

voluntary to mandatory stages when daily pumpage exceeds 150 mgd for three consecutive days. If higher levels of pumpage should occur, the plan would move to one of the more restrictive mandatory levels. During the summer of 1984 the plan moved from voluntary to mandatory stages in July because pumpage exceeded the 150 mgd limit for three consecutive days. Currently, the treatment facilities have a peak load capacity of 165 mgd. There are constraints on the treatment and distribution facilities' ability to supply water to customers, however, there are currently no restrictions related to the source or quantity of raw water. During the summer of 1985 stages two and three of mandatory water restrictions were implemented; said restrictions were lifted on September 12, 1985.

Water Storage and Pumping Facilities

In addition to the water treatment plants, the Water and Wastewater Utilities own and operate the following storage facilities and major water pump stations:

<u>Name</u>	<u>Effective Storage Capacity (millions of gallons)</u>	<u>Firm Capacity (gallons per minute)</u>
North Austin.....	7.8	42,000
Spicewood Springs	8.0	26,500
Jollyville	5.7	15,250
Eberhart	1.5	12,600
Center Street	5.7	31,400
Davis Lane	5.4	4,900
Braker Lane	0.1	—
Pflugerville Exit	0.15	—
Davis Hill	0.75	—
Oak Hill.....	0.4	500
Highland Park West	1.4	1,000
Pond Springs.....	3.0	—

Historical Water Pumpage

The following table summarizes historical demand and maximum day water pumpage from fiscal 1975 through fiscal 1984:

<u>Fiscal Year</u>	<u>Total Pumpage (millions of gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (millions of gallons)</u>
1975	19,032	(10.4)	96
1976	20,255	6.4	104
1977	23,448	15.8	131
1978	24,667	5.2	144
1979	23,065	(6.5)	115
1980	27,911	21.0	153
1981	26,194	(6.2)	133
1982	30,015	14.6	154
1983	28,217	(6.0)	134
1984	35,071	24.3	154

Source: City's Water and Wastewater Utilities.

Projected Water Pumpage

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

<u>Fiscal Year</u>	<u>Total Pumpage (millions of gallons)</u>	<u>Maximum Day Pumpage (millions of gallons)</u>
1985.....	34,000	168
1986.....	34,650	176
1987.....	36,400	185
1988.....	38,200	195
1989.....	40,100	204
1990.....	42,100	214
1991.....	44,200	225
1992.....	46,400	236
1993.....	48,700	248
1994.....	51,200	261
1995.....	53,800	274

Source: City's Water and Wastewater Utilities.

Analysis of Water Bills

	<u>12 Months Ended June 30,</u>		<u>Fiscal Year Ended September 30,</u>		
	<u>1985</u>	<u>1984</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
AVERAGE MONTHLY BILL PER					
CUSTOMER					
Urban	\$ 27.20	\$ 23.79	\$ 25.93	\$ 19.53	\$ 19.38
Rural(1)	31.84	27.32	42.12	29.57	29.25
City Departments.....	289.74	288.19	305.91	244.22	261.66
Average Monthly Bill —					
Above Consumers	28.35	24.88	28.32	21.20	21.06
Sales to Other Water Utilities(2)	10,326.23	8,960.51	20,082.98	12,864.00	14,574.19
Average Monthly Bill —					
All Consumers.....	30.48	26.51	29.11	21.71	21.68
AVERAGE MONTHLY USAGE IN					
1,000 GALLONS					
Urban	18.74	17.77	19.09	16.38	17.75
Rural(1)	14.64	13.44	22.05	16.50	18.86
City Departments.....	201.38	224.95	230.18	210.17	246.38
Average Monthly Usage —					
Above Consumers	18.87	17.93	19.98	16.98	18.57
Sales to Other Water Utilities(2)	6,085.30	5,733.00	12,630.80	9,252.85	10,128.00
Average Monthly Usage —					
All Consumers.....	20.13	18.98	20.47	17.36	19.00
AVERAGE REVENUE PER 1,000					
GALLONS					
Urban	1.452	1.338	1.358	1.192	1.092
Rural(1)	2.176	2.033	1.910	1.792	1.551
City Departments.....	1.439	1.281	1.329	1.162	1.062
Average Revenue — Above					
Consumers	1.502	1.387	1.417	1.248	1.134
Sales to Other Water Utilities(2)	1.697	1.563	1.590	1.390	1.437
Average Revenue — All					
Consumers	1.514	1.397	1.422	1.251	1.141

(1) Includes customers in City-owned water districts.

(2) 1982 through 1984 data includes only sales to W.C.I.D.'s No. 10, 12, & 14.

Information Concerning Water Sales

	Fiscal Year Ended September 30									
	1984		1983		1982		1981		1980	
	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons	Average Customers	Thousand Gallons
Thousand Gallons Pumped		35,070,923		29,250,912		30,014,763		26,193,608		27,911,176
Less: Sales to Other Water Utilities		757,843		555,171		607,685		436,074		540,021
Thousands Gallons to System		<u>34,313,080</u>		<u>28,695,741</u>		<u>29,407,078</u>		<u>25,757,534</u>		<u>27,371,155</u>
Water Sales:										
Urban	114,051	26,119,000	111,830	21,975,582	105,726	22,515,575	101,772	20,802,958	98,636	21,637,107
Rural	12,606	3,334,132	12,135	2,401,684	10,831	2,450,668	10,232	2,070,246	9,893	2,370,967
	126,657	29,453,132	123,965	24,377,266	116,557	24,966,243	112,004	22,873,204	108,529	24,008,074
City Departments	357	986,053	380	958,362	368	1,087,994	356	974,580	457	1,210,955
Total Sales to Ultimate Consumer	127,014	30,439,185	124,345	25,335,628	116,925	26,054,237	112,360	23,847,784	108,986	25,219,029
Used by Water Department		543,507		285,569		1,000,274		643,938		1,330,991
Loss and Unaccounted For		3,330,388		3,074,544		2,352,567		1,265,812		821,135
Thousands Gallons to System		<u>34,313,080</u>		<u>28,695,741</u>		<u>29,407,078</u>		<u>25,757,534</u>		<u>27,371,155</u>
Maximum Daily Consumption Thousand Gallons		153,723		133,654		157,518		133,535		150,660
Average Daily Consumption Thousand Gallons		95,822		80,140		82,232		71,763		76,469

Operating Results

The debt service coverage and operating results for the Systems for the fiscal years 1981 through 1984, are included in the "Operating Statement, Electric Light and Power System and Waterworks and Sewer System".

Large Water Customers

	Fiscal Year Ended September 30									
	1984		1983		1982		1981		1980	
	Consumption (In Hundreds of Gallons)	Revenue	Consumption (In Hundreds of Gallons)	Revenue	Consumption (In Hundreds of Gallons)	Revenue	Consumption (In Hundreds of Gallons)	Revenue	Consumption (In Hundreds of Gallons)	Revenue
University of Texas, Main Campus	6,138,161	\$780,573	6,220,681	\$691,420	6,157,147	\$627,102	6,615,581	\$498,878	7,336,228	\$524,734
Motorola, Inc.	4,918,181	628,223	3,445,238	381,590	2,776,290	281,545	2,859,801	215,280	2,766,075	197,601
Travis County Water Control and Improvement District #10	4,347,811	690,920	2,922,772	407,130	3,299,877	434,179	1,938,200	218,123	2,683,980	285,352
Williamson County Municipal Utility District #1	3,339,946	532,000	2,583,372	361,380	2,708,444	354,583	2,071,005	232,848	2,077,013	222,382
Bergstrom Air Force Base	3,069,037	390,794	3,120,388	349,440	3,418,617	347,973	3,083,542	232,061	3,401,347	243,642
I.B.M.	2,600,983	330,109	2,622,740	293,532	1,502,499	149,774	1,080,001	82,726	601,785	43,480
Travis County Water Control and Improvement District #12	1,751,795	277,726	1,471,126	205,285	1,572,241	207,491	1,332,241	150,404	1,386,103	142,512
Texas Instruments, Inc.	1,358,537	173,679	1,404,907	156,417	1,354,709	142,258	1,759,233	133,058	1,652,410	118,000
Austin State Hospital	991,200	126,909	823,450	92,854	828,520	85,063	693,120	52,779	867,310	62,632
Travis State School	721,897	92,432	742,401	83,492	506,794	52,231	746,980	56,621	854,872	61,575

WASTEWATER UTILITY

Service Area

The Wastewater Utility services customers within the corporate limits of the City and a portion of Travis and Williamson Counties. The City has entered into contracts with sixteen municipal utility districts in the City's extra-territorial jurisdiction to provide wastewater treatment to the districts. At this time fourteen of the districts have been approved for creation by the Texas Water Commission.

Facilities

The Wastewater Utility is composed of three main wastewater treatment plants with a permitted capacity of 57.0 mgd, one sludge storage and treatment facility, approximately 1,746 miles of sanitary sewer mains and lines, and sixty lift stations. The three treatment plants are the Walnut Creek Wastewater Treatment Plant which began operations in 1977, the Govalle Wastewater Treatment Plant constructed in 1936, and the Williamson Creek Wastewater Treatment Plant constructed in 1964. The Hornsby Bend Wastewater Treatment Plant primarily operates as a sludge storage and treatment facility and was placed in operation in 1956. A new wastewater treatment facility, the Onion Creek Wastewater Treatment Plant was permitted in 1980 and is expected to come on line in 1986.

The Walnut Creek Wastewater Treatment Plant has a permitted capacity of 25 mgd. The City is in the process of filing applications with the Texas Water Commission and the United States Environmental Protection Agency for amendments to the Walnut Creek permits to authorize an average flow of 60 mgd. Sludge from this plant is pumped to the new anaerobic digestors at Hornsby Bend and then stored in the stabilization ponds prior to disposal.

The Govalle Wastewater Treatment Plant was initially constructed in 1936 and has undergone several expansions. It is now rated at a capacity of 26 mgd. The plant uses the contact stabilization method of treating wastewater. Sludge from this plant is also pumped to the Hornsby Bend Wastewater Treatment Facility. Extensive modernization is underway to enable it to reliably discharge the quality of effluent required by its state and federal permits. Renovations are expected to be completed in the last quarter of 1986. The City has submitted a plan to the Texas Water Commission describing alternative proposals for wastewater treatment while any one unit of the Govalle plant is inoperative during the renovation work. The City has filed applications for renewal of its permits with the Texas Water Commission and the United States Environmental Protection Agency under the same terms and conditions as its existing permits.

The Williamson Creek Wastewater Treatment Plant utilizes a variety of methods to transfer or treat and dispose of wastewater, including irrigation of effluent as well as discharging effluent treated by small package treatment plants. The City currently is authorized to discharge a monthly average of 8.3 mgd, 6.0 mgd annually to Williamson and Onion Creeks and to irrigate up to 2.7 acre feet of effluent on the Jimmy Clay Golf Course and a leased tract south of the plant site. Wastewater also evaporates from onsite stabilization ponds. In addition, up to 4.0 mgd of inflow to Williamson Creek Plant is pumped to the City's Govalle Plant for treatment and disposal. The City will abandon all of the treatment and discharge or disposal facilities at Williamson Creek when the Onion Creek Wastewater Treatment Plant comes on-line.

The Onion Creek Wastewater Treatment Plant is scheduled for operation in mid-1986, and will use conventional activated sludge treatment processes and is designed to allow expansion when necessary. The plant is now permitted to discharge at a rate of 18 mgd. A major interceptor will transport the wastewater to the Onion Creek plant from the site of the existing Williamson Creek plant. Waste sludge will be pumped to the Hornsby Bend facility to anaerobic digestors to be constructed simultaneously with the plant.

The Hornsby Bend Wastewater Treatment Plant serves as a wastewater treatment facility as well as a sludge storage and treatment facility and has a permitted capacity of 2.0 mgd. Wastewater from Bergstrom Air Force Base is pumped to Hornsby Bend for treatment. Waste activated sludge from the Walnut Creek and Govalle plants also is pumped to Hornsby Bend. This sludge is stored in on-site waste stabilization ponds prior to disposal. The stabilization ponds at Hornsby Bend have been in use

since 1956. The City has retained a consulting firm to evaluate methods for disposing of current sludge inventories and to recommend a plan for future sludge management. It is likely that approval from both the Texas Department of Water Resources and the United States Environmental Protection Agency will be required before any sludge management plan may be implemented. Major renovation work is underway at the Hornsby Bend facility which includes the construction of anaerobic digesters, an enclosed hyacinth treatment pond and additional wastewater treatment facilities. The City has filed application for renewal of its permits with the Texas Water Commission and the United States Environmental Protection Agency under the same terms as its existing permits.

Participation in the proposed *Brushy Creek Water Control and Improvement District No. 1 of Williamson and Milam Counties ("District") Regional Wastewater Treatment Facility* will provide the City with an additional 27,500 LUEs of wastewater treatment for its customers. The District has been designated by the Texas Water Development Board as the entity responsible for the planning, construction, operation and maintenance of a regional wastewater treatment system for the Upper Brushy Creek Watershed in Southwest Williamson County, Texas, which includes portions of the extraterritorial jurisdiction of the City of Austin as well as other cities and their unincorporated areas. The City and the District are in the process of negotiating a contract which should be finalized by the end of 1985. The District presently holds a wastewater discharge permit issued by the Texas Water Commission which allows a discharge of 10 mgd.

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

Maintenance and inspection is accomplished by Wastewater Utility maintenance personnel.

The City believes that the structural condition of the Wastewater Utility is generally sound. Expenditures for operation, maintenance and repairs of the 60 lift stations and the 1,746 miles of sewer lines and mains have averaged approximately \$3,600,000 per year during the last five years.

Lift Stations

In addition to the wastewater treatment plants, the Water and Wastewater Utilities own and operate the following major lift stations:

<u>Name</u>	<u>Firm Capacity (gallons per minute)</u>
Canterbury	19,500
Montopolis.....	14,400
Boggy Creek East.....	16,400
Shoal Creek.....	9,000
Taylor Slough	3,400
Barton Creek	5,800
Bee Caves	1,500
Boggy Creek South	1,800
Big Walnut Creek	3,200

Historical Wastewater Flows

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal 1975 through fiscal 1984:

<u>Fiscal Year</u>	<u>Total Wastewater Flow (millions of gallons)</u>	<u>Percent Change</u>
1975	13,958	11.7
1976	12,764	(8.6)
1977	14,065	10.2
1978	13,374	(4.9)
1979	17,108	27.9
1980	15,813	(7.6)
1981	17,536	10.9
1982	16,950	(3.3)
1983	18,357	8.3
1984	19,082	3.9

Projected Wastewater Flows

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

<u>Fiscal Year</u>	<u>Total Wastewater Flow (millions of gallons)</u>
1985	25,580
1986	26,715
1987	28,050
1988	29,450
1989	30,925
1990	32,470
1991	34,100
1992	35,800
1993	37,600
1994	39,470
1995	41,450

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

Other Information

On March 1, 1984, the Austin City Council established a moratorium on the sale of wastewater taps for property in the service area of the Williamson Creek Wastewater Treatment Plant. The moratorium was established to allow the City to plan for and construct necessary improvements to the Plant. Pursuant to the moratorium, sales of wastewater taps may only be made with the prior approval of the City Council. On November 8, 1984, the City amended the moratorium to allow connections to the City's utility system if the property owner participated in a program to truck raw sewage away from the Williamson Creek Plant. A moratorium has not been extended to the service area of any of the City's other wastewater facilities; however, the issuance of new taps in the service area of the Govalle Wastewater Treatment Plant is presently under administrative review pending the implementation of one of the alternative proposals submitted to the Texas Water Commission in the plan associated with the renovation work at the Govalle Plant. A moratorium on the sale of taps in the service area of the Govalle Wastewater Treatment Plant may result from the settlement of certain litigation. For information concerning the litigation involving the City's Water and Wastewater Utilities, see "LITIGATION".

Future Capital Improvements

During the next five years, it is anticipated the Waterworks and Sewer System will require approximately \$1 billion for system improvements. Such improvements will include treatment facilities, reservoir and lift station improvements, and major transmission distribution and collection

improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of \$489 million Prior Lien Bonds already voted, (2) the application of \$142 million of anticipated surplus net revenues and amounts on hand, (3) receipts aggregating \$25 million anticipated from contributions in aid of construction, (4) receipts aggregating \$157 million anticipated from capital recovery fees, (5) the issuance of \$184 million Separate Lien Obligation Bonds (MUD Contract Revenue Bonds) of which \$105 million is currently scheduled to be issued in the next twelve months, and (6) \$3 million from federal grants.

The City Manager has recommended to the City Council that a bond election be held on November 5, 1985 to authorize approximately \$184 million of bonds (including Reserve Fund contributions) for Water and Wastewater improvements in a proposed Economic Development Capital Improvement Program. The approval and issuance of these bonds would reduce by \$33 million the amount of Separate Lien Obligation Bonds estimated to be needed for future capital improvements.

Services Financed by Utility Districts

On August 19, 1981, the City Council enacted an ordinance establishing the basic requirements for the City's consent to the creation of a Municipal Utility District ("MUD"), a Water Control and Improvement District ("WCID"), a Fresh Water Supply District or any other water district created under State law for the purpose of supplying water and/or sewer service to land within the extra-territorial jurisdiction or the city limits of the City.

The City is presently relying on MUDs and WCIDs to supply water and wastewater service to some areas outside the City limits although the City is currently in the process of assessing alternative methods of providing service and financing.

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

The City has contractual commitments with fifteen municipal utility districts for the construction of improvements to and extensions of the City's Waterworks and Sewer System. The commitments for financing of such improvements and extensions exist in two different forms:

1. The District issues bonds and constructs the improvements. The City becomes the owner of such improvements upon completion of construction. The City makes payments equal to the total debt service on the bonds from the City's user fees charged to customers using such improvements, surplus Net Revenues from the Waterworks and Sewer System and, if necessary, City ad valorem taxes. The District will pay its pro-rata share of the bonds directly to the City.

A variation of the above is written into some of the contractual commitments with the most recently approved districts in that the issuance by the district of bonds for such improvements and extensions creates a lien on and pledge of the Net Revenues of the Waterworks and Sewer System to cover the City's payments on the total debt service. This lien is known as a Separate Lien Obligation and is on a parity, with respect to the lien on and pledge of the Net Revenues of the Waterworks and Sewer System and Priority Bonds already issued by the City or to be issued in the future. No pledge of the City's ad valorem taxes is made. The City will own, operate, and maintain the facilities after completion of the project. In addition the City may request that some of the districts finance improvements to the City's water and/or wastewater treatment facilities.

2. The District issues bonds and constructs the improvements. The City makes payments after a certain period of time from issuance of the bonds equal to the principal (but not the interest) on the bonds from the sources specified above. Prior to such time the district is responsible for both principal and interest. The City becomes owner of the improvements upon retirement of all the bonds or upon annexation of the district.

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

In July 1984 the City Council did not approve Consent Agreements with seven MUDs which in effect denies their creation. The City is currently negotiating with the owners of the land within the seven proposed MUDs to reach an agreement regarding the provision of City water and/or sewer services. Travis County Water Control and Improvement District No. 17 and several developers are attempting to obtain a Certificate of Convenience and Necessity from the PUC to serve a large part of the City's projected service area with water and wastewater services. The City is actively contesting such actions.

On December 20, 1984, the City consented to the creation of Davis Spring MUD, which was annexed by the City on July 25, 1985. Davis Spring MUD has not yet been created by the Texas Water Commission. It is contemplated that the District will remain in existence until all of its bonded indebtedness is paid off at which time the District would be dissolved and the assets of the District would go to the City.

Water and Sewer Rates

The City is not subject to regulation by the PUC or the Texas Water Commission ("TWC") with regard to the operation of the Waterworks and Sewer System or the rates charged for water and sewer service to customers within the boundaries of the City. The PUC or the TWC may have appellate jurisdiction to determine retail municipal water and sewer rates outside the City's boundaries, however, this question has not been addressed by the PUC, the TWC, or the Attorney General of Texas. The PUC or the TWC is further empowered to grant the City a certificate of necessity and convenience to provide water and sewer service to retail customers outside the City's boundaries. It is the City's position that it is not required to obtain such a certificate. See "Rate Regulation".

The following monthly water rates became effective November 1, 1984. These rates provide approximately 11.0% increased water revenues over the rates in effect immediately prior to November 1, 1984:

Monthly Water Use	Rate per 1,000 Gallons		
	Inside City	Outside City	Water Districts and Municipal Utility Districts
First 2,000		Minimum Charge	
Over 2,000	\$ 1.41	\$ 2.12	\$ 1.76

Meter Size inches	Minimum Monthly Charge		
	City Inside	Outside City	Water Districts and Municipal Utility Districts
¾	\$ 4.24	\$ 6.36	\$ 6.36
1	4.68	7.02	7.02
1 ¼	6.16	9.24	9.24
1 ½	6.79	10.19	10.19
2	8.05	12.08	12.08
3	11.90	17.85	17.85
4	38.24	57.36	57.36
6	46.76	70.14	70.14
8	72.25	108.38	108.38
8 or larger	97.76	146.64	146.64

The following monthly sewer rates became effective November 1, 1984. These rates provide approximately 11% increased sewer revenues over the rates in effect prior to November 1, 1984:

<u>Monthly Water Use (1)</u>	<u>Inside City</u>	<u>Outside City</u>	<u>Water Districts and Municipal Utility Districts</u>
First 2,000	\$4.90	\$7.35	\$7.35
Over 2,000	\$1.37 per 1,000 gal.	\$2.06 per 1,000 gal.	\$1.71 per 1,000 gal.

(1) Based on average water consumption during December, January, and February, or actual water consumption, whichever is lowest.

An average system rate increase of 34.2%, to be effective November 1, 1985, has been proposed for fiscal year 85-86.

Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance, under which all new non-industrial and non-commercial customers of the Waterworks and Sewer System must pay a Capital Recovery Fee at the time that the customer's new tap is purchased. On July 17, 1984, the City Council amended its Capital Recovery Fee Ordinance to require the payment of a \$2,500 fee per living unit equivalent (approximately equivalent to one single family detached residence) at the time of purchase of a tap for residential property and property other than residential property. The revised fee was phased in for some properties until September 1984. All properties are assessed now at 100%. In August 1984, the City Manager appointed an Ad Hoc Capital Recovery Fee Task Force to review the basis and methodology for the Capital Recovery Fee. After a detailed review by the Task Force, a City Manager report was made to Council on August 8, 1985, which is currently under consideration.

Northwest Land Use Guidance Plan

On December 6, 1984, the City Council amended Chapter 4 of the Austin Tomorrow Plan (City's Comprehensive Plan) to adopt the Northwest Land Use Guidance Plan. The plan sets development guidelines and density requirements for residential, commercial, retail and research and office development in the Northwest area of the City. The plan generally applies to an area of land bound by Loop 360 on the east, RM 2222 on the south, RR 620 on the west and U.S. Highway 183 on the north. Generally, residential use will be approximately 2½ units per acre. Office and research allocation requirements have yet to be determined by the Council.

**COMPARATIVE ANALYSIS OF ELECTRIC LIGHT AND POWER SYSTEM
AND WATERWORKS AND SEWER SYSTEM OPERATIONS**

October 1, 1981 to June 30, 1985

(Thousands Rounded)

	12 Months Ended 6-30-85 (Unaudited)	Fiscal Year Ended September 30			
		1984	1983	1982	1981
INCOME:					
Revenue	\$ 498,510	\$ 482,451	\$389,259	\$406,532	\$333,795
Operating Expense	<u>287,031</u>	<u>288,286</u>	<u>232,731</u>	<u>262,066</u>	<u>213,614</u>
Balance Available for					
Debt Service	211,479	194,165	156,528	144,466	120,181
Depreciation and					
Amortization Expense	<u>34,250</u>	<u>34,082</u>	<u>35,232</u>	<u>26,244</u>	<u>24,258</u>
Earnings Before Interest					
Expense	177,229	160,083	121,296	118,222	95,923
Interest Incurred on Debt ...	(122,842)	(101,862)	(91,724)	(71,108)	(53,120)
Interest Capitalized	79,679	63,857	51,947	37,856	19,509
Other	<u>(838)</u>	<u>(834)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
INCOME BEFORE EXTRA-					
ORDINARY GAIN (1)	133,228	121,244	81,519	84,970	62,312
EXTRAORDINARY GAIN	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>351,975 (2)</u>	<u>-0-</u>
INCOME AFTER EXTRA-					
ORDINARY GAIN (1)	<u>\$ 133,228</u>	<u>\$ 121,244</u>	<u>\$ 81,519</u>	<u>\$436,945</u>	<u>\$ 62,312</u>
PERCENTAGES:					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>57.58%</u>	<u>59.75%</u>	<u>59.79%</u>	<u>64.46%</u>	<u>64.00%</u>
Balance Available for					
Debt Service	42.42%	40.25%	40.21%	35.54%	36.00%
Depreciation and					
Amortization Expense	<u>6.87%</u>	<u>7.07%</u>	<u>9.05%</u>	<u>6.46%</u>	<u>7.27%</u>
Earnings Before Interest					
Expense	35.55%	33.18%	31.16%	29.08%	28.73%
Interest Incurred on Debt ...	(24.64%)	(21.11%)	(23.56%)	(17.49%)	(15.91%)
Interest Capitalized	15.98%	13.24%	13.34%	9.31%	5.84%
Other	<u>(0.17%)</u>	<u>(0.17%)</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
INCOME BEFORE					
EXTRAORDINARY GAIN	<u>26.72%</u>	<u>25.14%</u>	<u>20.94%</u>	<u>20.90%</u>	<u>18.66%</u>

(1) Income before transfers to the General Fund, which are as follows:

1981	\$30,293,933
1982	\$37,082,911
1983	\$40,836,300
1984	\$46,057,000

(2) As a result of the 1982 advance refunding of the City's outstanding utility system revenue bonds.

OPERATING STATEMENT
ELECTRIC LIGHT AND POWER SYSTEM AND WATERWORKS
AND SEWER SYSTEM

	12 Months Ended 6-30-85 (Unaudited)	Fiscal Year Ended September 30			
		1984	1983	1982	1981
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural — Residential	\$130,631,313	\$125,957,886	\$ 99,568,059	\$ 92,611,247	\$ 78,395,536
Commercial — General	190,490,995	184,494,081	150,273,575	137,943,080	106,732,753
City Utility Departments	8,444,598	8,268,456	5,975,637	5,527,215	3,832,837
Public Street Lighting	3,698,969	3,701,261	2,996,989	1,853,038	2,766,841
City General Government Departments	4,777,261	4,908,262	2,814,244	2,352,303	1,483,361
Sales to Other Utilities (Including Capacity Contract) (1)	35,663,528	48,449,417	45,422,064	96,645,811	90,613,375
Rent from Electric Property	225,062	200,642	196,018	186,033	145,952
Customers' Forfeited Discounts	2,767,743	2,382,282	1,684,298	1,480,413	1,238,648
Miscellaneous	2,160,313	1,884,340	1,556,809	827,754	859,210
Total Electric Utility	\$378,859,782	\$380,246,627	\$310,487,693	\$339,426,894	\$286,068,513
WATER UTILITY					
Urban	\$ 38,730,820	\$ 35,401,358	\$ 26,203,134	\$ 24,586,766	\$ 18,081,077
Rural	4,586,497	4,682,762	4,304,037	3,801,243	2,833,322
City Utility Departments	335,633	458,089	462,759	367,135	333,592
City General Government Departments	890,916	865,459	650,077	788,077	485,892
Sales to Other Water Utilities	3,515,483	2,894,466	771,840	874,641	491,367
Water Connections	325,868	503,376	414,803	201,870	203,876
Customers' Forfeited Discounts	369,570	334,018	250,531	212,471	168,780
Miscellaneous	90,763	106,434	110,358	67,171	67,304
Total Water Utility	\$ 48,845,550	\$ 45,245,962	\$ 33,167,539	\$ 30,899,374	\$ 22,665,210
SEWER UTILITY					
Urban	\$ 26,025,440	\$ 22,954,507	\$ 19,123,881	\$ 17,046,439	\$ 12,735,645
Rural	1,129,652	796,964	373,467	237,113	136,801
City Utility Departments	65,180	12,048	9,917	8,575	5,352
City General Government Departments	170,340	211,670	115,892	111,325	72,230
Sewer Connections	503,241	437,718	360,698	175,539	177,284
Customers' Forfeited Discounts	291,816	205,208	162,693	139,086	110,403
Miscellaneous	1,786,156	1,035,261	742,527	632,170	318,987
Total Sewer Utility	\$ 29,971,825	\$ 25,653,376	\$ 20,889,075	\$ 18,350,247	\$ 13,556,702
Interest	\$ 40,832,973	\$ 31,304,759	\$ 24,715,181	\$ 17,855,612	\$ 11,504,342
TOTAL REVENUE	\$498,510,130	\$482,450,724	\$389,259,488	\$406,532,127	\$333,794,767

(1) Primarily revenues from a capacity contract with Houston Lighting and Power Company. See Power and Energy Sales Contracts.

OPERATING STATEMENT
ELECTRIC LIGHT AND POWER SYSTEM AND WATERWORKS
AND SEWER SYSTEM — (Continued)

	12 Months Ended 6-30-85 (Unaudited)	Fiscal Year Ended September 30			
		1984	1983	1982	1981
EXPENSE					
ELECTRIC UTILITY					
Production	\$208,446,223	\$219,717,764	\$183,348,599	\$219,827,533	\$179,784,077
Transmission and Distribution	9,052,183	9,349,784	8,287,092	7,531,022	6,627,899
Customers' Accounting and Collection	8,142,366	7,159,753	4,802,902	5,090,347	4,248,221
Jobbing and Contract Work	125,772	183,271	(15,277)	(137,378)	(126,838)
Engineering	2,851,987	2,699,262	2,619,266	2,208,572	1,857,883
Administrative and General	14,889,430	9,354,225	4,834,046	3,119,336	1,794,361
Total Electric Utility ..	<u>\$243,507,961</u>	<u>\$248,464,059</u>	<u>\$203,876,628</u>	<u>\$237,639,432</u>	<u>\$194,185,603</u>
WATER UTILITY					
Purification	\$ 11,600,816	\$ 11,166,404	\$ 8,566,209	\$ 7,671,538	\$ 5,147,728
Distribution	7,652,787	7,087,579	6,462,659	4,157,697	5,177,425
Customers' Accounting and Collection	2,407,740	1,982,113	1,382,987	1,394,007	1,047,102
Jobbing and Contract Work	(434,137)	(161,743)	(106,537)	(49,200)	(129,492)
Administrative and General	2,356,587	1,937,499	1,221,849	999,547	570,656
Total Water Utility	<u>\$ 23,583,793</u>	<u>\$ 22,011,852</u>	<u>\$ 17,527,167</u>	<u>\$ 14,173,589</u>	<u>\$ 11,813,419</u>
SEWER UTILITY					
Sewer Lines	\$ 5,177,807	\$ 5,037,130	\$ 2,856,376	\$ 2,039,337	\$ 2,543,911
Sewage Treatment	9,688,446	9,521,314	5,786,192	5,430,005	3,206,827
Customers' Accounting and Collection	1,996,195	1,614,294	1,244,003	1,276,146	910,521
Jobbing and Contract Work	(7,144)	(6,150)	35,910	160,904	(57,859)
Engineering	1,899,084	1,114,276	564,980	701,464	339,201
Administrative and General	1,184,428	529,219	839,846	645,282	672,453
Total Sewer Utility	<u>\$ 19,938,816</u>	<u>\$ 17,810,083</u>	<u>\$ 11,327,307</u>	<u>\$ 10,253,138</u>	<u>\$ 7,615,054</u>
TOTAL EXPENSE(1)	<u>\$287,030,570</u>	<u>\$288,285,994</u>	<u>\$232,731,102</u>	<u>\$262,066,159</u>	<u>\$213,614,076</u>
NET REVENUE AVAILABLE FOR					
DEBT SERVICE	<u>\$211,479,560</u>	<u>\$194,164,730</u>	<u>\$156,528,386</u>	<u>\$144,465,968</u>	<u>\$120,180,691</u>
Electric Customers	230,485	222,089	199,541	182,778	171,854
Water Customers	129,922	128,213	123,671	118,261	113,732
Sewer Customers	116,854	114,853	110,725	106,006	101,528

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

DISCUSSION OF OPERATING STATEMENT

Electric System Revenues

Annual increases in total Electric Utility revenues for the four year period ended September 30, 1984 were largely attributable to increases in the cost of natural gas used for power generation. Total fuel costs are passed through to the consumer. The significant decrease in Sales to Other Utilities in fiscal year 82-83 was a result of a reduction of approximately 1,067,000,000 kWh in sales, primarily with respect to HLP. Revenue increases in fiscal year 83-84 were also attributable to two 10% rate increases, implemented on November 1, 1983 and March 1, 1984. A 10% rate decrease was implemented on May 1, 1984 as a result of two developments: (1) The Electric Utility issued a new Electric Generation Plan which called for lower capital requirements in fiscal years 1984 and 1985 than previously anticipated, and (2) the City Council approved an amendment to the Fayette Power Project enabling the City to withdraw from participation in the construction of Fayette 3. Service area kWh sales for fiscal year 83-84 are 14.8% higher than fiscal year 82-83 sales.

Waterworks and Sewer System Revenues

Annual increases in Waterworks and Sewer System revenues for the four years ended September 30, 1984, were largely attributable to average annual customer growth of 3.8% and rate increases of 5.5% for fiscal year 81-82, 16.2% for fiscal year 82-83, and 18.0% for fiscal year 83-84. In addition, water revenues for fiscal year 81-82 and fiscal year 83-84 were also enhanced by unusually dry summer weather. A 11.0% rate increase was placed into effect on November 1, 1984.

Electric System Expenses

Increases in Electric Utility expenses for the four years ended September 30, 1984 were largely attributable to increases in the cost of natural gas used for power generation and general inflationary increases in other expense categories. The decrease in production expense in fiscal year 82-83 was a result of the reduced sales to other utilities. The increase in production expense in fiscal year 83-84 was attributable to higher fuel costs as well as increased generation for service area customer sales. Higher fiscal year 83-84 administrative and general expense was a result of expending approximately \$4.3 million in rebates for the Appliance Efficiency Program.

Waterworks and Sewer System Expenses

Annual increases in Waterworks and Sewer System expenses during the four years ended September 30, 1984 were primarily attributable to inflationary increases in the cost of power, chemicals, and personnel along with system growth. The significant increases in sewer lines and treatment in fiscal year 84-85 are primarily due to a major increase in infiltration/inflow preventive maintenance in sewer lines and approximately \$2 million dollars of one time expenditures associated with the Williamson Creek Wastewater Treatment Plant.

**THE ELECTRIC LIGHT AND POWER SYSTEM
AND WATERWORKS AND SEWER SYSTEM**

Cost After Depreciation

	As of 6-30-85 (Unaudited)	As of September 30			
		1984	1983	1982	1981
Utility Systems:					
Electric	\$1,656,062,935	\$1,452,256,817	\$1,225,730,983	\$1,086,131,088	\$ 981,686,272
Water	247,345,481	224,078,328	198,292,761	190,132,379	173,460,724
Sewer	310,322,049	261,981,943	223,605,220	213,371,061	189,274,865
Total Cost	2,213,730,465	1,938,317,088	1,647,628,964	1,489,634,528	1,344,421,861
Allowance for Depreciation:					
Electric	199,506,183	184,626,180	162,482,211	140,971,026	124,076,878
Water	51,860,085	48,277,403	43,284,681	36,875,183	33,484,528
Sewer	44,229,828	39,347,148	32,723,864	27,003,730	23,736,005
Total Depreciation	295,596,096	272,250,731	238,490,756	204,849,939	181,297,411
Cost after Depreciation	1,918,134,369	1,666,066,357	1,409,138,208	1,284,784,589	1,163,124,450
 City's Equity in the Systems					
Utility Systems	2,213,730,465	1,938,317,088	1,647,628,964	1,489,634,528	1,344,421,861
Plus: Inventories, Materials and Supplies(1)	6,816,635	6,414,911	5,725,339	5,019,986	4,326,589
Net Construction Assets and Unamortized Bond Issue Cost(2)	266,030,874	218,840,264	99,346,951	67,876,512	21,304,567
	<u>2,486,577,974</u>	<u>2,163,572,263</u>	<u>1,752,701,254</u>	<u>1,562,531,026</u>	<u>1,370,053,017</u>
Less:					
Allowance for Depreciation	295,596,096	272,250,731	238,490,756	204,849,939	181,297,411
Refunds Payable on Construction Contracts	7,056,163	8,668,765	10,178,144	12,414,186	13,481,517
	<u>302,652,259</u>	<u>280,919,496</u>	<u>248,668,900</u>	<u>217,264,125</u>	<u>194,778,928</u>
Utility Systems, Net	2,183,925,715	1,882,652,767	1,504,032,354	1,345,266,901	1,175,274,089
Net Debt:					
Revenue Bonds and Other Debt Outstanding(3)	1,296,868,475	1,080,788,084	738,453,663	633,724,731	849,445,000
Less:					
Bond Retirement and Reserve Funds(4) ..	116,446,925	93,722,598	86,260,486	86,222,373	59,733,927
	<u>1,180,421,550</u>	<u>987,065,486</u>	<u>652,193,177</u>	<u>547,502,358</u>	<u>789,711,073</u>
City's Equity in Utility Systems	\$1,003,504,165	\$ 895,587,281	\$ 851,839,177	\$ 797,764,543(5)	\$ 385,563,016
Percentage of City's Equity in Utility Systems	45.95%	47.57%	56.64%	59.30%(5)	32.81%

(1) Does not include fuel oil or coal inventories of approximately \$33,004,334. Consists primarily of spare parts inventory at Fayette Plant.

(2) Includes investment in municipal utility districts of \$70,355,000.

(3) Includes the Series 1983 Certificates of Obligation, the Series 1984 Combined Utility Systems Revenue Notes and Contract Revenue Bonds in the principal amounts of \$30,000,000, \$120,000,000 and \$70,355,000, respectively. Debt is reported net of discounts.

(4) Includes municipal utility district reserves of \$6,997,848 and \$7,405,769 at 6/30/85 and 9/30/84, respectively.

(5) Exclusion of extraordinary gain of \$351,974,945 in 1982 will result in an equity percentage of 32.82%.

LITIGATION

STP Litigation

Action Against Brown & Root and Halliburton. On December 16, 1981 HLP commenced an action in Matagorda County, Texas, against Brown & Root and Halliburton Company ("Halliburton"), the parent company of Brown & Root (collectively, the "Defendants"). The City and the other participants were made party plaintiffs in this action by an order of the court on December 26, 1981. Plaintiffs' Petition requests money damages and declaratory relief against both Brown & Root and Halliburton arising from breaches of contract and tortious conduct. The suit alleges, among other things, that the Defendants failed to use the degree of knowledge, skill and judgment ordinarily possessed by members of the architectural and engineering professions, and alleges material misstatements and misrepresentations of fact concerning the amount, or percent, of engineering work completed, Brown & Root's ability to do the work and other matters related to STP. The suit seeks money damages from Halliburton and Brown & Root for the material delay and damage to STP caused by the Defendants.

Halliburton and Brown & Root have filed answers to the petitions filed by the STP participants. These answers generally deny the allegations made by the Participants and raise various affirmative defenses. Halliburton and Brown & Root have also filed counterclaims against the Participants claiming, among other things, that Brown & Root's contract was breached and that Brown & Root suffered damage to its business reputation. The Defendants have not specified the amounts requested in their counterclaims.

On May 30, 1985 Brown & Root and Halliburton entered into a proposed Settlement Agreement with HLP, CPL, and San Antonio. Under the terms of this Settlement Agreement, the participants would receive a total of \$750 million from Brown & Root and Halliburton over a seven-year period in exchange for the plaintiffs dismissing the litigation and agreeing to forego any other claims related to Brown & Root's performance on the STP. The City's share of this Settlement amount would be \$120 million. To date, however, the City has not agreed to enter into this Settlement Agreement.

The implementation of this Settlement Agreement is also conditioned to some degree on a favorable review and decision by the PUC. The PUC has docketed a proceeding to review the STP Settlement Agreement (Docket No. 6325) as it pertains to HLP and CPL, which as investor-owned utilities are subject to PUC jurisdiction. Direct testimony was filed by HLP and CPL in this proceeding on August 16, 1985, and a hearing is scheduled to begin on January 6, 1986. A ruling by the PUC could be expected in March or April of 1986.

If the City decides to participate in the Settlement Agreement, and the PUC and State District Court judge issue favorable rulings, the Matagorda County litigation could be dismissed by mid 1986. On the other hand, the City may continue the litigation against Brown & Root on its own if the City declines to join in the Settlement Agreement.

Action Against HLP. On January 6, 1983, the City filed suit in Travis County against HLP and its parent company, Houston Industries, Inc. The City is seeking to have HLP ordered to take over the City's 16% interest in STP and to pay back all money the City has paid to date with respect to STP (approximately \$566 million excluding fuel and legal costs) and all future sums paid by the City with respect to STP. The City is also seeking to be relieved of all further obligations with respect to STP and to be awarded an unspecified amount of additional damages. The lawsuit alleges that HLP failed to properly perform and discharge its duties as Project Manager for STP.

The City and HLP have been involved in discussions regarding the settlement of this suit. Such discussions involve the exchange of an interest in a two unit lignite plant for the City's share of STP in settlement of the HLP suit and an agreement not to take an adversarial position in the PUC proceeding with respect to the STP Settlement Agreement described above. The negotiations also involve the possibility that the City may turn over some or all of the \$120 million received from the STP Settlement Agreement to HLP under certain circumstances. The terms of the settlement, including the

cost of such interest in the lignite plants to the City and the value assigned to the City's STP interest, are subject to further negotiation. No assurance can be given that a settlement will be reached and no prediction can be made as to the ultimate economic impact on the Electric Utility. Any such settlement would require PUC approval.

Bond Validation. The City Council authorized the issuance of \$605 million of revenue bonds for Austin's anticipated completion costs in STP. This authorization was voted by the City Council pursuant to State law even though Austin's Charter requires a vote prior to the authorization and issuance of revenue bonds. The City proceeded with a bond validation suit in state district court to validate the \$605 million issuance, and thirty-two citizens intervened. The district court issued a judgment in the validation proceeding upholding the authority of the City to issue revenue bonds without a vote of the citizens, but ruled that a surety bond need not be posted by the intervenors in order to appeal the decision. Two of the intervenors appealed the District Judge's opinion validating the bonds. The Austin Court of Appeals dismissed the appeal and the intervenors appealed to the Supreme Court of Texas. The Supreme Court upheld the Court of Appeals on February 6, 1985. In addition, in a separate action, the City filed an expedited appeal to the Judge's holding that a surety bond need not be posted by the intervenors. The Court of Appeals in Austin held that the District Judge erred in not setting a bond and held that a \$2 million bond should be posted. The intervenors appealed to the Supreme Court of Texas but the Court has upheld the Court of Appeals. The intervenors have since filed a motion for re-hearing before the Supreme Court of Texas. The intervenors have filed a statement of jurisdiction in the United States Supreme Court and the City has responded with a motion to dismiss. The City cannot predict when the validation process will be completed. The City issued \$76.7 million from this authorization in April 1985 and anticipates issuing additional bonds for this purpose.

Other Litigation

Decker Coal. On February 21, 1985 the City and LCRA filed suit in the United State District Court for the Western District of Texas 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 suit alleges that the contract price does not reflect Decker's actual costs and reasonable profit as originally contemplated and that it is unconscionable. At the same time, the City and LCRA informed Decker that they would refuse any deliveries of coal after April 21, 1985. On March 15, 1985 Decker filed suit in the United States District Court for the District of Montana alleging that the City and LCRA had repudiated the contract and is seeking damages from the City and LCRA for lost profits plus incidental losses over the remaining 19 years of the contract in an amount not less than one billion dollars or, in the alternative, an injunction requiring specific performance of the contract by the City and LCRA. The City and LCRA opposed the jurisdiction of the Montana District Court in light of the earlier-filed Texas suit. At a hearing in Billings, Montana on April 12, 1985, the Montana judge did not act on Decker's motion for an injunction to require the City and LCRA to continue taking coal and instead stayed the Montana proceedings as requested by the City and LCRA. Accordingly, the City and LCRA stopped taking coal from Decker on April 21, 1985, and replaced this 2 million tons per year coal supply with coal from Exxon's Caballo mine in Wyoming. This replacement arrangement provides the City an annual savings of approximately \$22 million.

Subsequently, Judge James Nowlin of the Western District of Texas denied Decker's motion to dismiss, assuring that the litigation will continue to be prosecuted in the Texas court. Judge Nowlin has not yet ruled, however, on Decker's motion to transfer the trial to a location other than Austin. The City and LCRA have also amended their initial complaint to plead more particular counts of fraud and misrepresentation. At the present time, Decker has a motion before the court to place certain aspects of the dispute in arbitration. It is anticipated that discovery will begin in the next few months.

Fayette Power Project Mineral Rights. On June 3, 1983, approximately one hundred individuals filed suit in the District Court of Fayette County, Texas, against the City and the LCRA, seeking reformation or rescission of deeds conveying mineral estates to the City and the LCRA. The plaintiffs also seek damages in unspecified amounts. The disputed mineral estates were acquired in connection

with the acquisition of the Fayette Power Project Plant site. The plaintiffs allege generally that the mineral estates were conveyed to the City and to the LCRA as a result of mutual mistakes regarding the existence of oil and gas reserves, the value of such reserves, and allege other similar theories. The City and the LCRA have both answered in this case, each generally denying the allegations of the plaintiffs. No trial date has been set. The case is in the discovery stages.

Water and Wastewater System Litigation

On March 2, 1984, *United South Austin v. City of Austin, U.S. Environmental Protection Agency and Texas Department of Water Resources*, Civil Action No. A-84-CA-103, was filed in the United States District Court, Western District of Texas, Austin Division.

United South Austin ("USA") is a coalition of neighborhood groups. USA's original petition alleges that the City is operating its Williamson Creek Wastewater Treatment Plant and its Govalle Wastewater Treatment Plant in violation of the terms and conditions of the City's National Pollution Discharge Elimination System (NPDES) permits and in violation of the Federal Clean Water Act, 33 U.S.C. Section 1251 et. seq. The plaintiff prays that the Court issue a preliminary injunction restraining the City from making new connections to the plants, and an order requiring compliance with NPDES permit requirements and assessing fines against the City.

On April 4, 1984, Austin Liquid Disposal Co., Inc. ("ALD") filed a plea in intervention to join the federal lawsuit. Intervention was granted on April 19, 1984. In its complaint ALD alleges the same matters as the original plaintiff and also alleges that the City has been discriminatory in the application of its Industrial Waste Discharge Ordinance No. 821209-F. ALD seeks the same relief as the original plaintiff and also seeks monetary damages based upon its allegations concerning discrimination. On September 12, 1985, ALD filed a similar suit as the Federal suit against the City in the State District Court of Travis County, Texas.

On April 27, 1984, Austin Neighborhoods Council ("ANC") sought to intervene in the federal lawsuit alleging violations of the federal permits for the same two plants and alleging that the City also was violating the terms of its Hornsby Bend Wastewater Facility NPDES permit. Intervention was granted on July 20, 1984. ANC seeks the same general relief as the original plaintiff.

On August 17, 1984, Bastrop County and the City of Bastrop moved to intervene in the federal lawsuit. Bastrop is downstream of the City of Austin. Bastrop alleged the same violations as those alleged by ANC and asked for the same general relief. Bastrop was not admitted as a party to the lawsuit at that time but was subsequently admitted on July 26, 1985.

The United States Environmental Protection Agency was dismissed from the suit by order of Court on July 2, 1984. The Texas Department of Water Resources ("TDWR") was dismissed by stipulation of all parties on July 26, 1984.

No trial date is set for the federal lawsuit.

In a separate action on March 12, 1984, the Attorney General's office filed *State of Texas v. City of Austin*, Cause No. 359,468 in the 261st Judicial District Court in Travis County, Texas. The suit alleged violations of the City's state discharge permit for its Williamson Creek Wastewater Treatment Plant. An Agreed Final Judgment was entered by the court on November 8, 1984. The Judgment is a settlement of all claims in the lawsuit. No admission of guilt or liability was made by the City. The City paid a judgment of \$100,000 to the State. The City is enjoined from violating its permit for the Williamson Creek Plant, Permit No. 10543-10 and therefore the state court still has jurisdiction over the City in this matter. On January 24, 1985, and February 4, 1985, alleged unauthorized bypasses of raw sewage occurred at the Williamson Creek Wastewater Treatment Plant as a result of separate construction accidents. The Executive Director of TDWR requested that the Attorney General institute appropriate legal action against Austin. On February 20, 1985 the Attorney General's office filed *State of Texas v. City of Austin*, Cause No. 375,605 in the 200th Judicial District Court in Travis County, Texas seeking penalties and damages. The City of Bastrop, County of Bastrop, Austin

Neighborhoods Council, United South Austin and Lower Colorado River Authority intervened in the case as Plaintiff-Intervenors. Nash-Phillips Copus, Austin Independent School District, Bill Milburn, South Creek Development, Inc., Orion Homes of Texas, Fox & Jacobs and Wildwood Partners intervened as Defendant-Intervenors. The state court enjoined the City from making any further connections to the Williamson Creek Wastewater Treatment Plant. In July of 1985, Intervenors, City of Bastrop, County of Bastrop, Austin Neighborhoods Council and United South Austin, filed amended pleadings alleging violations of state and federal permits at all City-owned treatment facilities. In response, the City removed the suit to federal court, where the action has been consolidated with Cause No. A-84-CA-103, discussed above. The City settled matters which are the subject of this suit with the State of Texas and Lower Colorado River Authority. The injunction against the City has been modified to provide that the City may not violate Permit No. 10543-10 but new and additional wastewater service connections can be made. Settlement negotiations between the City and the Intervenors are proceeding. No trial has been held on this consolidated action in federal court. On September 10, 1985, Bill Milburn Co., Inc. Defendant-Intervenor, filed a First Amended Plea in Intervention alleging that the City has violated the Clean Water Act and requesting that the City be required to provide and maintain sufficient wastewater treatment capacity in its wastewater system to provide service to Bill Milburn Co., Inc.'s properties. On September 12, 1985, a similar Amended Plea in Intervention was filed by Defendant-Intervenors Wildwood Partners, Ltd., Fox & Jacobs, Inc., and Orion Homes of Texas, Inc.

The City and Plaintiff Intervenors have reached a tentative agreement as to the issues raised by such suit. Such settlement includes a moratorium on tap sales in the Govalle Wastewater Treatment Plant service area unless certain conditions are met. This agreement has not been approved by the court.

In August of 1985, after removal and consolidation of the above-mentioned actions in federal court, the City of Bastrop, County of Bastrop, Austin Neighborhoods Council and United South Austin petitioned the 299th District Court of Travis County, Texas to issue a temporary restraining order against the City to enjoin additional sewage connections to the City's Walnut Creek Wastewater Treatment Plant. The hearing is set for September 20, 1985.

Additionally, the City is involved with discovery in two cases in State District Court: (1) Cause No. 380,804, Duke Investments, W.C. II, Ltd. and Viewpoint Joint Venture, and (2) Cause No. 383-505 *Willowbrook Ltd., v. City of Austin*. These cases are in the 261st Judicial District Court in Travis County, Texas and no trial date has been set. Claims in these matters are for damages associated with failure to provide wastewater service. On September 13, 1985 Willowbrook, Ltd. filed a Motion for Summary Judgment based on the contract; a hearing has been set for October 17, 1985. Willowbrook, Ltd., has also filed a Complaint, Request for Entry of Show Cause Order and Request for Interim Relief with the Public Utility Commission which requests that the City be required to provide electric service within its certificated service area to some units in Willowbrook Apartments which have been refused electric service. The City has not provided such service in order to control the flow of wastewater from those units to the Williamson Creek Wastewater Treatment Plant. A hearing has yet not been scheduled.

The South Austin Growth Corridor Municipal Utility District No. 1 filed a notice of claim dated May 13, 1984, with the City. The filing of a notice of claim is required under the City's Charter in order for a plaintiff to file a suit against the City for personal or property damages. The notice alleges that the City breached its contract with the District to provide water and wastewater services. The notice states that the extent and nature of damages cannot be determined at this time. To date the District has not filed a lawsuit.

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

APPENDIX B
GENERAL INFORMATION REGARDING THE
CITY OF AUSTIN, TEXAS
AND ITS ECONOMY

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY AND ITS ECONOMY

The following has been provided for informational purposes only. The Bonds are payable solely for the Net Revenues of the Systems and are not a general obligation of the City.

History and General Description

The City is situated in Southeast Central Texas on both sides of a bend in the Colorado River near its emergence from the Texas hill country of the Edwards Plateau. Austin is surrounded by farm and ranch lands and the highland lakes of Texas.

In early 1835, a community of several families began to develop on the north bank of the Colorado River. The community selected the name of Waterloo. In 1838, the Republic of Texas, acting through the Texas Congress authorized a commission to inspect the town of Waterloo for the site of a permanent capital.

In October 1839, the national offices of the Republic of Texas were moved to the City, and in 1839 the City was designated as the permanent capital of the State of Texas. The new capital city was named Austin after Stephen F. Austin, who had previously established a colony on the site. The City was officially incorporated in December, 1839. As the State capital, the City is headquarters for all legislative, executive, and state agencies, judicial operations and administrative offices. The City is also the county seat of Travis County.

The average temperature in Austin is 68.3 with a range in winter of 42-62 and in summer from 73-94. On the average, the City has 300 days of sunshine and 24 days with temperatures below freezing. Average annual rainfall is 32.49 inches. The altitude is 455 feet beside Town Lake and 1,000 feet in the hills of Northwest Austin.

Quality of Life

Austin is noted for its high quality of life. Residents enjoy the intellectual and cultural advantages that accompany a major university and the state capital, including a variety of music and films, and a number of ethnic and art festivals. The over 1,980 restaurants and bars in the area rank Austin first per capita in the nation, and Austinites spend 47% of their annual food budget eating out. Theatre and musical productions abound in Austin; the city is home to more than a dozen repertory companies, four dance companies, and the Austin Symphony Orchestra. Austin, home of the nationally broadcast *Austin City Limits* television show, is well known for its wealth and diversity of musical talent, and efforts have been launched by the Texas Music Association and the Austin Chamber of Commerce to lure more music industry to the City.

Austin's literary and cultural facilities include: the LBJ Library, the Elisbeth Ney Museum, the O. Henry Home and Museum, the Huntington Art Gallery, the French Legation, the George Washington Carver Museum, the Laguna Gloria Art Museum, the Paramount Theatre, and 35 art galleries.

The City's parks and recreational facilities include 150 parks and greenbelts containing some 10,000 acres. The City maintains 13 recreation centers, 104 athletic fields, 91 tennis courts, 4 golf courses and 30 swimming pools including renowned Barton Springs where as many as 400,000 people a year go to cool themselves in the constant 68° springfed water. In addition, four lakes inside the City limits provide fishing, boating, and swimming opportunities for area residents. The City's Parks and Recreation Department provided 314,000 people with Cultural Arts Programs in 1984 and is currently negotiating an agreement with the Laguna Gloria Art Museum for a new downtown art museum.

Industry and Business

As of 1985 there were over 700 manufacturing firms in the City supporting payrolls of over \$750 million annually. Over \$1.2 billion value is added annually by manufacturing products.

Industries of long standing include Elgin Butler Brick Company, established in 1873, the 50-year-old Adams Extract Company and Hart Graphics and Office Centers, Inc. organized in 1912 (formerly The Steck Company). The largest companies in the Austin MSA are International Business Machines, Inc., Texas Instruments, Tracor, Inc. and Motorola, Inc.

IBM Austin is an information systems division location and is responsible for developing and manufacturing office systems, application terminal systems, data entry systems, and circuit packaging. Operations began in 1967 with a work force of approximately 300 which has grown to a present level of over 7,000 employees in 1985. Expansion completed in 1977 provides 2.4 million square feet of manufacturing and development space. IBM has also completed a building to house its circuit packaging operations to provide space for increased production of electronic circuits used in IBM text- and word-processing equipment.

A Texas Instruments Inc. facility, located on a 466-acre site eleven miles northwest of the Texas State Capitol, employs approximately 3,000. Expansion is underway to create additional capacity. In 1974, Motorola, Inc. opened a major integrated circuit assembly plant. Current employment is approximately 6,500.

Tracor, Inc. is also located within the Austin city limits. The physical plant facilities cover 450,000 square feet situated on 100 acres. This high technology electrical equipment company employed approximately 1,800 in 1985.

Austin is the site for Microelectronics and Computer Technology Corporation ("M.C.C."). M.C.C. is a joint venture of twenty-one large companies that have pledged a total of \$50 million a year to develop high-technology products. Austin was in competition with 56 municipalities to become the home of this major new research center. The location of M.C.C. in Austin is expected to attract other high-technology companies to the area.

Austin is the center of state government with over 120 state and 62 federal agencies having aggregate annual payrolls in excess of \$1 billion. The City ranks third in the State in number of conventions and delegates. During 1984, 223 conventions were held which drew over 124,230 delegates who spent more than \$35 million.

The City Coliseum, with 69,000 square feet of floor space, will seat gatherings of 4,000 people. The Auditorium has 110,000 square feet of floor space, and seats 5,518 people, or provides 80,000 square feet of exhibit space. The Texas Exhibition & Heritage Center, built in the Spring of 1984 on a 128 acre site, consists of a Main Arena seating 10,000 people, a private club accommodating 350-800, the Show Barn and Arena seating 500-600 and a banquet hall seating 1,500.

Bergstrom Air Force Base, headquarters of the 12th Air Force, is a major installation 7 miles southwest of the City with an annual payroll of approximately \$88.5 million and approximately 6,000 personnel.

Employment Characteristics

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

Industrial Classification	1970	% of Total	1983	% of Total	1984	% of Total	Projected 1985	% of Total
Manufacturing	13,300	10.3%	34,600	11.9%	39,900	12.2%	41,900	11.9%
Government	51,150	39.4	84,600	29.1	86,600	26.6	91,800	26.1
Trade	26,100	20.2	65,800	22.6	71,400	21.9	74,300	21.1
Services and Miscellaneous	19,600	15.1	59,600	20.4	70,900	21.7	78,500	22.4
Finance, Insurance and Real Estate	6,150	4.7	18,900	6.5	22,100	6.8	24,500	7.0
Contract Construction	8,750	6.8	18,500	6.4	25,100	7.7	29,700	8.5
Transportation and Utilities	4,000	3.1	8,200	2.8	9,000	2.8	9,500	2.7
Mining	450	0.4	900	0.3	1,000	0.3	1,100	0.3
Totals	129,500	100%	291,100	100%	326,000	100%	351,300	100%

Source: Texas Employment Commission

(a) Austin MSA includes Travis, Hays & Williamson Counties.

AVERAGE ANNUAL UNEMPLOYMENT RATE

	Austin	Travis County	Texas	USA
1976	4.7%	4.7%	5.7%	7.7%
1977	4.6	4.6	5.3	7.1
1978	3.5	3.5	4.8	6.1
1979	3.1	3.1	4.2	5.8
1980	5.1	5.0	5.2	7.1
1981	4.4	4.5	5.3	7.6
1982	4.8	5.2	6.9	9.7
1983	4.5	4.5	8.0	9.6
1984	3.6	3.5	5.9	7.5

Source: Texas Employment Commission

TEN LARGEST EMPLOYERS April 1985

Employer	Product or Service	Number of Employees
University of Texas	Education and research	16,259
City of Austin	City government	9,000
International Business Machines Corporation	Office machines	7,000
Austin Independent School District	Education	6,900
Motorola Corporation	Electronic components	6,500
Bergstrom Air Force Base	Military	6,000
Internal Revenue Service	Government agency	4,200
Texas Instruments, Inc.	Digital equipment	3,000
Lockheed-Austin Division	Missile and space research and development	2,400
State Department of Highways and Public Transportation	Transportation	2,204

Source: Austin Chamber of Commerce

Agriculture and Natural Resources

The ten counties in the area surrounding the City are primarily agricultural with farm and livestock industries grossing in excess of \$78 million annually. Chief crops are cotton, corn, and small grains.

Transportation

Activity at Austin's Port of Entry increased from 2,784 shipments in 1983 to 3,469 shipments at the end of 1984. Rail facilities are furnished by the Missouri-Kansas-Texas, Missouri Pacific and Southern Pacific. Amtrak brought passenger trains back to the City in January, 1973, as one of the infrequent stops on the Mexico City-Kansas City route. Bus service is furnished by Greyhound, Continental, Kerrville and Arrow, with 45 arrivals and departures per day.

On January 19, 1985, the citizens of Austin and several surrounding areas approved the creation of a metropolitan transit authority (Capital Metro) and adopted an additional one percent sales tax to finance a transit system for the area. Capital Metro began operation on July 1, 1985 and within the next three years has plans to expand the system from 87 to 400 buses with express routes, park and ride facilities and significant extension of service areas. In addition, Capital Metro operates the nostalgic "Dillo" trolleys which serve over 2,000 riders daily in the Central Business District. Long term plans include light rail rapid transit routes. The University of Texas operates a shuttle bus system (61 buses) with daily ridership of 40,000.

Austin's Robert Mueller Municipal Airport is served by 12 major airlines: American, America-West, Continental, Delta, Eastern, Fort Worth Airlines, Muse Air, Pan-American, Southwest, TWA, United and U.S.Air. In addition 1 commuter airline, American Eagle, serves Austin. Passenger activity at the Airport has increased significantly with 1984 registering a 32% rise in passenger traffic over 1983. Consequently, Mueller's national standing was boosted from 53rd in 1983 to 43rd in January 1984. Direct service is available to all major U.S. destinations.

Growth Indicators

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

Year	POPULATION							
	Austin		Travis County		Texas		United States	
	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
1940	87,930	—	111,053	—	6,414,824	—	132,165,000	—
1950	132,459	50.6%	160,980	45.0%	7,711,194	20.2%	151,326,000	14.5%
1960	186,545	40.8	212,136	31.8	9,579,677	24.2	179,323,000	18.5
1970	253,539	35.9	295,516	39.3	11,196,730	16.9	203,212,000	13.3
1975	302,500 (a)	19.3	361,100	22.2	12,237,000	9.3	213,051,000	4.8
1980	345,496	14.2	419,573	16.2	14,228,383	16.3	222,110,000	4.3
1981	355,117	2.8	435,097	3.7	14,552,414	2.3	229,348,000	3.3
1982	367,550 (a)	3.5	451,196	3.7	15,280,000	5.0	231,534,000	1.0
1983	375,000 (a)	2.0	467,890	3.7	15,345,000	0.4	234,545,000	1.3
1984	403,723 (a)	7.6	486,200	3.9	15,724,000 (b)	2.5	237,457,000	1.2

Source: United States Department of Commerce, Bureau of the Census

(a) Department of Planning/Growth Management, City of Austin estimates.

(b) Latest estimate available.

CONNECTIONS AND PERMITS

Year	Utility Connections			Building Permits		
	Electric	Water	Gas	Taxable	Federal, State and Municipal	Total
1974	119,423	89,065	84,304	\$ 135,792,100	\$127,098,561	\$ 262,890,661
1975	123,148	91,673	86,470	93,318,700	54,655,772	147,974,472
1976	124,495	91,900	88,919	150,073,500	52,884,707	202,958,207
1977	136,866	98,736	91,984	204,821,520	23,272,911	228,094,431
1978	145,491	101,689	95,693	337,333,700	11,856,812	349,190,512
1979	150,211	105,924	99,406	422,967,800	24,487,794	447,455,594
1980	158,843	111,016	103,813	447,523,257	37,600,800	485,124,057
1981	167,844	115,307	108,445	535,384,300	31,047,240	566,431,540
1982	182,725	120,137	113,389	666,475,158	6,873,777	673,348,935
1983	196,700	123,243	118,583	833,404,101	5,387,588	838,791,689
1984	222,985	129,266	121,956	1,019,017,482	7,645,698	1,026,663,180
1974-1984 Increase	86.72%	45.14%	44.66%	650.42%	(93.98)%	290.53%

Source: Chamber of Commerce and the City of Austin

Wealth and Income Indicators

The Austin MSA surpasses both the state and the nation in median household and per capita effective buying income, as well as per capita retail sales.

EFFECTIVE BUYING INCOME AND RETAIL SALES

Area	Median Household EBI	Per Capita EBI	% of Households by EBI Group*				Per Capita Retail Sales
			A	B	C	D	
City of Austin	\$24,162	\$11,767	23.1%	28.2%	17.1%	13.6%	\$8,169
Austin MSA	26,269	11,705	21.2	27.2	19.0	16.1	6,298
Texas	26,004	10,693	20.9	28.2	19.1	14.7	5,863
USA	25,496	10,813	21.3	29.3	18.9	13.9	5,448

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

Source: 1985 Survey of Buying Power, Sales and Marketing Management.

Housing Units

The average rental rate for a new 800 square foot apartment in Austin is \$468 per month. Although substantial additions have been made to the rental stock, the City's occupancy rate remains high at 89%.

As the following table indicates residential housing sales have shown a marked increase over the past few years with 1984 sales volume 58% above 1979.

RESIDENTIAL SALES DATA

<u>Year</u>	<u>No. of Sales</u>	<u>Total Volume</u>	<u>Average Price</u>
1979	5,649	\$310,852,847	\$ 55,028
1980	5,171	341,431,670	66,028
1981	5,066	364,189,995	71,889
1982	3,789	304,434,895	80,347
1983	4,905	433,914,953	88,464
1984	7,228	735,359,285	101,738
1985 (6 months)	3,875	405,737,282	104,706

Source: Austin Board of Realtors

Education

The Austin Independent School District had a total enrollment of 58,398 in the fall of 1984. The District includes eighty campus buildings.

AUSTIN INDEPENDENT SCHOOL DISTRICT

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
1976	57,808	52,989
1977	57,650	52,823
1978	57,763	53,109
1979	57,571	52,936
1980	56,508	52,070
1981	54,401	50,302
1982	54,012	50,175
1983	54,661	51,231
1984	55,690	52,137
1985	57,839	54,628

Source: Austin Independent School District

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

The University of Texas at Austin has an enrollment of more than 47,000 (fall, 1984) and ranks fourth in size among the nation's institutions. Among the more than 2,300 faculty members are two Nobel Prize winners and two recipients of the Pulitzer Prize. The University is the only Southwestern member of the Association of American Universities, which comprises the 52 highest ranking universities in the U.S. and Canada. U.T. Austin has the seventh largest academic library in the U.S. with more than five million volumes and has 863 endowed faculty positions; more than any other university in the country.

The U.T. Austin campus includes sixteen colleges and schools, and more than 110 buildings on its 300 acres. A major expansion is under way at the Balcones Research Center, a 475 acre tract located eight miles north of the main campus. There are more than thirty organized research laboratories at the University including the Cell Research Institute, the Center for Plasma Physics and Thermonuclear Research, the Center for Relativity Theory and the Applied Research Laboratory.

University graduates have included 21 Rhodes Scholars, six Texas governors, and more than half of the world's Ph.D.'s in petroleum engineering.

The University, with a budget of \$460,507,000, has the benefit of the second largest Endowment Fund in the nation, and has launched major academic projects designed to protect and enhance its reputation for excellence.

Banking

There are thirty-nine banks in the Austin area with total 1984 deposits exceeding \$5.5 billion.

COMBINED BANK STATISTICS

Year	Deposits	Year	Deposits	Year	Deposits
1974	\$1,359,514,955	1978	\$2,071,894,000	1982	\$3,297,911,000
1975	1,491,707,000	1979	2,367,481,000	1983	4,136,071,000
1976	1,594,289,813	1980	2,586,311,884	1984	5,529,141,000
1977	1,855,068,000	1981	2,887,406,000	1974 to 1984	
				Increase	307%

Source: Chamber of Commerce

Tourism

Over 1.6 million people visit the Austin area annually with an economic impact in excess of \$450 million a year. The Austin Convention and Visitors Center markets Austin to both individual tourists and conventions. The following table indicates the increase in hotel rooms to accommodate the growing tourist industry.

HOTEL ROOMS

	1983	1984	1985
Hotels and Motels	65	101	110
Hotel/Motel Rooms	7,500	9,163	10,497
Occupancy Rate	75%	74%	75%

Source: Austin Chamber of Commerce

APPENDIX C
FINANCIAL STATEMENTS
OF THE UTILITY FUNDS
OF THE CITY OF AUSTIN, TEXAS

ACCOUNTANTS' REPORT

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

We have examined the financial statements of the Utility Funds of the City of Austin, Texas, as of September 30, 1984, and for the year then ended, on the following pages C-2 through C-7. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The summarized financial information for the Fayette Power Project contained in Note 14 and the South Texas Project contained in Note 15 is based on the financial statements of those projects which were examined by other auditors. Their reports have been furnished to us and our opinion, insofar as it relates to such summarized financial information, is based solely on the reports of the other auditors.

The Utility Funds' financial statements do not purport to present the financial position, the results of operations or the changes in financial position of the City of Austin, Texas, taken as a whole, in accordance with generally accepted accounting principles. Such accounting principles require the presentation of the financial statements of all fund types and account groups of the City of Austin, Texas. Accordingly, in our opinion, the Utility Funds' financial statements referred to above do not present the financial position, results of operations, or changes in financial position of the City of Austin, Texas, taken as a whole, as of September 30, 1984, and for the year then ended.

In our opinion, based on our examination and the reports of other auditors, the financial statements on the following pages C-2 through C-7 present fairly the financial position of the Utility Funds of the City of Austin, Texas, as of September 30, 1984, and the results of their operations and changes in financial position in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the financial statements referred to above. The supplemental schedules on pages C-8, C-9 and C-10 are not a required part of the financial statements of the Utility Funds of the City of Austin, Texas. The supplemental schedules have been subjected to the auditing procedures applied in the examination of the financial statements of the Utility Funds and, in our opinion, are fairly stated in all material respects in relation to the financial statements of the Utility Funds taken as a whole.

ARTHUR ANDERSEN & CO.

Austin, Texas
January 11, 1985

C-1

P-NA01802

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
COMBINING BALANCE SHEET
September 30, 1984
With comparative totals for September 30, 1983

ASSETS	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Totals	
			1984	1983
Current assets:				
Cash on hand	\$ 24,780	\$ 800	\$ 25,580	\$ 24,905
Equity in investment pool	49,641,089	10,796,101	60,437,190	17,283,371
Working capital advances	1,731,555	0	1,731,555	1,763,484
Accounts receivable	53,353,177	10,937,273	64,290,450	51,001,598
Less allowance for doubtful accounts	(11,413,255)	(3,047,864)	(14,461,119)	(10,498,524)
Net accounts receivable	41,939,922	7,889,409	49,829,331	40,503,074
Due from debt service	7,983,416	1,609,204	9,592,620	4,626,896
Due from other funds	1,912,317	0	1,912,317	685,000
Inventories, at cost	23,227,585	0	23,227,585	36,217,215
Prepaid expenses and other assets	88,538	32,658	121,196	241,580
Total current assets	126,549,202	20,328,172	146,877,374	101,345,525
Restricted assets:				
Revenue bond debt service:				
Certificates of deposit	200,000	0	200,000	10,102,000
U.S. government securities	3,295,697	0	3,295,697	1,593,860
Repurchase agreements	32,877,662	7,987,338	40,865,000	22,725,000
Accrued interest on investments	4,580,434	933,097	5,513,531	5,201,414
Total revenue bond debt service	40,953,793	8,920,435	49,874,228	39,622,274
Revenue bond retirement reserve:				
U.S. government securities	69,471,940	13,911,832	83,383,772	84,268,581
U.S. government agencies	2,426,966	486,003	2,912,969	1,970,000
Accrued interest on investments	16,737	3,351	20,088	21,905
Total revenue bond retirement reserve	71,915,643	14,401,186	86,316,829	86,260,486
Construction account:				
Equity in investment pool	133,411,366	90,144,005	223,555,371	96,445,756
Receivable from other governments	0	2,998,770	2,998,770	1,053,715
Total construction account	133,411,366	93,142,775	226,554,141	97,499,471
Customer deposits:				
Equity in investment pool	3,767,708	369,118	4,136,826	3,401,594
Total restricted assets	250,048,510	116,833,514	366,882,024	226,783,825
Utility plant, at cost:				
Plant in service	667,499,933	422,173,914	1,089,673,847	1,039,656,263
Less accumulated depreciation	(184,626,180)	(87,624,551)	(272,250,731)	(238,490,756)
Net plant in service	482,873,753	334,549,363	817,423,116	801,165,507
Construction in progress	784,756,884	63,886,357	848,643,241	607,972,701
Net utility plant	1,267,630,637	398,435,720	1,666,066,357	1,409,138,208
Investment in municipal utility districts	0	70,355,000	70,355,000	0
Recoverable fuel cost	0	0	0	2,057,041
Other investments	0	0	0	4,841,803
Investment in internal service funds, at cost	6,293,481	1,865,489	8,158,970	6,394,092
Bond issue cost, net of amortization of \$428,883 in 1984 and \$63,524 in 1983	3,545,795	589,309	4,135,104	3,484,088
	<u>\$1,654,067,625</u>	<u>\$608,407,204</u>	<u>\$2,262,474,829</u>	<u>\$1,754,044,582</u>

See accompanying notes to financial statements.

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
COMBINING BALANCE SHEET

September 30, 1984

With comparative totals for September 30, 1983

LIABILITIES AND FUND EQUITY	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Totals	
			1984	1983
Current liabilities:				
Accounts payable	\$ 18,076,567	\$ 837,441	\$ 18,914,008	\$ 14,957,245
Revenue bonds due within one year	8,431,569	1,688,431	10,120,000	8,790,000
Current portion of refunds payable on construction contracts, including interest of \$172,537 in 1984 and \$158,681 in 1983	0	1,553,549	1,553,549	2,029,169
Current portion of capital lease obligations	63,476	0	63,476	0
Water improvement district bonds due within one year	0	169,000	169,000	154,000
Interest payable on water improvement district bonds	0	11,190	11,190	12,043
Accrued payroll and compensated absences	1,874,000	1,505,000	3,379,000	2,937,000
Deferred fuel revenue	19,076,079	0	19,076,079	0
Other liabilities	1,375,441	1,413,370	2,788,811	1,075,530
Total current liabilities	48,897,132	7,177,981	56,075,113	29,954,987
Liabilities payable from restricted assets:				
Liabilities payable from debt service:				
Accrued interest payable	32,970,377	7,311,231	40,281,608	34,995,378
Due to working capital	7,983,416	1,609,204	9,592,620	4,626,896
Total liabilities payable from debt service	40,953,793	8,920,435	49,874,228	39,622,274
Liabilities payable from construction account:				
Accounts payable	8,004,710	3,445,716	11,450,426	1,367,171
Retainage payable	398,555	0	398,555	269,437
Total liabilities payable from construction account	8,403,265	3,445,716	11,848,981	1,636,608
Customer deposits	3,767,708	369,118	4,136,826	3,401,594
Total liabilities payable from restricted assets	53,124,766	12,735,269	65,860,035	44,660,476
Long-term debt, net of current portion:				
Refunding revenue bonds, net of discount of \$16,801,116 in 1984 and \$18,036,337 in 1983	462,202,357	92,556,527	554,758,884	563,643,663
Prior lien revenue bonds	201,850,000	94,170,000	296,020,000	136,020,000
Total long-term revenue bonds	664,052,357	186,726,527	850,778,884	699,663,663
Certificates of obligation	30,000,000	0	30,000,000	30,000,000
Notes payable, net of discount of \$465,800	119,534,200	0	119,534,200	0
Water improvement district bonds	0	2,047,000	2,047,000	2,216,000
Refunds payable on construction contracts	0	7,115,216	7,115,216	8,148,975
Utility construction contracts payable	0	70,355,000	70,355,000	0
Capital lease obligations	324,111	0	324,111	0
Accrued vacation and sick leave	2,432,000	1,153,000	3,585,000	3,098,000
Total long-term liabilities	816,342,668	267,396,743	1,083,739,411	743,126,638
Total liabilities	918,364,566	287,309,993	1,205,674,559	817,742,101
Fund equity:				
Contributions from municipality	3,965,219	4,471,843	8,437,062	8,540,859
Contributions from State and Federal governments	263,330	43,958,085	44,221,415	35,549,048
Contributions in aid of construction	24,821,663	125,087,811	149,909,474	112,628,729
Total contributions	29,050,212	173,517,739	202,567,951	156,718,636
Retained earnings:				
Reserved for revenue bond retirement	71,915,643	14,401,186	86,316,829	86,260,486
Unreserved	634,737,204	133,178,286	767,915,490	693,323,359
Total retained earnings	706,652,847	147,579,472	854,232,319	779,583,845
Total fund equity	735,703,059	321,097,211	1,056,800,270	936,302,481
	\$1,654,067,625	\$608,407,204	\$2,262,474,829	\$1,754,044,582

See accompanying notes to financial statements.

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
Year ended September 30, 1984
With comparative totals for year ended September 30, 1983

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Totals	
			1984	1983
Operating revenues	\$380,246,627	\$ 70,899,338	\$ 451,145,965	\$364,544,307
Operating expenses before depreciation	248,464,059	39,821,935	288,285,994	232,731,102
Depreciation	22,003,199	11,661,994	33,665,193	35,177,325
Total operating expenses	270,467,258	51,483,929	321,951,187	267,908,427
Operating income before nonoperating revenues				
(expenses) and operating transfers	109,779,369	19,415,409	129,194,778	96,635,880
Nonoperating revenues (expenses):				
Interest	22,445,591	8,859,168	31,304,759	24,715,181
Interest on revenue bonds and other debt	(83,294,850)	(18,566,747)	(101,861,597)	(91,724,418)
Interest capitalized during construction	59,775,558	4,081,322	63,856,880	51,946,869
Amortization of bond issue cost	(405,039)	(12,058)	(417,097)	(54,807)
Gain on refunding of debt	26,056	0	26,056	0
Loss on disposal of assets	(225,868)	(18,338)	(244,206)	0
Other nonoperating expenses	(615,599)	0	(615,599)	0
Total nonoperating revenues (expenses)	(2,294,151)	(5,656,653)	(7,950,804)	(15,117,175)
Income before operating transfers	107,485,218	13,758,756	121,243,974	81,518,705
Operating transfers out:				
General Fund	(40,205,000)	(5,852,000)	(46,057,000)	(40,836,300)
Other funds	(108,400)	(430,100)	(538,500)	(938,050)
Total operating transfers out	(40,313,400)	(6,282,100)	(46,595,500)	(41,774,350)
Net income (loss)	67,171,818	7,476,656	74,648,474	39,744,355
Retained earnings at beginning of year, as previously reported	639,481,029	140,102,816	779,583,845	745,225,490
Less adjustment for cumulative effect on prior years of applying retroactively the accrual basis of accounting for compensated absences	0	0	0	(5,386,000)
Retained earnings at beginning of year, as restated	639,481,029	140,102,816	779,583,845	739,839,490
Retained earnings at end of year	<u>\$706,652,847</u>	<u>\$147,579,472</u>	<u>\$ 854,232,319</u>	<u>\$779,583,845</u>

See accompanying notes to financial statements.

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION —
FINANCIAL RESOURCES DIRECTLY AFFECTING WORKING CAPITAL
Year ended September 30, 1984
With comparative totals for year ended September 30, 1983

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Totals	
			1984	1983
<i>Working capital provided by:</i>				
Operations:				
Net income (loss)	\$ 67,171,818	\$ 7,476,656	\$ 74,648,474	\$39,744,355
Items not requiring working capital:				
Depreciation	22,003,199	11,661,994	33,665,193	35,177,325
Amortization of bond issue cost	405,039	12,058	417,097	54,807
Amortization of discount incurred on debt	1,284,233	206,066	1,490,319	1,258,933
Gain on refunding of debt	(26,056)	0	(26,056)	0
Loss on disposal of assets	225,868	18,338	244,206	0
Working capital provided by operations	91,064,101	19,375,132	110,439,233	76,235,420
Cash proceeds from refunding of notes payable	1,340,415	0	1,340,415	0
Transfer from (to) current maturities of long-term debt	(1,108,101)	252,577	(855,524)	(1,205,160)
Increase in refunds payable on construction contracts ..	0	37,662	37,662	20,425
Additions to contributions	6,343,865	13,066,503	19,410,368	10,661,007
Decrease in other investments	4,841,803	0	4,841,803	1,640,408
Decrease in recoverable fuel cost	2,057,041	0	2,057,041	409,226
Increase (decrease) in accrued vacation and sick leave ..	518,000	(31,000)	487,000	260,000
Increase in capital lease obligations	324,111	0	324,111	0
Total working capital provided	105,381,235	32,700,874	138,082,109	88,021,326
<i>Working capital applied to:</i>				
Additions to property, plant and equipment	62,172,691	7,443,960	69,616,651	50,661,165
Increase in investment in internal service funds	0	306,616	306,616	0
Increase in bond issue cost	162,999	0	162,999	409,759
Decrease in contributions from municipality	59,572	44,940	104,512	0
Reduction in long-term debt:				
Revenue bonds	7,323,468	1,466,532	8,790,000	7,530,000
Other	0	1,714,897	1,714,897	2,244,975
Transfers of current assets to restricted assets:				
Reserve for revenue bond retirement	46,943	9,400	56,343	38,113
Construction account	22,061,865	15,856,503	37,918,368	19,723,581
Total working capital applied	91,827,538	26,842,848	118,670,386	80,607,593
Net increase (decrease) in working capital	\$ 13,553,697	\$ 5,858,026	19,411,723	7,413,733

(Continued)

See accompanying notes to financial statements.

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION —
FINANCIAL RESOURCES DIRECTLY AFFECTING WORKING CAPITAL — (Continued)
Year ended September 30, 1984
With comparative totals for year ended September 30, 1983

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Totals	
			1984	1983
Components of net increase (decrease) in working capital:				
Cash and working capital advances	\$ (31,179)	\$ (75)	\$ (31,254)	\$ 664,584
Equity in investment pool	38,482,738	4,671,081	43,153,819	3,331,130
Accounts receivable, net	7,438,355	1,887,902	9,326,257	6,065,499
Due from debt service	4,282,418	683,306	4,965,724	4,287,344
Due from other funds	1,227,317	0	1,227,317	485,000
Inventories	(12,989,630)	0	(12,989,630)	(8,128,008)
Prepaid expenses and other assets	(130,168)	9,784	(120,384)	60,714
Assets restricted for debt service	8,975,168	1,276,766	10,251,954	(4,762,874)
Assets restricted for customer deposits	631,711	103,521	735,232	421,821
Increase (decrease) in current assets	<u>47,886,730</u>	<u>8,632,305</u>	<u>56,519,035</u>	<u>2,425,210</u>
Accounts payable	(3,468,101)	(488,662)	(3,956,763)	2,226,916
Revenue bonds due within one year	(1,108,101)	(221,899)	(1,330,000)	(1,260,000)
Current portion of refunds payable on construction contracts	0	489,476	489,476	63,840
Current portion of capital lease obligations	(63,476)	0	(63,476)	0
Water improvement district bonds due within one year	0	(15,000)	(15,000)	(9,000)
Accrued payroll and compensated absences	(98,000)	(344,000)	(442,000)	(389,000)
Deferred fuel revenue	(19,076,079)	0	(19,076,079)	0
Other liabilities	(912,397)	(800,884)	(1,713,281)	(142,582)
Accrued interest payable	(4,692,750)	(606,483)	(5,299,233)	9,207,514
Due to working capital	(4,282,418)	(683,306)	(4,965,724)	(4,287,344)
Customer deposits	(631,711)	(103,521)	(735,232)	(421,821)
(Increase) decrease in current liabilities	<u>(34,333,033)</u>	<u>(2,774,279)</u>	<u>(37,107,312)</u>	<u>4,988,523</u>
Net increase (decrease) in working capital	<u>\$ 13,553,697</u>	<u>\$ 5,858,026</u>	<u>\$ 19,411,723</u>	<u>\$ 7,413,733</u>

See accompanying notes to financial statements.

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION —
FINANCIAL RESOURCES NOT DIRECTLY AFFECTING WORKING CAPITAL
Year ended September 30, 1984
With comparative totals for year ended September 30, 1983

	Electric Light and Power System Fund	Waterworks and Sewer System Fund	Totals	
			1984	1983
<i>Financial resources provided — not directly affecting working capital:</i>				
Proceeds from the issuance of revenue bonds and other debt, net of discount	\$299,616,326	\$ 45,000,000	\$344,616,326	\$111,000,000
Net reduction in the construction account	0	0	0	27,412,227
Increase in construction contracts payable	0	70,355,000	70,355,000	0
Increase in contributions from State and Federal governments	0	8,672,366	8,672,366	537,595
Increase in contributions in aid of construction . .	0	17,870,377	17,870,377	8,968,671
Vehicles transferred as investments in the Vehicle and Equipment Services Fund	316,061	1,142,201	1,458,262	199,002
Permanent transfers of property to (from) other funds	3,398	3,362	6,760	45,578
Accumulated depreciation related to permanent transfer of property to (from) other funds	2,844	2,093	4,937	0
Total financial resources provided — not directly affecting working capital	<u>\$299,938,629</u>	<u>143,045,399</u>	<u>442,984,028</u>	<u>148,163,073</u>
<i>Financial resources applied — not directly affecting working capital:</i>				
Net increase in the construction account	\$ 67,304,773	13,619,156	80,923,929	38,804,133
Additions to construction in progress	164,754,856	40,053,210	204,808,066	100,145,689
Retirement of notes payable as a result of refunding	66,651,583	0	66,651,583	0
Net increase in bond issue cost as a result of refunding	905,114	0	905,114	0
Change in contributions from municipality by permanent property transfers to (from) other funds	3,398	3,362	6,760	45,578
Increase in investment in municipal utility districts	0	70,355,000	70,355,000	0
Increase in investment in Vehicle and Equipment Services Fund by transfers of vehicles	316,061	1,142,201	1,458,262	199,002
Increase in property, plant and equipment provided by contributions in aid of construction	0	17,870,377	17,870,377	8,968,671
Change in contributions from municipality for accumulated depreciation related to permanent transfer of property to (from) other funds	2,844	2,093	4,937	0
Total financial resources applied — not directly affecting working capital	<u>\$299,938,629</u>	<u>\$143,045,399</u>	<u>\$442,984,028</u>	<u>\$148,163,073</u>

See accompanying notes to financial statements.

**CITY OF AUSTIN, TEXAS
UTILITIES FUNDS
SCHEDULE OF REVENUES
Year ended September 30, 1984
With comparative totals for year ended September 30, 1983**

	<u>1984</u>	<u>1983</u>
Electric:		
Domestic and rural residential	\$125,957,886	\$ 99,568,059
Commercial general	184,494,081	150,273,575
City utility departments	8,268,456	5,975,637
Public street lighting	3,701,261	2,996,989
City general government departments	4,908,262	2,814,244
Sales to other utilities, including capacity contract	48,449,417	45,422,064
Rent from electric property	200,642	196,018
Customers' forfeited discounts and penalties	2,382,282	1,684,298
Miscellaneous	1,884,340	1,556,809
Operating revenues	380,246,627	310,487,693
Interest	22,445,591	17,495,932
Total electric	<u>402,692,218</u>	<u>327,983,625</u>
Waterworks:		
Urban	35,401,358	26,203,134
Rural	4,682,762	4,304,037
City utility departments	458,089	462,759
City general government departments	865,459	650,077
Sales to other water utilities	2,894,466	771,840
Water connections	503,376	414,803
Customers' forfeited discounts	334,018	250,531
Miscellaneous	106,434	110,358
Operating revenues	45,245,962	33,167,539
Interest	4,244,910	3,514,605
Total waterworks	<u>49,490,872</u>	<u>36,682,144</u>
Sewer:		
Urban	22,954,507	19,123,881
Rural	796,964	373,467
City utility departments	12,048	9,917
City general government departments	211,670	115,892
Sewer connections	437,718	360,698
Customers' forfeited discounts	205,208	162,693
Miscellaneous	1,035,261	742,527
Operating revenues	25,653,376	20,889,075
Interest	4,614,258	3,704,644
Total sewer	<u>30,267,634</u>	<u>24,593,719</u>
Total operating and interest revenues	<u>\$482,450,724</u>	<u>\$389,259,488</u>

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
SCHEDULE OF EXPENSES BEFORE INTEREST AND DEPRECIATION —
BUDGET AND ACTUAL
Year ended September 30, 1984
With comparative totals for year ended September 30, 1983

	1984			1983
	Actual	Budget	Variance- favorable (unfavorable)	Actual
Electric:				
Production, excluding coal	\$ 106,636,865	\$144,277,681	\$37,640,816	\$ 72,210,887
Fayette project production — coal...	113,080,899	106,186,400	(6,894,499)	111,146,712
Transmission and distribution	9,349,784	10,050,789	701,005	8,287,092
Customer accounting and collection	7,159,753	7,135,100	(24,653)	4,802,902
Jobbing and contract work	183,271	92,875	(90,396)	(15,277)
Design engineering	2,699,262	4,226,566	1,527,304	2,619,266
Administrative and general	9,354,225	11,625,674	2,271,449	4,834,046
	<u>248,464,059</u>	<u>283,595,085</u>	<u>35,131,026</u>	<u>203,876,628</u>
Waterworks:				
Purification	11,166,404	10,570,477	(595,927)	8,566,209
Distribution	7,087,579	6,342,647	(744,932)	6,462,659
Customer accounting and collection	1,982,113	2,177,504	135,391	1,382,987
Jobbing and contract work	(161,743)	0	161,743	(106,537)
Administrative and general	1,937,499	2,080,969	143,470	1,221,849
	<u>22,011,852</u>	<u>21,111,597</u>	<u>(900,255)</u>	<u>17,527,167</u>
Sewer:				
Sewer lines	5,037,130	4,520,127	(517,003)	2,856,376
Sewage treatment plant	9,521,314	8,000,040	(1,521,274)	5,786,192
Customer accounting and collection	1,614,294	1,744,696	130,402	1,244,003
Jobbing and contract work	(6,150)	0	6,150	35,910
Design engineering	1,114,276	1,007,388	(106,888)	564,980
Administrative and general	529,219	399,415	(129,804)	839,846
	<u>17,810,083</u>	<u>15,671,666</u>	<u>(2,138,417)</u>	<u>11,327,307</u>
Total expenses before interest, depreciation and nonoperating items	\$ 288,285,994	\$320,378,348	\$32,092,354	\$232,731,102

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
COMBINING STATEMENT OF CHANGES IN FIXED ASSETS AND
ACCUMULATED DEPRECIATION
Year ended September 30, 1984

	Assets				
	Balance Septem- ber 30, 1983	Additions	Retirements	Transfers from construction work in progress	Transfers from (to) other funds, net (1)
Plant in service:					
Electric	\$ 641,492,825	\$ 2,661,957	\$251,340	\$ 23,915,950	\$ (319,459)
Waterworks	186,230,326	10,143,948	32,821	1,846,101	(307,555)
Sewer	211,933,112	11,089,068	33,598	2,136,617	(831,284)
	<u>1,039,656,263</u>	<u>23,894,973</u>	<u>317,759</u>	<u>27,898,668</u>	<u>(1,458,298)</u>
Construction in progress:					
Electric	584,238,158	224,434,676	-----	(23,915,950)	-----
Waterworks	12,062,435	15,981,995	-----	(1,846,101)	-----
Sewer	11,672,108	28,152,537	-----	(2,136,617)	-----
	<u>607,972,701</u>	<u>268,569,208</u>	<u>-----</u>	<u>(27,898,668)</u>	<u>-----</u>
Total fixed assets	<u>\$1,647,628,964</u>	<u>\$292,464,181</u>	<u>\$317,759</u>	<u>\$-----</u>	<u>\$ (1,458,298)</u>

	Accumulated Depreciation				
	Balance Septem- ber 30, 1983	Current deprecia- tion	Retirements and other changes, net	Transfers and adjustments	Balance Septem- ber 30, 1984
Plant in service:					
Electric	\$ 162,482,211	\$ 22,003,199	\$121,212	\$ 261,982	\$184,626,180
Waterworks	43,284,681	5,019,075	27,642	1,289	48,277,403
Sewer	32,723,864	6,642,919	20,439	804	39,347,148
	<u>238,490,756</u>	<u>33,665,193</u>	<u>169,293</u>	<u>264,075</u>	<u>272,250,731</u>
Construction in progress:					
Electric	-----	-----	-----	-----	-----
Waterworks	-----	-----	-----	-----	-----
Sewer	-----	-----	-----	-----	-----
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total fixed assets	<u>\$ 238,490,756</u>	<u>\$ 33,665,193</u>	<u>\$169,293</u>	<u>\$ 264,075</u>	<u>\$272,250,731</u>

	Electric	Waterworks	Sewer	Total
Plant in service:				
Land and land rights	\$ 17,432,486	\$ 1,613,982	\$ 2,064,927	\$ 21,111,395
Buildings and improvements	368,987,406	173,946,087	197,606,288	740,539,781
Machinery and equipment	255,689,049	11,471,867	13,581,175	280,742,091
Completed assets, unclassified	25,390,992	10,848,063	11,041,525	47,280,580
	<u>667,499,933</u>	<u>197,879,999</u>	<u>224,293,915</u>	<u>1,089,673,847</u>
Construction in progress, including costs incurred on projects under joint construction	784,756,884	26,198,329	37,688,028	848,643,241
Total fixed assets	<u>\$1,452,256,817</u>	<u>\$224,078,328</u>	<u>\$261,981,943</u>	<u>\$1,938,317,088</u>

(1) Transfers from (to) other funds are as follows:

	Electric	Waterworks	Sewer	Total
Enterprise Funds	\$ 165	\$ 2,971	\$ 944	\$ 4,080
Internal Service Funds:				
Vehicle and Equipment Services Funds	(316,061)	(310,366)	(831,835)	(1,458,262)
Central Stores	-----	116	3,600	3,716
General Fixed Assets	(3,563)	(276)	(3,993)	(7,832)
	<u>\$ (319,459)</u>	<u>\$ (307,555)</u>	<u>\$ (831,284)</u>	<u>\$ (1,458,298)</u>

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1984 and 1983

<u>Note</u>		<u>Page</u>
1	Reporting Entity	C-12
2	Significant Accounting Policies	C-12
3	Accounting Changes and Restatement of Prior Years	C-16
4	Equity in Investment Pool	C-16
5	Investments	C-17
6	Restricted Assets	C-17
7	Fixed Assets	C-18
8	Retirement Plans	C-19
9	Utility Funds — Revenue Bonds and Other Long-Term Debt ..	C-22
10	Debt Service Requirements	C-25
11	Interfund Receivables and Payables	C-28
12	Interfund Transfers	C-28
13	Segment Information	C-29
14	Joint Ventures	C-29
15	South Texas Project	C-32
16	Litigation	C-36
17	Commitments and Contingencies	C-36

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS
September 30, 1984 and 1983

(1) Reporting Entity

The City of Austin, Texas (the City) is a municipal corporation incorporated under Article XI, Section 5 of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, morals, comfort, safety and convenience of the City and its inhabitants. The financial statements included herein are those of the Utility Funds only. The Utility Funds include:

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

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

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

The Utility Funds have entered into participating agreements on the following joint projects, and based upon the above criteria, the joint projects are included in these financial statements.

South Texas Project — construction and operation of a nuclear plant;

Fayette Power Project — operation of two coal-fired generating units; and

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

Additional disclosure concerning these joint ventures is provided in Notes 14 and 15.

(2) Significant Accounting Policies

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

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

Basis of Presentation

The accounts of the City are organized and operated on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund balances or retained earnings, revenues and expenditures or expenses.

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

Basis of Accounting

Basis of accounting refers to the time at which revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized by the Utility Funds. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

Unbilled utility service accounts receivable are not material and have not been recorded in the financial statements.

Equity in Investment Pool

Cash balances (except for revenue bond debt service funds and revenue bond retirement reserve funds) are pooled and invested. Investments purchased with pooled cash, consisting primarily of certificates of deposit and repurchase agreements, are recorded at cost which approximates market. Interest earned on investments purchased with pooled cash is allocated monthly to each of the funds based upon the fund's average daily equity balance. Funds that incur a negative balance in pooled cash and investments, classified as an "advance from investment pool", are not charged for interest expense. The investment pool is recorded as an Agency Fund in the City's financial statements.

Investments

Investments in certificates of deposit, United States Government obligations, State and Local Government obligations and other investments are recorded at cost. Amortization of premium and accretion of discount on investment purchases is not recorded over the term of the investment; however, the effect of this policy on these financial statements is immaterial. It is management's intent to hold all investments to maturity and thereby recover the full value of the various investments made.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined for fuel oil and coal inventories of the Electric Light and Power System Fund on the last-in, first-out method.

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

Property, Plant and Equipment

Property, plant and equipment owned by the Utility Funds are stated at historical cost. Maintenance and repairs are charged to operations as incurred, and improvements and betterments which extend the useful lives of fixed assets are capitalized.

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

Buildings and improvements	20-50 years
Transmission and distribution system	7-40 years
Other machinery and equipment	7-30 years

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

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

For the Utility Funds' fixed assets, interest is capitalized on construction costs incurred during the year at an average interest rate on borrowed funds. Prior to the expenditure of funds for construction, the interest cost approximates the interest income on investments acquired with proceeds of borrowed funds; therefore, the effect of net interest capitalization with respect to such amounts on these financial statements is immaterial.

Contributions of funds from Federal, State or local grants restricted for the purpose of purchasing property, plant and equipment and contributions in aid of construction are recorded as equity contributions when received.

Investment in Internal Service Funds/Investment by Enterprise Funds

The Investment in Internal Service Funds accounts reported in the Utility Funds represents the inventory and/or vehicles reported in the City's Internal Service Funds which have been financed by the Utility Funds. The Internal Service Funds provide centralized management and reporting for such inventory and vehicles. The Internal Service Funds report this as an Investment by Enterprise Funds.

Long-term Debt

Revenue bonds which have been issued to fund capital projects of the Utility Funds are to be repaid from net revenues of the Utility Systems.

Vacation and Sick Pay

All full-time employees accumulate vacation benefits in varying annual amounts up to a maximum allowable accumulation of 240 hours. Sick leave benefits are earned by all full-time employees at a rate of twelve days per year and may be accumulated without limit. In the event of termination, an employee is reimbursed for all accumulated vacation days. If the terminating employee has at least five years continuous service and leaves in good standing, reimbursement is also made for all accrued sick leave up to ninety working days. Vacation and sick pay are recorded as an expense and related liability in the year earned.

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

Pension Plans

It is the policy of the City to fund annual pension costs which are composed of normal cost and amortization of unfunded prior service cost.

Federal and State Grants, Entitlements and Shared Revenues

Grants and entitlements received for operating purposes, or which may be utilized for either operations or capital expenditures at the discretion of the Utility are recognized in the applicable Utility Fund. Grant monies restricted for acquisition or construction of capital assets are recorded as contributed equity of the applicable Utility Fund Construction Account.

Intergovernmental Revenues and Receivables

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

Transactions Between Funds

During the course of normal operations, the City has numerous transactions between funds. Short-term advances between funds are accounted for in the equity in investment pool accounts. Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.

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

Comparative Data

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

Reclassifications

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

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

(3) Accounting Changes and Restatement of Prior Years

Changes resulting in restatement of prior years

During 1983 the Utility Funds changed the basis of accounting for compensated absences (earned but unused vacation and sick leave) from cash basis to accrual basis which is in conformance with the NCGA Statement 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences. The 1983 financial statements were restated in the prior year to reflect the cumulative effect on prior years of applying retroactively the accrual basis of accounting for compensated absences.

The effect of this restatement on the Utility Funds' retained earnings and net income (loss) for 1983 is presented in the following table.

Year Ended September 30, 1983	Electric Light and Power System	Waterworks and Sewer System	Total
Total retained earnings, October 1, 1982, as previously reported	\$600,862,165	\$144,363,325	\$745,225,490
Less adjustments for the cumulative effect on prior years of apply retroactively the accrual basis of accounting for compensated absence	<u>(3,316,000)</u>	<u>(2,070,000)</u>	<u>(5,386,000)</u>
Total retained earnings, October 1, 1982, as restated	<u>597,546,165</u>	<u>142,293,325</u>	<u>739,839,490</u>
(Decrease) in 1983 amounts due to accrual of compensated absences:			
Net (decrease) in retained earnings	<u>\$ (374,000)</u>	<u>\$ (275,000)</u>	<u>\$ (649,000)</u>

(4) Equity in Investment Pool

The following summarizes the amounts of equity in investment pool by account at September 30, 1984:

	Equity In
Utility Funds:	
Current	\$ 60,437,190
Construction account	223,555,371
Customer deposits	<u>4,136,826</u>
Total equity in	288,129,387
Total advance from	<u>—</u>
Investment by Utility Funds in investment pool	<u>\$288,129,387</u>

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

(5) Investments

Investments other than certificates of deposit owned by the Utility Funds at September 30, 1984 are as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Par Value</u>	<u>Cost</u>	<u>(Unaudited) Market Value</u>
Restricted investments:				
Revenue bond debt service:				
Repurchase Agreements	8.53 -11.6 %	\$ 40,865,000	\$ 40,865,000	\$ 40,865,000
U.S. Treasury Obligations	10.69 -11.00%	3,395,000	3,295,697	3,361,943
		<u>44,260,000</u>	<u>44,160,697</u>	<u>44,226,943</u>
Revenue bond retirement reserve:				
U.S. Agency Obligations	8.625-14.45%	3,000,000	2,912,969	2,981,563
State and Local Government Obligations	14.30%	65,000,000	65,000,000	65,000,000
U.S. Treasury Obligations	7.25 -16.00%	18,773,000	18,383,772	18,157,017
		<u>86,773,000</u>	<u>86,296,741</u>	<u>86,138,580</u>
Total		<u><u>\$131,033,000</u></u>	<u><u>\$130,457,438</u></u>	<u><u>\$130,365,523</u></u>

Note: Repurchase agreements are secured by obligations of the U.S. Government or guaranteed by the U.S. Government.

(6) Restricted Assets

The following table summarizes restricted assets by purpose at September 30, 1984 (in thousands of dollars):

	<u>Utility Funds</u>
Revenue bond debt service:	
Certificates of deposit	\$ 200
Other investments	44,161
Accrued interest on investments	5,513
	<u>49,874</u>
Revenue bond retirement reserve:	
Other investments	86,297
Accrued interest on investments	20
	<u>86,317</u>
Construction account:	
Equity in investment pool	223,555
Receivable from other governments	2,999
	<u>226,554</u>
Customer deposits:	
Equity in investment pool	4,137
Total restricted assets	<u><u>\$366,882</u></u>

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

(7) Fixed Assets

Components of the Utility Funds' fixed assets at September 30, 1984 are summarized as follows (in thousands of dollars):

	<u>Utility Funds</u>
Land and land rights	\$ 21,111
Buildings and improvements	740,540
Machinery and equipment	280,742
Completed assets not classified	<u>47,281</u>
Total in service	1,089,674
Less accumulated depreciation	<u>(272,251)</u>
Net property and equipment in service	817,423
Construction in progress	<u>848,643</u>
	<u><u>\$1,666,066</u></u>

During 1983, estimated useful lives of the Utility Funds' fixed assets were re-evaluated and revised, as necessary, to reflect a more realistic estimate. The effect of this change in estimate on Utility Funds' net income for 1983 from amounts that would have been reported using the previous estimated useful lives was as follows:

<u>Fund</u>	<u>Decrease</u>
Electric	\$2,325,649
Waterworks and Sewer	<u>6,236,627</u>
	<u><u>\$8,562,276</u></u>

Construction in progress includes various capital projects which are substantially funded by revenue bonds.

The City anticipates numerous utility related projects over the next several years. However, the City has no formal commitment to such projects.

Estimated unfunded future expenditures for capital projects will be funded from operations, issuance of additional revenue bonds or from alternative methods of financing. Authorization to issue additional revenue bonds may be requested from the qualified voters of the City. However, it is the opinion of legal counsel that the City Council is not legally required to secure voter approval to authorize and issue additional revenue bonds (see Note 15).

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

The following tabulation presents the estimated unfunded future expenditures for capital projects of the Utility Funds and related bonds authorized but unissued as of September 30, 1984 (in thousands of dollars):

	Total Estimated Costs	Expenditures Incurred to September 30, 1984	Estimated Future Expenditures	Net Amounts Available in (Borrowed from) Construction Account	Estimated Unfunded (Overfunded) Future Expenditures	Bonds Authorized Unissued at September 30, 1984
Projects financed with revenue bonds for the						
Utility Funds:						
Electric system improvements, general	\$ 180,870	\$ 135,191	\$ 45,679	\$ 34,105	\$ 11,574	\$254,065
Electric system, Fayette Power Project Units I and II	212,470	211,770	700	700	—	—
Electric system, South Texas Nuclear Project..	880,000*	530,707	349,293	90,203	259,090	—
Water improvements	139,327	47,690	91,637	33,712	57,925	417,072
Wastewater improvements	183,624	90,949	92,675	55,985	36,690	235,060
Total projects funded principally by revenue bonds	1,596,291	1,016,307	579,984	<u>\$214,705</u>	<u>\$365,279</u>	<u>\$906,197</u>
Less amounts related to plant in service	168,364	167,664	700			
Amounts related to construction in progress	<u>\$1,427,927</u>	<u>\$ 848,643</u>	<u>\$579,284</u>			

* Bechtel's estimate of plant and common facilities, excludes nuclear fuel costs.

(8) Retirement Plan

(a) General

The Utility Funds participate in funding a contributory, defined benefit retirement plan: City of Austin Employees' Retirement and Pension Fund. This plan is a City-wide single employer funded plans which cover substantially all full-time employees. The City's total retirement plan expense for the year ended September 30, 1984 was approximately \$8,259,000, which includes amortization of prior service cost. Total contributions are comprised as follows (in thousands of dollars):

	<u>City Employees</u>
Contributions for the year ended September 30, 1984:	
City	\$8,259
Employees	<u>8,244</u>

The Utility Funds' employees that contribute to the City's Employees' Retirement System represent 23% of the total participants.

(b) Contribution Method and Benefits

CITY OF AUSTIN EMPLOYEES' RETIREMENT AND PENSION FUND

The Employees' Fund is maintained by contributions on a bi-weekly basis from the earnings of member employees. These contributions are matched by the City. In addition, the City contributes two-thirds of the cost of prior service benefit payments.

CITY OF AUSTIN, TEXAS

UTILITY FUNDS

NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

When a member has completed ten years of credited service after entrance into the Employees' Fund, his account becomes vested and nonforfeitable. Under the terms of the Employees' Fund agreement, members or their beneficiaries are eligible for distributions of retirement benefits upon attaining the age of 55 with twenty years of creditable service or thirty years of creditable service regardless of age. In addition, a member is eligible for retirement at age 62 irrespective of the number of years of creditable service. Distributions to members or their beneficiaries are also available in the event of total and permanent disability, provided the member has completed ten years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the member, his level of earnings and length of service. The distributions of benefits are made in the form of monthly payments in equal installments over a period of time or a lump sum in event of death. Payments to members or their beneficiaries may be increased annually by the amount of increase in the Consumer Price Index up to an increase of 3% per year. Such cost-of-living increases must be approved by the Retirement Board and the actuaries of the fund. The board approved a 3% cost of living increase for 1984 and 1983.

(c) *Actuarial Present Value of Vested Benefits*

The contributions to the pension fund are designed to fund current service costs on a current basis and to fund the estimated accrued benefit cost arising from qualifying service prior to establishment of the Employees' Fund over 9.77 years.

Calculations of the actuarially computed value of vested benefits was made by actuaries for the pension fund as of January 1, 1984 (latest available date). The following actuarial cost method and significant assumptions underlying the actuarial calculation were used in the determination of the required plan funding level.

	City Employees
Actuarial Cost Method	Entry Age Normal Cost
Assumed Rate of Return on Investments	8%
Retirement Age	50-70 with graduated rates for each age in the range
Assets Valuation Basis	Amortized Cost

Other significant assumptions used are the assumed employee turnover, salary increases and mortality rates which are based on published statistical data. Accumulated plan benefit information for the fund as of January 1, 1984 (latest available date) follows (in thousands of dollars):

	City Employees
Actuarial present value of accumulated plan benefits:	
Vested benefits:	
Participants currently receiving payments	\$ 31,614
Other	55,473
Total vested	87,087
Nonvested benefits	2,348
	<u>\$ 89,435</u>

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

	<u>City Employees</u>
Net assets available for benefits (at amortized cost)	\$133,398
Net assets available for benefits (at fair market value*)	\$131,109
Net assets available for benefits at amortized cost exceeds (is less than) present value of vested benefits	\$ 46,311
Net assets available for benefits at fair market value* exceeds (is less than) present value of vested benefits	\$ 44,022
Unfunded actuarial accrued liability	\$ 26,823

- These market values are unaudited.

(d) Actuarial Changes and Plan Amendments

CITY OF AUSTIN EMPLOYEES' RETIREMENT AND PENSION FUND

The following changes in actuarial assumptions occurred during 1984:

- (1) The assumed rate of return on investments was increased from 7% to 8%.
- (2) Total payroll for future years is assumed to increase at the rate of 7.5% per annum.
- (3) Based upon the change in rate of total payroll increase per annum, it is expected that the unfunded liability for prior service costs will be amortized over 9.77 years instead of 22 years.
- (4) The annual salary increase for an employee is assumed to be 6.5% plus the 1984 merit, promotion and longevity (MPL) component.

The following changes in plan provisions occurred during 1984:

- (1) In December 1984, the calculation for the average final compensation was amended to utilize the 36 months which yielded the highest average during the last 120 months of service.
- (2) Effective January 1, 1984, a 3% cost-of-living increase was added to monthly benefits. The factor used in computing the monthly benefit was increased from 1.75% to 1.85% effective December 1984.

There were no changes in actuarial assumptions or plan provisions during 1983.

(e) Federal Income Taxes

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

(f) Plan Administration Costs

Plan administration costs which are being borne partially by the Utility Funds include audit fees, actuarial fees (valuations performed in alternating years) and all salaries for administrative personnel.

(g) Subsequent Events

Net assets available for benefits for the Employees' Fund increased \$22,651,000 for the year ended December 31, 1984 (unaudited amount). The net increase is the result of recurring pension activity such as contributions received, investment income, benefits paid and contributions refunded.

CITY OF AUSTIN, TEXAS
UTILITY FUNDS
NOTES TO FINANCIAL STATEMENTS — (Continued)
September 30, 1984 and 1983

(9) Utility Funds — Revenue Bonds and Other Long Term Debt

The Utility Funds of the City derive their funding for capital projects from the issuance of revenue bonds, from other sources of financing and from net revenues of the Utility Funds not restricted for debt service or other uses.

The following table summarizes revenue bond and other long-term financing transactions for the year ended September 30, 1984 (in thousands of dollars):

	Revenue Notes	Certificates of Obligations	Refunding Bonds	Prior Lien Bonds	Total
Balance payable, net of discount —					
September 30, 1983	\$ —	\$30,000	\$572,434	\$136,020	\$ 738,454
Debt issued, net of discount	166,534	—	—	160,000	346,534
Debt repaid or refunded	(67,000)	—	(8,790)	—	(75,790)
Amortization of bond discount	—	—	1,235	—	1,235
Balance payable, net of discount —					
September 30, 1984	<u>\$119,534</u>	<u>\$30,000</u>	<u>\$564,879</u>	<u>\$296,020</u>	<u>\$1,010,433</u>

(a) Revenue Bonds

Revenue bonds authorized and unissued amount to \$906,197,000 at September 30, 1984.

In March 1982 the City's Utility Funds refunded all outstanding revenue bonds at that date through the issuance of \$598,000,000 of refunding bonds. The \$598,000,000 refunding bonds are presented net of the discount amounting to \$16,801,116 and \$18,036,337 at September 30, 1984 and 1983, respectively. This refunding resulted in an extraordinary gain of \$351,974,945.

A portion of the proceeds of the refunding bonds were placed in an irrevocable escrow account and used to purchase U.S. Government obligations which will mature at such time and yield interest at such amounts so that sufficient monies are available for payment of principal and interest on the refunded bonds, when due. The refunded bonds, amounting to \$588,780,000 prior lien bonds and \$303,665,000 junior lien bonds at the date of refunding, are not included in the City's outstanding long-term debt. Although the City is not legally released from the refunded bonds, such bonds are considered to be in-substance defeased debt.

The refunding bonds are secured by the net revenues of the Utility Funds, as defined in the respective bond indentures. The refunding bonds are subordinate only to the prior lien revenue bonds outstanding. The refunding revenue bonds outstanding at September 30, 1984 will be amortized serially on November 15 and May 15 of each year over the period from 1985 to 2006. Total interest requirements on outstanding refunding revenue bonds aggregate approximately \$1,047,187,566. Interest rates on these bonds range from 9.50% to 14.25%.

The prior lien revenue bonds outstanding at September 30, 1984 will be amortized serially on November 15 of each year over the period from 1987 to 2014. Total interest requirements on outstanding prior lien revenue bonds aggregate approximately \$719,151,185. Interest rates on the outstanding prior lien revenue bonds range from 10% to 15%. The bonds are callable beginning November 15, 1992. Certain of these bonds may be called and retired with proceeds from a sale of the City's interest in the South Texas Project.

CITY OF AUSTIN, TEXAS

UTILITY FUNDS

NOTES TO FINANCIAL STATEMENTS — (Continued)

September 30, 1984 and 1983

(b) *Revenue Bond Indenture Requirements*

The City is required by bond indentures to pledge the net revenues of the Utility System for the retirement of its outstanding revenue bonds, including interest thereon, and is required for such purpose to maintain debt service funds and bond reserve funds for all outstanding revenue bonds.

The debt service funds, aggregating \$49,874,228 at September 30, 1984, are restricted within the Utility Funds and require that the net revenues of the system, after operating and maintenance expenses are deducted, be irrevocably pledged by providing equal monthly installments which will accumulate to the semiannual principal and interest requirements as they become due.

The bond reserve funds for revenue bond retirement reserves, aggregating \$86,316,829 at September 30, 1984, are also restricted within the Utility Funds. The City is required to maintain a Combined Reserve Fund for the benefit of the holders of Prior Lien Bonds and Subordinate Lien Bonds. Such fund must contain cash and investments of not less than \$85,000,000 which shall be increased upon the issuance of any additional bonds to the greater of such amount or the average annual principal and interest requirements on all Prior Lien Bonds and Subordinate Lien Bonds.

Additional amounts required to be deposited in the Reserve Fund must be funded from bond proceeds or accumulated in the Reserve Fund in equal monthly installments within 60 months from the date of delivery of the additional bonds. The City also covenants under the bond indentures that the custodian of the reserve funds shall be an official City depository and investment of the reserve funds shall be in direct or guaranteed obligations of the United States of America (USA), including obligations guaranteed by the USA, and certificates of deposit of any bank or trust company, the deposits of which are fully secured by a pledge or obligation of the USA or guaranteed by the USA.

The revenue bond indentures also provide for a number of other limitations and restrictions. The City is in compliance with all significant limitations and restrictions contained in various revenue bond indentures.

(c) *Certificates of Obligation*

On May 19, 1983 the City issued \$30,000,000 Combination Tax and Electric, Light and Power System Subordinated Lien Revenue Certificates of Obligation that mature on May 15 in each of the years from 1986 to 2003. Such certificates were issued to continue funding for the South Texas Project (see Note 15).

The certificates are secured by future ad valorem tax levies and a subordinate lien on and pledge of the net revenues of the Electric Light and Power System, as defined in the respective private placement memorandum. The City intends to retire these certificates of obligation wholly from net revenues of the Electric Light and Power System.

Interest on these certificates is variable semiannually until May 15, 1986 at 70% of the prime interest rate with a maximum per annum rate of 15%. At May 15, 1986 interest is fixed at 15% until maturity. Interest is payable semiannually on November 15 and May 15 of each year. Total interest requirements over the remaining life of the certificates aggregate \$46,638,750, with such interest calculated at 8.75% from May 15, 1984 to November 15, 1984, interest calculated at 8.225% from November 15, 1984 to May 14, 1986 (assuming a prime interest rate of 11.75%), and thereafter at the maximum rate of 15%. The certificates are callable beginning May 15, 1986.

(d) *Revenue Notes*

On November 3, 1983, the City issued \$67,000,000 Combined Utility Systems Revenue Notes, Series 1983 at an interest rate of 6.75%. Proceeds of the notes were used (1) to create a debt service