Customer	1,752	1,740	1,749	1,678	1,730
Average Monthly Bill Per Customer	\$ 118.69	\$ 124.36	\$ 127.60	\$ 106.31	\$ 104.84
Average Monthly Revenues Per kWh	\$0.06775	\$0.07147	\$0.07296	\$0.06336	\$0.06060
RESIDENTIAL CUSTOMERS					
Average Monthly kWh Per Customer	831	840	847	789	829
Average Monthly Bill Per Customer	\$ 53.69	\$ 56.30	\$ 58.34	\$ 47.36	\$ 46.95
Average Monthly Revenues Per kWh	\$0.06461	\$0.06702	\$0.06888	\$0.06003	\$0.05663
GENERAL CUSTOMERS					
Average Monthly kWh Per Customer	9,587	9,381	9,380	9,472	10,009
Average Monthly Bill Per Customer	\$ 672.03	\$ 701.72	\$ 714.12	\$ 623.45	\$ 636.72
Average Monthly Revenues Per kWh	\$0.07010	\$0.07480	\$0.07613	\$0.06582	\$0.06361

Generation and Use Data

	Fiscal Year Ended September 30					
	1984	1983	1982	1981	1980	
	Average Cus- tomers	Average Cus- tomers	Average Cus- tomers	Average Cus- tomers	Average Cus- tomers	kWh
Net kWh Generated	5,815,014,000	5,099,249,000	6,051,623,000	5,853,947,000	4,138,664,000	
kWh Received from ERCOT(1)	1,312,235,000	2,023,112,000	2,281,266,000	458,083,000	125,831,000	
Less: kWh Delivered to ERCOT(1)	(1,317,047,000)	(2,028,962,000)	(2,291,430,000)	(458,157,000)	(126,044,000)	
Less: kWh Delivered to Other Utilities	(711,951,000)	(682,158,000) (2)	(1,749,094,000) (2)	(2,115,129,000)	(527,375,000)	
Total kWh Delivered to Service Area	5,088,251,000	4,411,241,000	4,292,365,000	3,738,744,000	3,611,076,000	
Service Area Energy Use:						
Residential Service	191,637	175,189	164,378	155,709	149,285	1,408,683,968
General Service	22,631	19,971	17,890	17,037	19,161	1,789,376,670
	214,268	195,160	182,268	172,746	168,446	3,198,070,638
Public Street Lighting	4	3	3	3	2	28,560,600
City Utility Department	145	140	134	128	136	88,038,755
Other City Departments	343	329	320	314	313	32,072,866
	492	472	457	445	451	148,672,221
Total Service Area Sales	4,697,821,019	4,090,437,172	3,937,580,290	3,489,216,956	3,346,742,859	
Loss and Unaccounted For	400,429,981	320,803,828	354,784,710	249,527,044	264,333,141	
Total kWh Delivered to Service Area	214,760	195,632	182,725	173,191	168,897	3,611,076,000
System Peak Demand (kW)	1,210,000	1,101,000	1,474,000 (3)	1,688,000 (4)	1,153,000 (5)	

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

(2) Reduction from prior year reflects decrease in energy purchased from the City by Houston Lighting and Power Company.

(3) Includes 1,013,000 kW peak demand delivered to service area plus coincidental demand of 461,000 kW delivered to other utilities.

(4) Includes 888,000 kW peak demand delivered to service area plus coincidental demand of 800,000 kW delivered to other utilities.

(5) Includes 849,000 kW peak demand delivered to service area plus coincidental demand of 304,000 kW delivered to other utilities.

Large Customers

The ten largest customers served by the Electric Utility comprised 9.4% of total service area sales revenue derived from Electric Utility customers in 1984, down from 10.1% in 1983. The three largest customers, Motorola, Inc., IBM Corporation and Texas Instruments, Inc., comprised 4.94% of the total service areas sales revenues derived from the Electric Utility in 1984 compared to 5.13% in 1983. The following tables indicate the largest customers and sales to and revenues derived from such customers.

Fiscal Year Ended September 30
(dollars in thousands)

	1984		1983		1982		1981		1980	
	MWh	Revenue	MWh	Revenue	MWh	Revenue	MWh	Revenue	MWh	Revenue
Motorola, Inc.	97,507	\$6,993	85,440	\$5,318	69,523	\$4,156	63,494	\$3,082	52,973	\$2,528
IBM Corporation (South) (1)	76,224	5,609	68,412	4,328	47,206	2,925	—	—	—	—
Texas Instruments, Inc.	61,402	4,499	59,580	3,781	62,942	3,831	65,599	3,247	65,153	3,142
IBM Corporation (North) (1)	61,078	4,493	58,997	3,759	59,976	3,657	56,340	2,838	47,470	2,349
Bergstrom Air Force Base	54,469	4,059	53,787	3,487	51,866	3,250	47,238	2,437	46,121	2,296
State Capitol Complex	24,600	1,774	26,322	1,636	23,496	1,409	20,068	987	18,936	928
Advanced Micro Devices ...	27,096	1,960	23,966	1,500	21,374	1,277	—	—	—	—
Seton Medical Center	17,779	1,293	14,963	944	12,409	735	11,625	586	12,048	571
Highland Mall	13,994	1,057	13,332	875	13,312	851	13,030	711	13,274	679
LBJ State Office Bldg.	12,960	967	12,430	796	10,890	679	9,839	536	10,004	525

(1) Both IBM Facilities are at the same location, but are billed separately.

Electric Rates

The following monthly electric rates were effective December 1, 1984.

Customer Class	Fuel Charge	Minimum Charge	Energy Charge		
			1st 500 kWh	Summer May thru October	Winter November thru April
Residential Service (E01, E02, E03, E04)	All kWh (1)	\$6.50	\$.01 Per kWh	\$.0365 All kWh Above 500 kWh	\$.0165 All kWh Above 500 kWh
General Service Non-Demand (E05, E06, E09, E10)	All kWh (1)	\$6.50	\$.01 Per kWh	\$.0452 All kWh Above 500 kWh	\$.0252 All kWh Above 500 kWh
		<u>Minimum Charge</u>			
Water and Wastewater-(E16) ...	All kWh (1)	\$6.50 (2)		\$.0567 All kWh	\$.0260 All kWh
Other City (Including Electric) (E17, E19)	All kWh (1)	\$6.50 (2)		\$.0453 All kWh	\$.0269 All kWh
Streetlight/Traffic-(E18)	All kWh (1)	\$6.50 (2)		\$.0891 All kWh	\$.0891 All kWh
		<u>Minimum Charge</u>	<u>Energy Charge</u>	<u>Demand Charge</u>	
General Service Demand (E07, E11)	All kWh (1)	\$6.50 (2)	\$.0213 All kWh	\$4.37 All kWh	\$3.36 All kWh
General Service Demand-Public Schools (E08, E12)	All kWh (1)	\$6.50 (2)	\$.0205 All kWh	\$4.24 All kWh	\$3.27 All kWh
Primary Service-(E13, E14)	All kWh	\$6.50 (2)	\$.0243 All kWh	\$4.27 All kWh	\$3.35 All kWh
Large Primary Service-(E15) .	All kWh (1)	\$6.50 (2)	\$.0212 All kWh	\$4.55 All kWh	\$3.63 All kWh
	<u>Fuel Charge</u>		<u>Pole Rental</u>	<u>Customer Charge</u>	
Nightwatchman:					
175 Watt					
Merc. Vapor	60 kWh Per Light		\$3.05 Per Pole		\$ 6.72 Per Light
100 Watt High Pressure Sodium	35 kWh Per Light		\$3.05 Per Pole		6.11 Per Light
400 Watt					
Merc Vapor	140 kWh Per Light		\$3.05 Per Pole		14.28 Per Light
250 Watt High Pressure Sodium	90 kWh Per Light		\$3.05 Per Pole		12.06 Per Light

(1) Plus an Adjustment for Fuel Cost for All kWh Used, Calculated as Per Rate Ordinance Formula.

(2) MINIMUM CHARGE — If the sum of the regular energy and demand charges is less than \$6.50.

The 1985-86 budget projections indicate that an increase in electric rates will be necessary in early FY86. The Electric Utility has recommended to the City Council that a 9% increase in the average cost per kWh be implemented November 1, 1985. The budgeted rate increase will ensure that the Electric Utility has adequate revenues available to meet estimated expenditures while maintaining fiscal integrity.

Fuel Charge

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

Comparison of Residential Electric Rates

The following shows a comparison of the estimated annual residential bills using August 1985 fuel costs, ranked on the basis of consumption of 500 kWh per month and 1,000 kWh per month for selected Texas cities. No comparison is provided for commercial or industrial rates; such comparison would not be as favorable.

	Estimated Annual Residential Bill using August 1985 Fuel Costs	
	Estimated \$ Annual Bill 500 kWh/Mo.	Estimated \$ Annual Bill 1000 kWh/Mo.
Beaumont	634.20	1,178.40
El Paso	595.56	1,113.00
Houston	498.30	1,049.98
Garland	558.60	1,045.08
Denton	495.00	1,020.00
Bryan	514.32	956.64
San Antonio	468.96	915.80
Lubbock	479.52	903.84
Dallas/Ft. Worth	507.12	877.02
Brownsville	456.96	850.32
Corpus Christi	446.76	824.52
Austin	334.56	690.24

Fuel Supply

Coal. Coal is the fuel for both units of the Fayette Power Project. In order to secure an adequate supply of coal for the operation of these units the City and LCRA entered into a Coal Purchase Contract (the "Decker Contract") with Decker Coal Company ("Decker") on October 24, 1974, and a Coal Supply Agreement ("Atlantic Contract") with Atlantic Richfield effective April 21, 1977.

The average price per ton of coal from the Decker mine in Montana, including transportation, was approximately \$55.87 at January 31, 1985. On February 21, 1985 the City and LCRA filed suit asking the court to declare the Decker Contract void and unenforceable or in the alternative that the Decker Contract be reformed or equitably adjusted by the court. The City and LCRA informed Decker that they would refuse coal deliveries after April 21, 1985. The City and LCRA entered into a spot purchase agreement for coal with Exxon and believe that sufficient spot market purchases will be available so as not to interfere with operations of the Fayette Power Project. Coal shipments ceased on April 21, 1985 from the Decker mine. No further deliveries are anticipated pending settlement of the suit. See "LITIGATION".

The Atlantic Contract governs the supplying of coal to the City and LCRA from the Coal Creek and Black Thunder mines in Wyoming. The Atlantic Contract which expires December 31, 1995, provides for total purchases equivalent to 27 million tons and yearly purchases equivalent to 1.8 million tons. Subject to certain conditions the City and LCRA may negotiate a new contract for 1.8 million tons of coal per year for 15 years. The Atlantic Contract imposes certain "take-or-pay" obligations on the City and LCRA by requiring payment in the event of a failure to take the quantities of coal specified in the Atlantic Contract if Atlantic Richfield is ready and willing to mine and deliver such coal. The Atlantic Contract establishes a 1977 base price for coal subject to certain price adjustment factors, including adjustments for labor costs based on certain United Mine Worker standards, costs of material and supplies, royalty payments, taxes, depletion allowances, inflationary effects on invested capital and mine replacement costs and cost of compliance with federal, state and local laws, regulations, rules and statute. The average price per ton of coal from the Coal Creek and Black Thunder mines, including transportation, is \$38.50 in 1985. It is anticipated that the average price per ton of coal will be approximately \$39.00 in 1986.

An amended contract with Atlantic Richfield for supplemental coal was signed in June 1984 for a two year period retroactive from January 1984. The base price is \$5.15 per ton. Delivered price per ton beginning in July 1984 was approximately \$32.86 per ton for 500,000 to 1,000,000 tons each year. The current delivered price is approximately \$30.00 per ton. "Decker Replacement" coal is being purchased from Exxon's Caballo mine for approximately \$27.00 per ton delivered at a rate of 200,000 tons per month. Purchases are expected to continue at this price throughout 1985.

The miners at the Decker Coal Creek mine are represented by the United Mine Workers. The Atlantic Richfield mine has no representation.

Pursuant to the Fayette Power Project Agreement Regarding Railroad Cars and Railroad Car Maintenance dated May 10, 1979, the City and LCRA have purchased 1,090 rotary dump railroad cars to move the coal from Montana and Wyoming to the Fayette Power Project and have established facilities to maintain such cars. The effect of this arrangement is to reduce the transportation tariff on coal and places the control and management of the cars in the hands of the City and LCRA. The Burlington Northern railroad will transport coal to the Fayette Power Project under the published tariff at \$22.00 per ton in 1985. The agreed minimum tonnage from the Powder River Basin to be shipped on the Burlington Northern Railroad is 3.3 million tons. The Chicago and Northwestern Railroad began shipment to the Fayette Power Project on April 21, 1985. The published tariff is \$22.35 per ton for 125,000 tons per month. Shipments at this rate are expected to continue throughout 1985. The Fayette Power Project had previously leased two trains from Western Fuels to haul additional tonnage. Because of the much improved turnaround time using the Chicago and Northwestern Railroad the Fayette Power Project was able to release the two leased trains from Western Fuels.

The State of Montana has imposed a 30% severance tax on coal extracted from that state. The costs of this tax are passed through to the City. The U.S. Supreme Court in July, 1981, upheld the validity of the severance tax.

On November 26, 1979, the City and LCRA initiated legal action against Decker in the United States District Court for the Western District of Texas regarding the interpretation of certain contract provisions as to what was to be included as a cost of coal. The suit arose out of Decker's application for a mining permit for its East Decker mine the operation of which entailed the use of a drag line. The Department of State Lands of the State of Montana refused to approve the permit because the plan submitted entailed the deposit of spoilage into a creek and its flood plain. Decker converted its method of operation from a drag line to a shovel and truck operation. Decker included the additional cost of the shovel-truck operation in the price of coal delivered to the City and LCRA and the City and LCRA made such payments under protest. In September 1981, the court entered judgment for the City and LCRA for approximately \$10.1 million and interest. Since the time the judgment was rendered, the sum has been transferred to an escrow account invested in U.S. Government securities and has increased to a book value as of June 30, 1985 of approximately \$31 million as the City and LCRA continue to pay the protested surcharge on all current coal purchases into the escrow account. The U.S. Court of Appeals reversed the judgment of the lower court and entered judgment on the liability issue for Decker. The case was remanded to the district court for the "damages" trial. At that point, Decker moved for a stay, pending arbitration, pursuant to a contractual provision requiring arbitrated resolution of disputes between the parties over computation of increased mining costs. On February 22, 1984, the district court granted Decker's motion to stay. On March 13, 1984, the City and LCRA appealed to the Court of Appeals for the Fifth Circuit. The appeal was denied and Decker has asked that the case be set for arbitration. The parties have selected Arthur Young and Company as arbitrator for the dispute and anticipate that discovery and information exchange will begin shortly in this proceeding.

Gas and Oil. The Electric Utility's eleven intermediate and peaking units are gas/oil fired. In 1962 the City entered into a "Gas Sales Contract" with Coastal States Gas Producing Company ("Coastal States") for a long term supply of natural gas for its Seaholm and Holly Street Power Plants. The City subsequently entered into an Amendment to Gas Sales Contract as of March 31, 1969, with Lo-Vaca Gathering Company ("Lo-Vaca") as assignee of Coastal States. The amendment extended the term of

the Gas Sales Contract to December 31, 1999, and made provision for the supply of gas to the City's Decker Power Station. Subsequent to the execution of the amendment, the Electric Utility experienced severe curtailment of natural gas deliveries in the years 1973 through 1976. As a result of the shortage experienced in 1973 through 1976 legal action was initiated by customers of Coastal States and Lo-Vaca, including the City, and a settlement achieved, the principal effects for the City being the transfer of certain stock and rights with respect to lignite reserves to the City and the substitution of Valero Corporation ("Valero") for Lo-Vaca ("Lo-Vaca Settlement"). As a result of the Lo-Vaca Settlement and changed market conditions the City was able to ensure an adequate supply of gas. Lo-Vaca obtained relief from the Texas Railroad Commission (the "Railroad Commission") such that the Electric Utility was required to buy gas at rates substantially above pre-1973 levels. The supply of natural gas from the current supplier, Valero, is much improved although subject to curtailment a few times a year. The average price per 1,000 cubic feet of gas in 1983 was \$4.30. The price of gas per 1,000 cubic feet was approximately \$4.13 in 1984. In case of curtailment fuel oil is used to replace the natural gas shortfall. Certain modifications have been completed to improve the firing characteristics of existing gas/oil boilers to burn fuel oil. Fuel oil burning capability was greatly increased with the operational status of Decker 2. The Electric Utility maintains a reserve of approximately 8 million gallons of No. 2 oil and 4 million gallons of No. 5 oil. All oil is purchased on the spot market.

In July 1983, the City's contract with Valero was amended to allow the City to purchase up to 20% of its average annual gas requirement from other suppliers. Additionally, the Valero contract was further amended in April 1985 in order to allow the City to purchase up to 50% of its average annual gas requirements from other suppliers. The current average price from alternate suppliers is \$3.19 per MCF.

The Railroad Commission, on January 5, 1973, issued an order requiring every natural gas utility subject to its jurisdiction to file a curtailment program with the Railroad Commission by February 12, 1973. Such order set forth certain priorities, similar to those contained within typical Federal Power Commission curtailment orders, for deliveries of natural gas until the Railroad Commission could approve the curtailment program of each utility. At various times, public hearings have been conducted to determine priorities for the Lo-Vaca system. By interim order dated June 21, 1973, natural gas to be used for the generation of electricity to meet residential, hospital, school, church and other human needs consumption was given a priority second only to direct usage of natural gas for the same purposes. Such favorable ranking, ahead of commercial and industrial usage, was continued to November, 1980. On November 5, 1980, the Railroad Commission commenced hearings to consider the priorities for natural gas curtailment for Valero. On February 9, 1981, the Railroad Commission issued a final order implementing a new curtailment program. Under the new program, some of the City's natural gas supply was placed in a lower category, thus increasing the City's chance of being curtailed during spot shortages of natural gas. However, because the City has decreased its dependence on natural gas through the use of new coal generation, the change in priority is not expected to have a significant impact in the operation of the system.

Nuclear. The three major components in the preparation of nuclear fuel for reactor use are the uranium ore, ore enrichment, and fuel fabrication.

The primary source of ore for nuclear fuel fabrication for STP is through an Agreement of Settlement (the "Westinghouse Settlement") between HLP, acting individually and as project manager, and Westinghouse Electric Corporation ("Westinghouse") dated as of October 2, 1978, as amended and a contract among the participants and Chevron U.S.A. Inc. dated as of August 18, 1977, as amended as of August 1, 1979, (the "Chevron Contract"). The Westinghouse Settlement and the Chevron Contract will ensure a source of ore for STP into the 1990's. The STP currently has on hand approximately 7,600,000 pounds of uranium concentrate equivalent, and has scheduled deliveries of an additional 4,000,000 pounds through 1991.

Ore enrichment is provided for through a long term contract with the Department of Energy and is provided only by the Department of Energy.

The fuel fabrication for STP fuel elements is provided for through the Westinghouse Settlement at no charge for 10 years and at a reduced charge for an additional 6 years.

Rate Regulation

The City is not subject to regulation by the PUC with regard to the operation of the Electric Utility or rates charged for electric service to customers within the boundaries of the City. The City has exclusive original jurisdiction over the rates charged ratepayers of the Electric Utility who reside outside the City's boundaries. However, the PUC may have appellate jurisdiction to determine retail municipal electric rates outside the City limits if a qualified petition is filed by retail ratepayers. In an opinion dated December 8, 1981, the Attorney General of Texas stated that in setting rates for ratepayers outside of a city the PUC may consider system-wide data and may require the municipal utility to submit certain data to the PUC such as expense, revenue, rate base and financial information. Pursuant to a subsequent request by the PUC, the Attorney General, on April 15, 1982, issued an opinion stating that the PUC shall apply the same rate making standards to municipal-owned utilities as are applied to investor-owned utilities.

On May 14, 1984, ratepayers living outside the city limits of the City filed a petition with the PUC challenging the current rates authorized by the City Council on April 12, 1984, to be effective for statements rendered after May 1, 1984. The petition requested the PUC to set aside the current rates on the basis that such rates were not fair and equitable and to fix new rates. The City charges the same rates by customer classification to all ratepayers whether within or without the City limits.

As a result of this rate appeal petition, the City entered into a Settlement Agreement with the Petitioners and Intervenors prior to the commencement of a substantive hearing. This Settlement Agreement was approved by the PUC on November 9, 1984. The City will continue to vigorously protect its authority under the Public Utility Regulatory Act to set utility rates.

Real Estate Taxes

The Electric Utility pays no real property taxes on facilities inside or outside the City, or payments in lieu of taxes with respect to the Electric System.

Service Area

The service area for the Electric Utility was established by the PUC pursuant to a certificate of convenience and necessity on April 3, 1978. The City's service area encompasses 149.5 square miles within the City itself and 271.8 square miles of surrounding Travis and Williamson Counties. The establishment of such a service area entitles the Electric Utility to provide electric service within such area. As presently constituted, the City's service area overlaps with approximately 11 square miles of the service area of Texas Power and Light Company in Travis and Williamson Counties. The City does not anticipate any jurisdictional problems as a result of such service area overlap.

The City may not extend the service area for the Electric Utility without first obtaining a certificate of convenience and necessity from the PUC. The City has no plans to expand its present service area, however, the City has asked for and been granted an amendment to its certificate of convenience and necessity to allow the City to serve the planned Onion Creek Wastewater Treatment Plant which is located beyond the Electric Utility's service area.

Federal Regulation

The Electric Utility is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of the Electric Utility under current Federal statutes and regulations. The Electric Utility submits various reports to the Federal Energy Regulatory Commission ("FERC") and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records.

Certain Factors Affecting the Electric Utility Industry

The electric utility industry in general is currently experiencing problems in a number of areas including, among others, the effects of inflation upon the costs of operations and construction, availability and high cost of capital, compliance with environmental regulations, licensing and other delays affecting the construction of new facilities and the effects of conservation on the use of electric energy. The City is unable to predict the extent to which the Electric Utility construction program and operations will be affected by such factors.

General Fund Transfer from Electric Utility

The City, independent of the PUC action, hired a consulting firm, Authur Andersen & Co., to perform a study for setting a policy on the determination of the transfer to the General Fund from the Systems. This study was completed in the fall of 1984 and was approved by the Council November 29, 1984. The approved policy is as follows:

1. Electric Utility and Financial Services staff will develop a transfer amount for the upcoming year in January/February as part of the 5-year budget pro forma. The transfer will be based on economic indicators such as debt service coverage, rate of return, and other indicators as recommended by the Arthur Andersen report and as developed by staff.
2. The Electric Utility Commission will review the transfer proposed by City staff in January/February.
3. The Electric Utility Commission will hold at least one public hearing in January/February on the recommended transfer for the upcoming fiscal year.
4. The Electric Utility Commission recommendation will be forwarded to the City Council as part of the 5-year pro forma.
5. Upon the September presentation of the City Manager's proposed budget, the Electric Utility Commission will review the recommended transfer.

THE WATERWORKS AND SEWER SYSTEM

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service With City</u>
James E. Thompson	Director Water and Wastewater	12 Years
Ronald L. Bond	Deputy Director Water and Wastewater	1 Year
Rodger H. White	Assistant Director — Operations and Maintenance	35 Years
George L. Greene	Assistant Director — Water Treatment	10 Years
Marsha W. Slaughter	Assistant Director — Planning	7 Years
Crespin Guzman	Assistant Director — Engineering	7 Years
Andrew P. Covar	Assistant Director — Wastewater Treatment	2 Years
William Derryberry	Division Manager — Finance	7 Years
Janet H. Crow	Division Manager — Administration	5 Years

WATER UTILITY

Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The City also supplies treated

water to three water control and improvement districts within the City's extra-territorial jurisdiction. With respect to the City's obligations under these contracts, the City is responsible for meter reading, billing and collection functions and is paid a specific charge per customer per month. Billing is predicated upon the actual cost of services. The City also has agreements to sell water to nineteen municipal utility districts, eighteen of which have been approved for creation by the Texas Water Commission.

The City has previously acquired the systems and assets of nine water control and improvement districts. The City has paid off and cancelled the bonded indebtedness of five of these districts and is presently paying, from surplus revenues of the Water Utility, the unpaid bonded indebtedness of the other four districts.

Facilities

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

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

The combined storage capacity of the six lakes is around 3,300,000 acre-feet of water, or more than a trillion gallons. Approximately 800,000 acre feet of this is reserved for flood control. Of the six dams on the Colorado River, two form major impounding reservoirs for the control of flood water.

United States Geological Survey records at the Austin gauging station show the following flows for the water year (October 1 through September 30).

1964 — 529,600 Acre Feet	1971 — 690,600 Acre Feet	1978 — 885,100 Acre Feet
1965 — 1,068,000 Acre Feet	1972 — 1,128,000 Acre Feet	1979 — 867,200 Acre Feet
1966 — 1,189,000 Acre Feet	1973 — 896,400 Acre Feet	1980 — 803,500 Acre Feet
1967 — 743,000 Acre Feet	1974 — 1,463,000 Acre Feet	1981 — 1,626,000 Acre Feet
1968 — 2,511,000 Acre Feet	1975 — 3,039,000 Acre Feet	1982 — 1,356,000 Acre Feet
1969 — 846,900 Acre Feet	1976 — 992,600 Acre Feet	1983 — 587,800 Acre Feet
1970 — 2,052,000 Acre Feet	1977 — 1,956,000 Acre Feet	1984 — 764,900 Acre Feet

Using the twenty-one years from 1964-1984, the average flow was 1,237,886 acre feet per year. Using the lowest year, 1964, the flow was 529,600 acre feet, or 173 billion gallons, which is 4.9 times the amount of water used by the City for the fiscal year ended September 30, 1984.

Water Rights. The City's water rights and corresponding priority dates have recently been adjudicated before the Texas Water Commission in accordance with the Water Right Adjudication Act, Texas Water Code Section 11.30 *et. seq.* On July 29, 1985, the Commission issued a final determination of the City's water rights. In the Final Determination of all claims of Water Rights in the Lower Colorado River Segment of the Colorado River Basin issued by the Texas Water Commission on July 29, 1985, the City of Austin was recognized the right to maintain several dams and reservoirs and impound water for municipal, hydropower and recreation purposes; and the right to divert and use not

to exceed 97,285 acre-feet of water per year for municipal purposes with the right to diligently develop such diversion and use for municipal purposes up to 187,657 acre-feet of water per year. The City was also recognized the right to release through Tom Miller Dam 1,713,300 acre-feet per year for hydropower purposes; to divert and circulate 575,685 acre-feet of water per year with an allowance for the consumptive use of 17,271 acre-feet of water per year; to impound and use 37,460 acre-feet of water for industrial and recreational purposes with an allowance for the consumptive use of 16,156 acre-feet of water per year for industrial purposes; and to divert and use 6,456 acre-feet of water per year for industrial purposes.

In addition to its independent water rights, the City has contracted with the Lower Colorado River Authority for a supply of water from storage in the Highland Lakes, and for other matters relating to the supply of water and power.

Water Treatment Plants.

The City's Water Utility is comprised of three water treatment plants (Green, Davis and Ullrich) having a nominal capacity of 125 mgd and a peak load capacity of 165 mgd. The water treatment plants have a combined clear well storage capacity of 27 million gallons on site. The City's Water Utility includes a water distribution system having 2,162 miles of water mains of varying diameters, several distribution storage facilities with an effective storage capacity of 39.9 million gallons, 11,810 fire hydrants and sixteen booster pump stations.

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

The Green Plant is located east of Shoal Creek near its junction with the Colorado River and has a rated capacity of 45 mgd. An intake station on the river contains four traveling water screens and four raw water pumps. The Green Plant was constructed in 1924 and expanded in 1935, 1938, and 1949. An extensive modernization is nearly complete to restore this plant to a status comparable to the other two plants. The firm pumping capacity (i.e., with one of the largest pumps out of service) is 45 mgd. Water is pumped through a forty-two inch line to the chemical feed building, where it is split into two parallel treatment units.

The Davis Plant, located at Mount Bonnell Road and West 35th Street, has a nominal capacity of 60 mgd, and has a peak load capacity of 90 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, and raw water and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963 and 1975. Construction is in progress on certain hydraulic improvements to increase the plant's capacity. This work is scheduled to be complete in mid-1986.

The Ullrich Plant, located on a site south of Red Bud Trail and Forest View Drive, has a nominal capacity of 20 mgd and a peak load capacity of 30 mgd. The existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, two upflow-solids contact clarifiers, six filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. Design engineering is nearly complete to increase the capacity of this plant.

Emergency Water Conservation Plan

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