

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

fund in an amount equal to the accrued interest on the notes from November 1, 1983 to the date of sale, (2) to establish a reserve fund in an amount equal to six months plus fifteen days interest on the notes and (3) to continue progress payments on the South Texas Project (see Note 15). These notes have been refunded.

On February 23, 1984, the City issued \$120,000,000 Combined Utility Systems Revenue Notes, Series 1984 at an interest rate of 7%. Proceeds from the notes were used (1) to refund the \$67,000,000 Combined Utility Systems Revenue Notes, Series 1983 and (2) to continue progress payments on the South Texas Project (see Note 15).

A portion of the proceeds of the Series 1984 Notes was 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 Series 1983 Notes. The refunded Series 1983 Notes are not included in the City's outstanding long-term debt. Although the City is not legally released from the refunded notes, such notes are considered to be in-substance defeased debt. The refunding resulted in an immaterial gain of \$26,056.

The Series 1984 Notes are special, limited obligations of the City payable from proceeds of notes or bonds which may be issued to retire these notes and certain net revenues of the Electric Light and Power System. The notes are not a general obligation of the City and may not be paid from monies derived from taxes. The notes are secured by a subordinate pledge of certain combined net revenues of the Electric Light and Power System and Waterworks and Sewer System and an irrevocable standby letter of credit issued by a commercial bank.

Interest on the Series 1984 Notes is payable semiannually on November 15 and May 15 each year. Total interest requirements on the Series 1984 Notes aggregate \$16,800,000. The principal is due and payable in full on May 15, 1986. The Series 1984 Notes are subject to early redemption on any interest payment date beginning November 15, 1984. The notes are presented net of discount amounting to \$465,800 at September 30, 1984.

(e) Refunds Payable on Construction Contracts

Refunds payable on construction contracts aggregating approximately \$8,496,228 at September 30, 1984, excluding accrued interest, represent contractual obligations of the Waterworks and Sewer System Fund to refund a percentage of the costs of certain construction incurred by developers. The contracts vary as to terms and conditions. Most of the contracts provide for the City to pay interest at 3% per annum on the unpaid balance. Generally, the Waterworks and Sewer System Fund has agreed to pay annually to the developers a sum equal to 75% of the amount of revenues realized (based on rates in existence at the contract date) from sales and service relating to the water and wastewater facilities constructed by these developers. Such payments are made in March of each year based upon the revenues for the previous calendar year; however, the total number of payments are limited, ranging primarily from 20 to 25 years, at which time the unpaid principal balance, if any, reverts to the Waterworks and Sewer System Fund as a contribution in aid of construction.

(f) Water Improvement District Bonds

Water improvement district bonds, aggregating \$2,216,000 at September 30, 1984, represent bonds assumed by the Waterworks and Sewer System Fund from annexation of surrounding communities. Total interest requirements aggregate \$820,063. The bonds assumed vary in interest rates from 3¼% to 5% and are payable serially in varying amounts to March 1, 2002. Average annual debt service requirements are \$168,670.

(g) Utility Construction Contracts Payable

See Note 14.

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

(10) Debt Service Requirements

SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY
September 30, 1984

Fiscal Year Ended September 30	Utility Funds				Total
	Subordinate Lien Revenue Bonds	Prior Lien Revenue Bonds	Certificates of Obligation	Utility Construction Contracts	
				(1)	
1985	\$ 84,503,495	\$ 29,131,781	\$ 2,546,250	\$ 6,678,828	\$ 122,860,354
1986	84,733,870	33,618,860	3,967,500	6,678,827	128,999,057
1987	83,366,910	33,618,860	5,775,000	7,278,828	130,039,598
1988	86,366,690	34,460,361	5,550,000	7,285,077	133,662,128
1989	86,340,430	35,389,260	5,325,000	8,231,953	135,286,643
1990	84,201,725	35,198,911	5,100,000	8,308,202	132,808,838
1991	83,077,863	35,950,660	4,875,000	8,264,453	132,167,976
1992	82,541,463	35,716,660	4,650,000	8,206,327	131,114,450
1993	82,330,913	35,449,161	4,425,000	8,133,828	130,338,902
1994	80,669,788	35,069,596	4,200,000	8,169,002	128,108,386
1995	79,188,588	35,759,532	3,975,000	8,148,053	127,071,173
1996	78,109,313	36,447,832	3,750,000	8,086,327	126,393,472
1997	77,924,788	35,964,832	3,525,000	7,695,628	125,110,248
1998	78,356,588	35,553,932	3,300,000	7,770,677	124,981,197
1999	75,785,138	35,104,332	3,075,000	7,735,328	121,699,798
2000	76,294,937	35,649,082	2,850,000	7,771,790	122,565,809
2001	71,422,037	35,934,332	3,625,000	7,770,100	118,751,469
2002	67,244,587	36,253,332	3,250,000	6,848,200	113,596,119
2003	54,059,712	35,355,332	2,875,000	6,870,000	99,160,044
2004	50,904,719	34,596,832	—	6,850,000	92,351,551
2005	45,241,856	35,652,832	—	6,790,000	87,684,688
2006	21,054,681	34,612,763	—	6,785,000	62,452,444
2007	15,147,475	35,461,124	—	6,730,000	57,338,599
2008	—	34,097,984	—	6,720,000	40,817,984
2009	—	28,071,279	—	—	28,071,279
2010	—	27,466,823	—	—	27,466,823
2011	—	27,771,050	—	—	27,771,050
2012	—	27,918,200	—	—	27,918,200
2013	—	26,959,300	—	—	26,959,300
2014	—	18,553,250	—	—	18,553,250
2015	—	18,383,100	—	—	18,383,100
	<u>\$1,628,867,566</u>	<u>\$1,015,171,185</u>	<u>\$76,638,750</u>	<u>\$179,806,428</u>	<u>\$2,900,483,929</u>

(1) These amounts represent the contract revenue bonds and that portion of other bonds outstanding at September 30, 1984 for which the City is liable (see Note 14).

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

**SCHEDULE OF UTILITY FUNDS REVENUE BONDS AND OTHER DEBT
DEBT SERVICE REQUIREMENTS**

Fiscal Year Ended September 30	September 30, 1984			Certificates of Obligation		
	Outstanding Subordinate Lien Bonds					
	Principal	Interest	Total	Principal	Interest	Total
1985.....	\$ 10,120,000	\$ 74,383,495	\$ 84,503,495	\$ —	\$ 2,546,250	\$ 2,546,250
1986.....	11,380,000	73,353,870	84,733,870	1,500,000	2,467,500	3,967,500
1987.....	11,180,000	72,186,910	83,366,910	1,500,000	4,275,000	5,775,000
1988.....	15,490,000	70,876,690	86,366,690	1,500,000	4,050,000	5,550,000
1989.....	17,230,000	69,110,430	86,340,430	1,500,000	3,825,000	5,325,000
1990.....	17,055,000	67,146,725	84,201,725	1,500,000	3,600,000	5,100,000
1991.....	17,950,000	65,127,863	83,077,863	1,500,000	3,375,000	4,875,000
1992.....	19,605,000	62,936,463	82,541,463	1,500,000	3,150,000	4,650,000
1993.....	21,850,000	60,480,913	82,330,913	1,500,000	2,925,000	4,425,000
1994.....	22,940,000	57,729,788	80,669,788	1,500,000	2,700,000	4,200,000
1995.....	24,415,000	54,773,588	79,188,588	1,500,000	2,475,000	3,975,000
1996.....	26,315,000	51,794,313	78,109,313	1,500,000	2,250,000	3,750,000
1997.....	29,120,000	48,804,788	77,924,788	1,500,000	2,025,000	3,525,000
1998.....	33,385,000	44,971,588	78,356,588	1,500,000	1,800,000	3,300,000
1999.....	35,455,000	40,330,138	75,785,138	1,500,000	1,575,000	3,075,000
2000.....	41,100,000	35,194,937	76,294,937	1,500,000	1,350,000	2,850,000
2001.....	42,000,000	29,422,037	71,422,037	2,500,000	1,125,000	3,625,000
2002.....	43,810,000	23,434,587	67,244,587	2,500,000	750,000	3,250,000
2003.....	35,515,000	18,544,712	54,059,712	2,500,000	375,000	2,875,000
2004.....	37,255,000	13,649,719	50,904,719	—	—	—
2005.....	36,720,000	8,521,856	45,241,856	—	—	—
2006.....	17,650,000	3,404,681	21,054,681	—	—	—
2007.....	14,140,000	1,007,475	15,147,475	—	—	—
2008.....	—	—	—	—	—	—
2009.....	—	—	—	—	—	—
2010.....	—	—	—	—	—	—
2011.....	—	—	—	—	—	—
2012.....	—	—	—	—	—	—
2013.....	—	—	—	—	—	—
2014.....	—	—	—	—	—	—
2015.....	—	—	—	—	—	—
	<u>\$581,680,000</u>	<u>\$1,047,187,566</u>	<u>\$1,628,867,566</u>	<u>\$30,000,000</u>	<u>\$46,638,750</u>	<u>\$76,638,750</u>

Note: Revenue Bonds: Principal is due annually on November 15 or May 15, according to the dates the bonds were sold, and interest is due semiannually on November 15 and May 15. Interest rates on revenue bonds outstanding range from 9.50% to 15.00%.

Certificates of Obligation: Principal is due annually on May 15 beginning May 15, 1986. The interest rate is variable semiannually on November 15 and May 15 at 70% of the prime interest rate until May 15, 1986 at which time interest will be fixed at 15% until maturity.

Annual interest amounts were computed assuming a prime rate of 11.75% from November 15, 1984 through May 14, 1986 resulting in an interest rate on the certificates of 8.225%

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

Outstanding Prior Lien Bonds			Total		
Principal	Interest	Total	Principal	Interest	Total
\$ —	\$ 29,131,781	\$ 29,131,781	\$ 10,120,000	\$ 106,061,526	\$ 116,181,526
—	33,618,860	33,618,860	12,880,000	109,440,230	122,320,230
—	33,618,860	33,618,860	12,680,000	110,080,770	122,760,770
900,000	33,560,361	34,460,361	17,890,000	108,487,051	126,377,051
2,020,000	33,369,260	35,389,260	20,750,000	106,304,690	127,054,690
2,100,000	33,098,911	35,198,911	20,655,000	103,845,636	124,500,636
3,200,000	32,750,660	35,950,660	22,650,000	101,253,523	123,903,523
3,400,000	32,316,660	35,716,660	24,505,000	98,403,123	122,908,123
3,600,000	31,849,161	35,449,161	26,950,000	95,255,074	122,205,074
3,700,000	31,369,596	35,069,596	28,140,000	91,799,384	119,939,384
4,900,000	30,859,532	35,759,532	30,815,000	88,108,120	118,923,120
6,200,000	30,247,832	36,447,832	34,015,000	84,292,145	118,307,145
6,400,000	29,564,832	35,964,832	37,020,000	80,394,620	117,414,620
6,700,000	28,853,932	35,553,932	41,585,000	75,625,520	117,210,520
7,000,000	28,104,332	35,104,332	43,955,000	70,009,470	113,964,470
8,400,000	27,249,082	35,649,082	51,000,000	63,794,019	114,794,019
9,700,000	26,234,332	35,934,332	54,200,000	56,781,369	110,981,369
11,200,000	25,053,332	36,253,332	57,510,000	49,237,919	106,747,919
11,600,000	23,755,332	35,355,332	49,615,000	42,675,044	92,290,044
12,200,000	22,396,832	34,596,832	49,455,000	36,046,551	85,501,551
14,500,000	20,852,832	35,652,832	51,520,000	29,374,688	80,894,688
15,500,000	19,112,763	34,612,763	33,150,000	22,517,444	55,667,444
18,300,000	17,161,124	35,461,124	32,440,000	18,168,599	50,608,599
19,100,000	14,997,984	34,097,984	19,100,000	14,997,984	34,097,984
15,000,000	13,071,279	28,071,279	15,000,000	13,071,279	28,071,279
16,100,000	11,366,823	27,466,823	16,100,000	11,366,823	27,466,823
18,300,000	9,471,050	27,771,050	18,300,000	9,471,050	27,771,050
20,600,000	7,318,200	27,918,200	20,600,000	7,318,200	27,918,200
22,000,000	4,959,300	26,959,300	22,000,000	4,959,300	26,959,300
15,700,000	2,853,250	18,553,250	15,700,000	2,853,250	18,553,250
17,400,000	983,100	18,383,100	17,400,000	983,100	18,383,100
<u>\$296,020,000</u>	<u>\$719,151,185</u>	<u>\$1,015,171,185</u>	<u>\$907,700,000</u>	<u>\$1,812,977,501</u>	<u>\$2,720,677,501</u>

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

(11) Interfund Receivables and Payables

Interfund receivables and payables at September 30, 1984 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<u>Utility Funds</u>		
Current:		
Due from debt service	\$ 9,592,620	\$ —
Trust and Agency Funds:		
Expendable Trusts	1,912,317	—
Restricted:		
Revenue Bond Debt Service:		
Due to working capital	—	9,592,620
Total Utility Funds	<u>\$11,504,937</u>	<u>\$ 9,592,620</u>

(12) Interfund Transfers

Interfund transfers for the year ended September 30, 1984 are as follows:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Utility Funds</u>		
General Fund	\$ —	\$46,057,000
Capital Projects Funds	—	250,000
Trust and Agency Funds — Expendable Trusts	—	288,500
Total Utility Funds	<u>\$ —</u>	<u>\$46,595,500</u>

CITY OF AUSTIN, TEXAS

UTILITY FUNDS

NOTES TO FINANCIAL STATEMENTS — (Continued)

September 30, 1984 and 1983

(13) Segment Information

The services provided by the Electric Light and Power System Fund and the Waterworks and Sewer System Fund are reported as the Utility Funds. Segment information for the year ended September 30, 1984 is as follows (in thousands of dollars):

	<u>Electric Light and Power System</u>	<u>Waterworks and Sewer System</u>	<u>Total</u>
Operating revenues	\$ 380,247	\$ 70,899	\$ 451,146
Depreciation and amortization expense ..	22,408	11,674	34,082
Operating income	109,779	19,416	129,195
Operating transfers out	40,313	6,282	46,595
Net income (loss)	67,172	7,477	74,649
Current assets	126,549	20,328	146,877
Current liabilities	48,897	7,178	56,075
Net working capital surplus (deficit)	77,652	13,150	90,802
Property, plant and equipment:			
Additions	227,097	65,368	292,465
Retirements	251	66	317
Transfers from (to) other funds	(319)	(1,139)	(1,458)
Net property, plant and equipment	1,267,631	398,436	1,666,067
Total assets	1,654,068	608,407	2,262,475
Bonds and other long-term liabilities	816,343	267,397	1,083,740
Current capital contributions	6,344	39,609	45,953
Total equity	735,703	321,097	1,056,800

(14) Joint Ventures

The Utility Funds have entered into several participating agreements on joint projects. In accordance with NCGA Statement 7, Financial Reporting for Component Units within the Governmental Reporting Entity, such joint ventures have been evaluated to determine under the criteria set forth in NCGA Statement 3 (see Note 1) which of them fall within the definition of the reporting entity. The following joint ventures meet the criteria for inclusion in the reporting entity and are included in the Utility Funds' financial statements.

(a) Fayette Power Project

The Fayette Power Project (the "Project", Units I and II) is an equal partnership between the City and the Lower Colorado River Authority (LCRA, Project Manager) — each participant owns a 50% share. This is a joint venture for the operation of two coal-fired electric power generation units with a net capacity of 1,100 megawatts. Each partner's actual equity in the Project may vary from 50% depending on the percentage of kilowatt hours produced by the Project used by each partner.

The Project is governed by a management committee whose four members are administratively appointed, two each, by the partners. As managing partner, LCRA is responsible for the operation of the Project and appoints the Project's management. However, the City has the ability to influence significantly the operation of the Project through approval of major contracts and new major expenditures by its appointees to the management committee. Each partner issued its own debt to finance its share of construction costs. The City's portion being financed through revenue bonds repaid

CITY OF AUSTIN, TEXAS

UTILITY FUNDS

NOTES TO FINANCIAL STATEMENTS — (Continued)

September 30, 1984 and 1983

by the Electric Light and Power System Fund. In addition, each partner has the obligation to finance its portion of any deficits that may occur.

In accordance with the criteria in NCGA Statement 7, revenues and expenses associated with the Project are accounted for in the Electric Light and Power System Fund. Assets, liabilities, and equity associated with the Project are also reported in the Electric Light and Power System Fund.

The following is a summary of financial information taken from the Project's audited financial statements, dated June 30, 1984 and 1983, the Project's fiscal year end. These statements were not examined by the City's independent auditors. Amounts presented are in thousands of dollars.

	June 30, 1984			June 30, 1983		
	Total	COA	LCRA	Total	COA	LCRA
Assets	\$ 54,183	\$ 28,175	\$ 26,008	\$ 86,072	\$ 49,922	\$ 36,150
Liabilities	20,832	10,312	10,520	18,933	9,495	9,438
Equity	33,351	17,863	15,488	67,139	40,427	26,712
Revenues	320	160	160	272	136	136
Expenses	231,329	114,662	116,667	222,098	109,415	112,683
Net increase in equity	231,009	114,502	116,507	221,826	109,279	112,547

(b) South Texas Project

See Note 15.

(c) Utility Construction Contracts with Municipal Utility Districts

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

(1) The City becomes the owner of the improvements upon completion of the construction and makes payments equal to debt service on the MUD's bonds. Sources of such payment are MUD customers user fees, surplus net revenues of the City's Waterworks and Sewer System and, if necessary, from City ad valorem taxes.

(2) The City makes payments equal to the principal only on the MUD's bonds from the same sources mentioned above. The utility construction contract between the MUD and the City provides that the City will own and operate the water and wastewater improvements upon completion of construction, retirement of all bonds, or upon annexation of the MUD. These bonds are secured by future ad valorem tax levies and a subordinate lien on and pledge of the net revenues of the Waterworks and Sewer System. The City intends to retire its portion of these bonds wholly from net revenues of the Waterworks and Sewer System.

Under these contracts, the MUDs have issued \$70,355,000 City of Austin, Texas Contract Revenue Bonds to provide funding for construction costs of the contract facilities. The bonds are limited obligations of the MUDs payable from and secured by a first lien on and pledge of payments to be made by the City pursuant to the utility construction contracts wherein the City has agreed to make semi-annual payments in amounts sufficient to pay principal and interest on the bonds, when due.

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

These bonds are secured by a subordinate lien on and pledge of the net revenues of the City's Waterworks and Sewer System.

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

In accordance with the criteria in NCGA Statement 7, the City's investment in the MUDs and related debt is accounted for in the Waterworks and Sewer System Fund. Upon completion of the contract facilities and acceptance thereof by the City, the investment will be reclassified as property, plant and equipment.

At the time of preparation of these financial statements, financial information was available for only one of the MUDs, the North Central Austin Growth Corridor MUD No. 1. The following information is taken from the most recent audited financial statements of the North Central Austin Growth Corridor MUD No. 1 dated September 30, 1984:

Assets	\$65,245,015
Liabilities	63,817,498
Equity	1,427,517
Revenues	725,945
Expenses	283,854
Net increase in retained earnings	442,091

Following is a schedule of outstanding contract revenue bonds at September 30, 1984, and related debt service requirements:

	Fiscal Year End	Outstanding Bonds at September 30, 1984	Aggregate Debt Service Requirements
North Central Austin Growth Corridor MUD No.1 ..	9/30	\$60,000,000	\$161,288,925
North Austin Growth Corridor MUD No.1	9/30	5,960,000	14,122,503
Northwest Travis County MUD No. 1	9/30	3,550,000	7,024,000
Springwoods MUD	9/30	845,000	1,522,637
		<u>\$70,355,000</u>	<u>\$183,958,065</u>

On November 1, 1983, the North Central Austin Growth Corridor MUD No. 1 issued \$60,000,000 Contract Revenue Bonds at interest rates ranging from 8.75% to 11.25% that mature serially on November 15 in each fiscal year from 1989 to 2008. Interest on the bonds is payable semiannually on November 15, and May 15 of each year beginning May 15, 1984. Total interest requirements over the remaining life of the bonds aggregate \$101,288,925. The bonds are redeemable on or after November 15, 1993, on any interest payment date.

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

The following table presents that portion of debt service requirements on contract revenue bonds outstanding at September 30, 1984 for which the City is liable.

Fiscal Year Ended Septem- ber 30	North Central Austin Growth Corridor MUD No. 1			Northwest Travis County MUD No. 1(1)			North Austin Growth Corridor MUD No. 1			Spring- woods MUD(1)			Total	
	Principal	Interest	Total	Principal	Principal	Interest	Total	Principal	Principal	Interest	Total	Principal	Interest	Total
1985	\$ —	\$ 5,994,050	\$ 5,994,050	\$ —	\$ —	\$ 684,778	\$ 684,778	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,678,828	\$ 6,678,828
1986	—	5,994,050	5,994,050	—	—	684,777	684,777	—	—	—	—	—	6,678,827	6,678,827
1987	—	5,994,050	5,994,050	350,000	150,000	684,778	834,778	100,000	600,000	—	—	—	6,678,828	7,278,828
1988	—	5,994,050	5,994,050	350,000	175,000	666,027	841,027	100,000	625,000	—	—	—	6,660,077	7,285,077
1989	1,000,000	5,937,800	6,937,800	350,000	200,000	644,153	844,153	100,000	1,650,000	—	—	—	6,581,953	8,231,953
1990	1,200,000	5,814,050	7,014,050	350,000	225,000	619,152	844,152	100,000	1,875,000	—	—	—	6,433,202	8,308,202
1991	1,300,000	5,673,425	6,973,425	350,000	250,000	591,028	841,028	100,000	2,000,000	—	—	—	6,264,453	8,264,453
1992	1,400,000	5,521,550	6,921,550	350,000	275,000	559,777	834,777	100,000	2,125,000	—	—	—	6,081,327	8,206,327
1993	1,500,000	5,358,425	6,858,425	350,000	300,000	525,403	825,403	100,000	2,250,000	—	—	—	5,883,828	8,133,828
1994	1,700,000	5,178,850	6,878,850	350,000	350,000	490,152	840,152	100,000	2,500,000	—	—	—	5,669,002	8,169,002
1995	1,900,000	5,000,525	6,900,525	350,000	400,000	452,528	852,528	45,000	2,695,000	—	—	—	5,453,053	8,148,053
1996	2,000,000	4,827,400	6,827,400	400,000	450,000	408,927	858,927	—	2,850,000	—	—	—	5,236,327	8,086,327
1997	2,200,000	4,636,200	6,836,200	—	500,000	359,428	859,428	—	2,700,000	—	—	—	4,995,628	7,695,628
1998	2,500,000	4,417,500	6,917,500	—	550,000	303,177	853,177	—	3,050,000	—	—	—	4,720,677	7,700,677
1999	2,700,000	4,170,400	6,870,400	—	625,000	239,928	864,928	—	3,325,000	—	—	—	4,410,328	7,735,328
2000	3,000,000	3,895,300	6,895,300	—	710,000	166,490	876,490	—	3,710,000	—	—	—	4,061,790	7,771,790
2001	3,300,000	3,588,100	6,888,100	—	800,000	82,000	882,000	—	4,100,000	—	—	—	3,670,100	7,770,100
2002	3,600,000	3,248,200	6,848,200	—	—	—	—	—	3,600,000	—	—	—	3,248,200	6,848,200
2003	4,000,000	2,870,000	6,870,000	—	—	—	—	—	4,000,000	—	—	—	2,870,000	6,870,000
2004	4,400,000	2,450,000	6,850,000	—	—	—	—	—	4,400,000	—	—	—	2,450,000	6,850,000
2005	4,800,000	1,990,000	6,790,000	—	—	—	—	—	4,800,000	—	—	—	1,990,000	6,790,000
2006	5,300,000	1,485,000	6,785,000	—	—	—	—	—	5,300,000	—	—	—	1,485,000	6,785,000
2007	5,800,000	930,000	6,730,000	—	—	—	—	—	5,800,000	—	—	—	930,000	6,730,000
2008	6,400,000	320,000	6,720,000	—	—	—	—	—	6,400,000	—	—	—	320,000	6,720,000
	<u>\$60,000,000</u>	<u>\$101,288,925</u>	<u>\$161,288,925</u>	<u>\$3,550,000</u>	<u>\$5,960,000</u>	<u>\$8,162,503</u>	<u>\$14,122,503</u>	<u>\$845,000</u>	<u>\$70,355,000</u>	<u>\$109,451,428</u>	<u>\$179,806,428</u>			

(1) The City is liable for principal only on these bonds.

(15) South Texas Project

The City was admitted to the South Texas Project (STP) in December 1973 with a 16% ownership as tenants in common with Houston Lighting and Power Company (the project manager), City Public Service of San Antonio and Central Power and Light Company. The South Texas Project was formed for the purpose of licensing, constructing and operating two 1250 megawatt nuclear generating units.

STP is governed by a management committee of four, with each participant appointing one member. As managing partner, Houston Lighting and Power Company appoints STP's management, and is responsible for overseeing the construction of the project, which is scheduled to begin operations in 1987. Most contract changes associated with STP must be approved by all four members of the management committee; thus, the City has some oversight capability. Each participant is responsible for its debt related to STP, the City's portion being financed through Revenue Bonds, Revenue Notes, and Certificates of Obligation repaid by the Electric Light and Power System Fund (see Note 9). In addition, each participant has the obligation to finance any deficits that may occur.

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

The City's portion of the South Texas Project is shown as construction work in progress on the Electric Light and Power System Fund balance sheet.

The City advanced approximately \$117,622,000 to the project manager during 1984 with total advances from inception of the project through September 30, 1984 totalling approximately \$478,014,000. Total advances to the project manager and expenditures made directly by the City related to the project at September 30, 1984 amounted to approximately \$532,387,000, as follows (in thousands of dollars):

Generating Station	\$470,167
Nuclear Fuel	52,213
345 KV Transmission Facility	1,679
City Internal Costs	2,259
Legal Costs	6,069
	<u>\$532,387</u>

In addition, the City had capitalized interest during construction of approximately \$178,403,000 as of September 30, 1984.

At September 30, 1984 the South Texas Project had total construction costs of approximately \$2,947,725,000, which includes costs incurred and not billed to participants of \$36,335,000 and excludes nuclear fuel amounting to \$327,148,000. These amounts were not examined by the City's independent auditors.

The following is a summary of financial information taken from the South Texas Project's audited financial statement dated December 31, 1983 and 1982, the project's fiscal year end. These statements were not examined by the City's independent auditors. Amounts presented are in thousands of dollars.

	December 31,	
	1983	1982
Project Costs:		
Construction costs	\$2,432,326	\$1,995,713
Nuclear fuel	267,768	222,094
Total project costs	2,700,094	2,217,807
Less: Amounts not yet funded by participants	(28,008)	(19,919)
Total participants' interest	<u>\$2,672,086</u>	<u>\$2,197,888</u>
Participants' Interests:		
City of Austin	\$ 427,860	\$ 351,988
City of San Antonio	749,171	616,396
Central Power and Light Company	672,941	553,443
Houston Lighting and Power Company	822,114	676,061
Total participants' interests	<u>\$2,672,086</u>	<u>\$2,197,888</u>

In September 1981, Brown and Root, Inc. (B&R), serving as architect-engineer, construction manager, and constructor was dismissed from its responsibility on the project as architect-engineer and construction manager. Subsequent to the dismissal of B&R as architect-engineer and construction manager, B&R informed the project manager that it would withdraw completely from the project. In

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

September 1981 and February 1982, a new engineering firm, Bechtel Power Corporation and construction firm, Ebasco Services Inc., respectively, were engaged to complete the project. Based on the most recent estimates available, total costs, excluding nuclear fuel, are anticipated to approximate \$5,500,000,000 and scheduled completion for Unit 1 and Unit 2 is June, 1987 and June, 1989 respectively. In the past, significant adjustments have been made to similar estimates. Therefore, there is no assurance the project cost will not exceed this estimate or that the project completion date will not be delayed.

On November 3, 1981, the citizens of Austin voted to grant the City Council the authority to sell its interest in the South Texas Project.

The City is involved in several lawsuits related to the South Texas Project. On December 16, 1981 Houston Lighting and Power Company (HLP, the project manager), acting on behalf of itself and the project management, filed suit against Brown & Root, Inc. (B&R, former architect-engineer, construction manager and constructor for the project) and its corporate parent, Halliburton Company. On December 26, 1981 the City and other participants in the South Texas Project subsequently intervened as plaintiffs in the suit. In their petitions, the participants and HLP have alleged that B&R materially misrepresented the level of engineering work that had been completed at the time the owners were induced to commence construction of the project, that B&R's performance of the construction contract was substandard and nonprofessional in various respects, which has resulted in delayed completion and increased costs of the project, and that B&R had materially breached the construction contract by refusing to continue as constructor after being relieved of its responsibilities for the engineering and design work on the project. No monetary damages have been assessed in the suit.

B&R has filed an answer and counterclaims against HLP in which it contends that its replacement as architect-engineer and construction manager constituted a material breach of the construction contract and that the delays and increased costs of the project were caused by, among other factors, acts and omissions of HLP as project manager, all of which have resulted in unspecified damages to B&R. No prediction can be made as to the outcome of this litigation.

On January 6, 1983, the City filed suit in Travis County against HLP and its parent company, Houston Industries, Inc. Under this suit, the City alleged that HLP had misrepresented the capabilities of B&R and failed to properly perform its duties as project manager for the South Texas Project. The City is seeking to have HLP ordered to take over the City's 16% interest in the South Texas Project and to pay back all monies the City has paid to date and all future sums to be paid by the City with respect to the South Texas Project. The City is also seeking to be relieved of all further obligations with respect to the South Texas Project 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 the South Texas Project. No prediction can be made as to the probable outcome should the matter ultimately proceed to trial and a judgment.

On January 15, 1983 the citizens of Austin, Texas voted to authorize the issuance of \$97,000,000 of additional revenue bonds to finance this project through 1983. On February 15, 1983, the City was served with a suit seeking to challenge the results of this bond election. The suit alleged certain irregularities in the election, primarily that the ballot was worded in such a way as to prejudice voters. On March 7, 1983, the District Court ruled in favor of the City finding that no such irregularities existed. On April 28, 1983, the finding of the District Court was appealed. On June 13, 1983, the Texas Court of Appeals affirmed the judgment of the District Court. On October 19, 1983, the Texas Supreme Court announced its affirmance of the Court of Appeals action. On November 2, 1983 the

CITY OF AUSTIN, TEXAS

UTILITY FUNDS

NOTES TO FINANCIAL STATEMENTS — (Continued)

September 30, 1984 and 1983

plaintiffs in the lawsuit filed a petition for a rehearing by the Texas Supreme Court. The Texas Supreme Court has denied the petition for rehearing. On April 2, 1984, the Supreme Court of the United States denied certiorari in the bond election lawsuit. This terminated, in the City's favor, the lawsuit filed in February of 1983, which challenged the City's authority to issue \$97,000,000 in utility revenue bonds for funding of STP.

On May 19, 1983, the City issued \$30,000,000 Certificates of Obligation for the purpose of interim funding for the South Texas Project. On May 19, 1983, following the issuance of the certificates, a lawsuit was filed in Travis County District Court challenging the issuance of said certificates. The City has filed an answer generally denying the allegations in said suit, and no further proceedings have transpired. The issuance of the certificates was approved by the Attorney General of Texas.

The City has not attempted to obtain voter approval for any additional revenue bonds for financing the South Texas Project. On March 1, 1984, the City Council authorized the issuance of \$605,000,000 revenue bonds which the City may use to fund its share of the estimated cost to complete the South Texas Project. This authorization was in compliance with State statutes even though the City's Charter requires voter approval prior to the authorization and issuance of revenue bonds. The City proceeded with a bond validation suit in state district court to validate the \$605,000,000 revenue bonds, 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 gave notice to appeal the decision. Two of the intervenors gave notice to appeal the district court's opinion validating the bonds. In addition, in a separate action, the City filed an expedited appeal to the district court's ruling that a surety bond need not be posted by the intervenors. The Court of Appeals heard arguments on the expedited appeal on August 8, 1984 and entered a judgment requiring the intervenors to post a \$2,000,000 bond in order to prosecute the appeal. The intervenor's appeal has been dismissed because of the failure to post the bond. The validation of the bonds was then appealed to the Texas Supreme Court which ruled in the City's favor.

In January 1985, as part of a Houston Lighting and Power Company rate proceeding, the Public Utility Commission of Texas (PUC) ordered that a separate proceeding be docketed by PUC staff to gather evidence and evaluate the economic viability of completing Unit 2 of the South Texas Project. To date, no proceeding has been docketed. Also as part of the findings in the rate proceeding, the PUC found that:

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

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

CITY OF AUSTIN, TEXAS

UTILITY FUNDS

NOTES TO FINANCIAL STATEMENTS — (Continued)

September 30, 1984 and 1983

The City is currently involved in negotiations for the settlement of several lawsuits related to the South Texas Project, as well as the sale or transfer of its interest in the South Texas Project. Any sale or transfer of the City's interest in the South Texas Project will require the unanimous approval of all other participants in the project as specified in the South Texas Project participation agreement. The probability of such negotiations resulting in a definitive agreement cannot be determined at this time.

The negotiations have included discussions relative to the City selling its interest in the South Texas Project for an amount significantly less than its total investment in the project. In the event of such sale or transfer, management of the City is of the opinion that the City's investment in the South Texas Project, for financial statement purposes, will be recovered through such sale or transfer of the project and/or future utility revenues. However, it is also possible that the City could remain contingently liable for debt assumed by a purchaser and for future funding obligations of such purchaser.

(16) Litigation

In November 1979, the Fayette Power Project entered in a contract dispute with its coal supplier which involves a claim by the supplier for an additional charge per ton of coal. The charge is based on increased mining costs claimed to be the result of regulations imposed by the State of Montana subsequent to the contract date. The Fayette Power Project is currently paying these charges under protest and expensing them through operations. A suit was filed in the U.S. District Court to recover the disputed payment. In November 1981, a judgment was obtained by the City and Lower Colorado River Authority for \$10.1 million plus interest which was transferred to an escrow account with a trustee. The judgment was appealed to the United States Court of Appeals which reversed the decision of the lower court. The Appeals Court decided the coal supplier was entitled to pass on to Fayette Power Project certain cost increases in the mining of coal purchased by the project. The judgment was appealed to the United States Supreme Court which declined to review the lower court's decision. The coal supplier requested and the Court granted arbitration as to the amount owed. This order was appealed to the Fifth Circuit. The appeal was dismissed and arbitration proceedings are now pending, but no arbitrator has been chosen.

All amounts paid under protest by the Fayette Power Project have been deposited in the escrow account. This escrow account, which includes the \$10.1 million judgment discussed above, subsequent payments made under protest and earnings on escrow balances, amounted to approximately \$28,791,863 at market value at December 31, 1984. This escrow account will remain in place until settlement of the matter.

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

(17) Commitments and Contingencies

The Utility Funds are committed under various certain leases for building and office space, tracts of land and right of ways, data processing and medical equipment. These leases are considered for accounting purposes to be operating leases. Lease expense for the year ended September 30, 1984 amounted to approximately \$848,000. The Utility Funds expect these leases to be replaced in the

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

ordinary course of business with similar leases. Future minimum lease payments for these leases should be approximately \$648,000 annually.

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

The following is an analysis of equipment leased under capital leases by type of equipment as of September 30, 1984:

	<u>Electric System Fund</u>
Machinery and equipment:	
Computer	\$397,318
Accumulated depreciation	<u>(28,380)</u>
	<u>\$368,938</u>

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments as of September 30, 1984:

<u>Year Ended September 30</u>	<u>Electric System Fund</u>
1985	\$101,628
1986	101,628
1987	101,628
1988	101,628
1989	<u>84,690</u>
Total minimum lease payments	491,202
Less: Amount representing interest	<u>103,615</u>
Present value of net minimum lease payments	<u>\$387,587</u>
Current portion	\$ 63,476
Long-term portion	\$324,111



**NORTH AUSTIN
MUNICIPAL UTILITY DISTRICT NO. 1**

**\$5,225,000
Unlimited Tax and Revenue Bonds
Series 1986**

**Selling Tuesday, March 18, 1986
at 12:00 PM, CST**

OFFICIAL STATEMENT DATED JANUARY 15, 1986

\$5,225,000

North Austin Municipal Utility District No. 1
Unlimited Tax and Revenue Bonds, Series 1986
(Travis and Williamson Counties, Texas)

Payment of the principal of and interest on the Bonds is secured by the levy of an annual ad valorem tax, without legal limitation as to rate or amount, against all taxable property within the District and by a pledge of and lien on the net revenues of the District's waterworks and sanitary sewer system.

Dated: April 1, 1986

Due: August 1, as shown below

The Bonds will be issued as fully registered Bonds in the denomination of \$5,000 or any integral multiple thereof for any maturity. Principal and semiannual interest (August 1, 1986 and thereafter each February 1 and August 1) is payable by Texas Commerce Bank, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check or draft, dated as of the interest payment date, and mailed on or before each interest payment date by the Paying Agent to registered holders as shown in the records of the Paying Agent/Registrar on the 15th day of the month next preceding each interest payment date.

<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
\$ 125,000	1990			\$ 300,000	1998		
150,000	1991			350,000	1999		
150,000	1992			375,000	2000		
175,000	1993			425,000	2001		
200,000	1994			475,000	2002		
225,000	1995			525,000	2003		
250,000	1996			575,000	2004		
275,000	1997			650,000	2005		

The Bonds are offered for delivery when, as, and if issued, and subject to the unqualified approval of the Attorney General of Texas and of Brown Maroney Rose Barber & Dye, Austin, Texas, Bond Counsel, whose approving opinion will be printed on the Bonds (see "Tax Exemption and Pending Legislation"). It is expected that the Bonds will be delivered on or about April 22, 1986.

DISTRICT OFFICIALS

Steve D. Pena President
 Charles Morrison Vice President
 David W. Gray Secretary/Treasurer
 Ben J. Dukes Assistant Secretary/Treasurer
 Barrett D. Allison Director
 Am-Tex Corporation General Manager

BOARD OF DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Occupation</u>
Steve D. Pena President	1717 N. IH-35, Suite 300 Round Rock, TX 78680	Partner/Pena Swayze & Co. - Certified Public Accountants
Charles Morrison Vice President	1006 Perry Brooks Bldg. Austin, TX 78701	Owner/Morrison Properties - Real Estate Investments
David W. Gray Secretary/Treasurer	12212-H Technology Blvd. Austin, TX 78727	Partner/Haynie Kallman & Gray Inc. - Registered Civil Engineer
Ben J. Dukes Assistant Secretary	300 Barton Springs Road Austin, TX 78704	Executive Director/Austin Assn. of General Contractors
Barrett D. Allison Director	10701 Pinehurst Dr. Austin, TX 78747	Vice President/Retama Development Corp. - Land Developer

DISTRICT CONSULTANTS

Brown Maroney Rose Barber & Dye Bond Counsel
 Austin, Texas

Armbrust & Brown General Counsel
 Austin, Texas

Carlson & Dippel District Engineer
 Austin, Texas

Lanier Locke & Ritter Auditor
 Austin, Texas

Texas Capital Markets Group, Inc..... Financial Advisor
 Austin, Texas

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

TABLE OF CONTENTS

	<u>Page</u>
Official Statement Summary	4
Map of the District's Location	5
The Bonds	7
Paying Agent/Registrar	9
Tax Rate Limitation	9
The District	10
The Project	10
Need for the Improvements	10
Basis of Design	11
Estimated Disposition of Bond Proceeds	11
Debt Service Requirements	12
Valuation and Debt Information	13
Valuation and Funded Debt History	13
Estimated Overlapping Funded Debt Payable from Ad Valorem Taxes	14
Tax Data	14
Tax Adequacy	14
Top Ten Taxpayers	15
Unfunded Debt and Lease Obligations	15
Contract Bonds	15
Agreement for Water and Sewer Service	15
District Development Status	16
District Management	16
Map of Present Developed Sections	17
The Developers	18
The Water and Wastewater System	18
Sewage Capacity.....	19
Storm Drainage System	20
Water and Wastewater Service Rates, Charges and Tap Fees.....	20
General and Economic Information Regarding the District and its Surrounding Area	22
Bond Resolution	23
Risk Factors	24
Tax Exemption and Pending Legislation	26
Legal Opinions and No-Litigation Certificate	27
Registration and Qualification of Bonds for Sale	28
Legal Investments in Texas	28
Authenticity of Financial Information	29
Financial Advisor	29
Certification of the Official Statement	29
Projected Tax Rate Calculations	Appendix A
Projected Pro forma of District Contract Payments to City of Austin ..	Appendix B
Financial Statements, North Austin Municipal Utility District No. 1, For Year Ending December 31, 1984	Appendix C

OFFICIAL STATEMENT SUMMARY

The following material is qualified in all respects by more complete information and financial statements contained in this Official Statement.

The Issuer..... North Austin Municipal Utility District No. 1 (the "District") is a governmental agency of the State of Texas located in Travis and Williamson Counties, Texas.

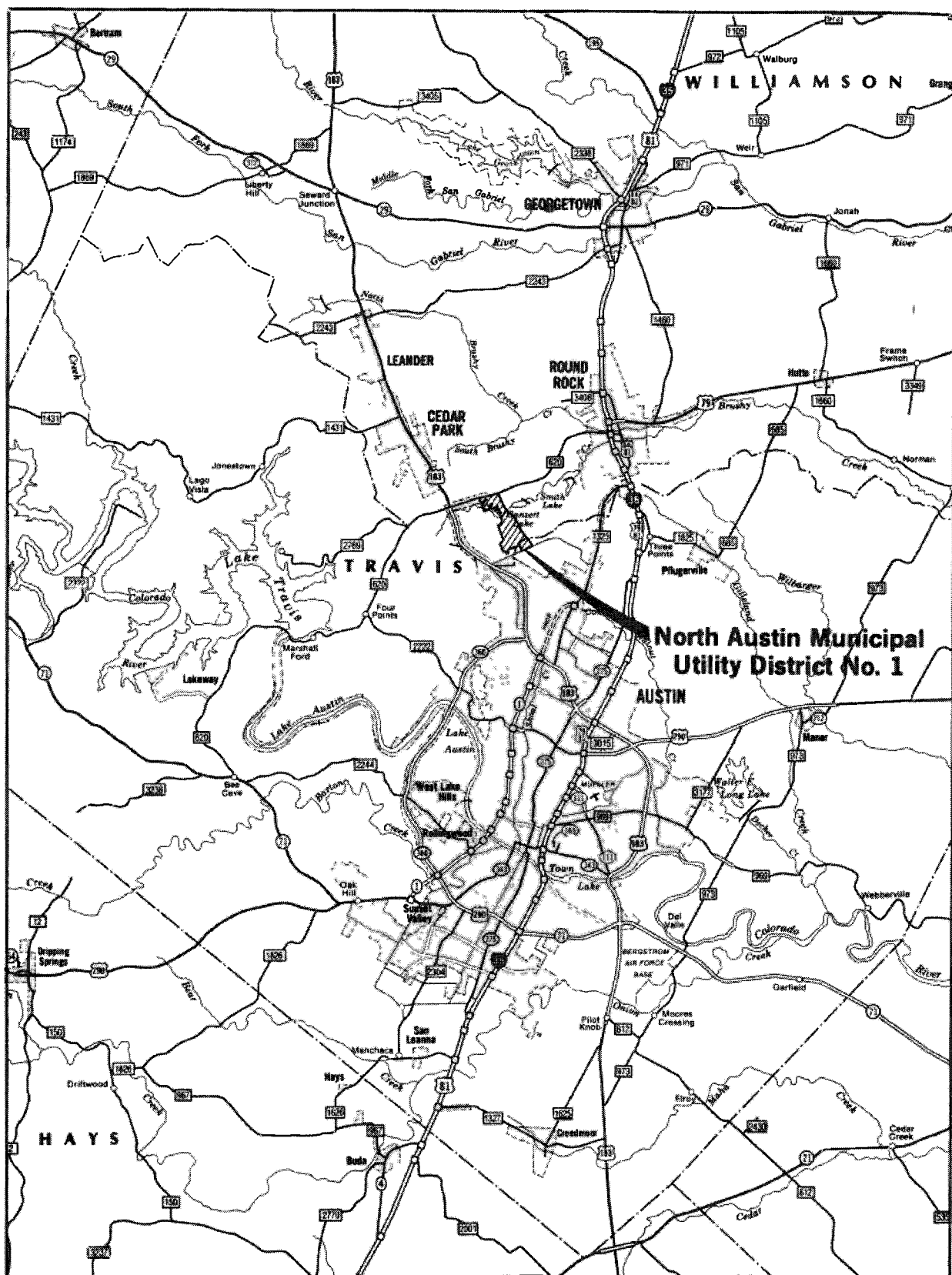
The Issue..... \$5,225,000 Unlimited Tax and Revenue Bonds, Series 1986 (the "Bonds") will be issued pursuant to a resolution (the "Bond Resolution") of the Board of Directors of the District.

Source of Payment..... Payment of the principal of and interest on the Bonds is secured by the levy of an annual ad valorem tax, without legal limitation as to rate or amount, against all taxable property within the District and by a pledge of and lien on the net revenues of the District's waterworks and sanitary sewer system. The Bonds are obligations only of North Austin Municipal Utility District No. 1 and are not obligations of the City of Austin or any other entity.

Use of Proceeds..... Proceeds of the Bonds will be used to (1) purchase a lift station, force main and water distribution facilities; (2) capitalize interest on the Bonds for a period of two years; (3) reimburse developer; and (4) pay certain costs of issuance, all in compliance with the Order of the Commission approving issuance of the bonds.

Rating..... Ratings on the Bonds have not been requested of Moody's Investors Service, Inc. or Standard & Poor's Corporation. In that prospective purchasers have no independent opinion of investment quality on which to rely, all prospective purchasers are urged to examine carefully the Official Statement with respect to the investment security of the Bonds.

Legal Investments..... Under Texas law, the Bonds are legal investments for all banks, trust companies, savings and loan associations, insurance companies, fiduciaries and trustees. The Bonds are eligible to secure all deposits of public funds of the State of Texas and all instrumentalities of the State, including counties, cities and school districts.



THIS PAGE INTENTIONALLY LEFT BLANK

**OFFICIAL STATEMENT
RELATED TO
\$5,225,000
North Austin Municipal Utility District No. 1
Unlimited Tax and Revenue Bonds, Series 1986
(Travis and Williamson Counties, Texas)**

The purpose of this Official Statement is to set forth certain information in connection with the issuance of the above-captioned bonds (the "Bonds") by the North Austin Municipal Utility District No. 1 (the "District").

THE BONDS

Description

The Bonds will be dated April 1, 1986, will bear interest at the rates and will mature in the amounts and on the dates set forth on the cover page of this Official Statement. Interest will be payable on August 1, 1986 and semiannually thereafter on February 1 and August 1.

The Bonds will be issuable as fully registered bonds without coupons in the denomination of \$5,000 or any integral multiple thereof for any one maturity.

Principal of the Bonds will be payable to the registered holder at maturity or redemption upon presentation to the Texas Commerce Bank, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check or draft, dated as of the interest payment date, and sent by U.S. mail, first class postage prepaid, on or before the interest payment date, by the Paying Agent/Registrar to registered holders as shown in the records of the Paying Agent/Registrar on the Record Date.

Record Date

The Record Date shall be the 15th day of the month next preceding any interest payment date.

Optional Redemption

The Bonds maturing on or after August 1, 1997 will be redeemable on or after August 1, 1996 at the option of the District, as a whole at any time or in part in principal amounts of \$5,000 or any multiple thereof on any interest payment date at the respective redemption prices, expressed as percentages of the principal amount of the Bonds to be redeemed, set forth below, together with accrued interest to the redemption date:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption</u> <u>Prices</u>
August 1, 1996 to July 31, 1997	101.5%
August 1, 1997 to July 31, 1998	101.0
August 1, 1998 to July 31, 1999	100.5
August 1, 1999 and thereafter	100.0

Extraordinary Optional Redemption

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

<u>Redemption Period</u>	<u>Redemption Price</u>
Date of Delivery of the Bonds to July 31, 1996	103.0%
August 1, 1996 to July 31, 1997	101.5
August 1, 1997 to July 31, 1998	101.0
August 1, 1998 to July 31, 1999	100.5
August 1, 1999 and thereafter	100.0

Notice of Redemption

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

Sale to Initial Purchaser

After requesting and receiving competitive bids for the Bonds, the District will accept the bid containing the lowest net effective interest rate. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds will be subsequently sold, and the initial yield prices at which the Bonds will be reoffered will be established by and will be the sole responsibility of the Initial Purchaser.

PAYING AGENT/REGISTRAR

Registration, Transfer and Exchange

The Bonds may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the holder, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the principal office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered holder at the holder's request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered holder or assignee of the holder in not more than three (3) business days after the receipt of the Bonds to be cancelled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the holder or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

Successor Paying Agent/Registrars

If the Paying Agent/Registrar becomes unable for any reason to act as Paying Agent/Registrar, or if the Board of Directors of the District determines that a successor Paying Agent/Registrar should be appointed, a successor Paying Agent/Registrar shall be selected by the District. Any successor Paying Agent/Registrar shall be either a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

TAX RATE LIMITATION

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct annual ad valorem tax sufficient to pay principal of and interest on the Bonds, the Series 1985 Bonds and any future bonds which may be authorized and issued from time to time without legal limit as to rate or amount. Additionally, the District has the statutory authority to levy a maintenance tax in an amount not to exceed \$1.50 per \$100 assessed valuation as approved by the voters within the District on April 3, 1982. The proceeds of the maintenance tax can be used for maintaining and operating the District's facilities and for making contract payments to the City of Austin for water and sewer service. See Agreement for Water and Sewer Service.

THE DISTRICT

The District was created by order of the Texas Water Commission on November 15, 1983, and confirmed by an election held within the District on February 18, 1984. The District contains 997.690 acres of land and is located adjacent to the Northwestern City limits approximately 10 miles from the central business district of the City. Approximately 11.61 acres of the District lie within the City limits.

Of the 997.690 acres located within the District, approximately 290.000 acres have been developed into single-family and multifamily residences and into commercial developments. The remaining 707.690 acres include approximately 13.700 acres for schools, 64.000 acres for park land and 630.000 acres of raw land. The school and parkland acreage is excluded from the District's ad valorem tax rolls.

Currently, 416 residential units are occupied and an additional 47 units are complete and ready for occupancy. There are 102 additional units in various stages of construction, with new starts occurring daily. Residential development within the District includes single family and apartment units.

Upon buildout, land within the District is expected to accommodate approximately 23,401 persons and to contain approximately 8,333 residential water and sewer connections.

The land within the District is being developed by the Milwood Joint Venture II. See "The Developers" for more information.

The assessed valuation of the District was \$43,743,698 as of January 1, 1985. The estimated assessed valuation as of January 1, 1986 is \$69,500,000. (1)

(1) Source: Williamson County Appraisal District.

THE PROJECT

Proceeds from the sale of the Bonds will be used to purchase approximately 22,965 feet of water distribution lines. These lines range in diameter from 24" to 48" and are the Jollyville and North Parmer Lane water mains. Bond funds will also be used to purchase a temporary Walnut Creek pumpover, including a 2,200 gpm lift station and 1,971 feet of 14" DIP force main and appurtenances.

NEED FOR THE IMPROVEMENTS

The proposed bond issue project is needed so City of Austin water and wastewater service can be extended to the District as well as areas outside the District. Anticipated development in the District could not occur without the proposed facilities.

BASIS OF DESIGN

The proposed facilities have been designed to meet the requirements and criteria of the Texas Department of Health, Travis County, Williamson County and City of Austin. Sizing of the facilities was based on the estimated needs of the anticipated development and existing flows in the service area and coordinated with the City of Austin.

ESTIMATED DISPOSITION OF BOND PROCEEDS

The estimated disposition of Bond proceeds is set forth below. These estimates have been provided by the District's engineer and are based on completed Project construction expenditures, including construction change orders.

Construction Costs

Jollyville Waterline	\$1,487,994
North Parmer Waterline	832,611
Temporary Walnut Creek Pumpover	75,672
Engineering	203,684
City of Austin Inspection Fees	<u>104,932</u>

Subtotal \$2,704,893

Non-Construction Costs

Developer Interest	\$ 727,250
Bond Discount	104,500(1)
Capitalized Interest	1,149,500(2)
Legal, Fiscal and other costs of issuance	<u>538,857</u>

Subtotal \$2,520,107

TOTAL \$5,225,000

(1) 2% of Bond Issue

(2) The District will capitalize two years of interest at the rate of the Bonds, not to exceed \$1,149,500.

\$5,225,000
 Unlimited Tax and Revenue Bonds, Series 1986
PROJECTED DEBT SERVICE REQUIREMENTS
 (Dated 4/1/86)

Fiscal Year Ending 9/30	Principal	Interest (1)	Total Requirements
1986	\$	\$ 191,583	\$ 191,583
1987		574,750	574,750
1988		574,750	574,750
1989		574,750	574,750
1990	125,000	574,750	699,750
1991	150,000	561,000	711,000
1992	150,000	544,500	694,500
1993	175,000	528,000	703,000
1994	200,000	508,750	708,750
1995	225,000	486,750	711,750
1996	250,000	462,000	712,000
1997	275,000	434,500	709,500
1998	300,000	404,250	704,250
1999	350,000	371,250	721,250
2000	375,000	332,750	707,750
2001	425,000	291,500	716,500
2002	475,000	244,750	719,750
2003	525,000	192,500	717,500
2004	575,000	134,750	709,750
2005	<u>650,000</u>	<u>71,500</u>	<u>721,500</u>
	<u>\$5,225,000</u>	<u>\$8,059,333</u>	<u>\$13,284,333</u>

AVERAGE LIFE

14.022 Years

(1) Interest has been calculated at a rate of 11.00% per annum for purposes of illustration.

VALUATION AND DEBT INFORMATION
(As of 01/01/86)

1985 Net Taxable Assessed Valuation..... \$ 43,743,698 (1)(2)

District Funded Debt Payable from
Ad Valorem Taxes

The Contract Bonds 5,674,030 (3)

The Bonds..... \$ 5,225,000

TOTAL..... \$ 10,899,030

Ratio Total Debt to 1985 Net Taxable
Assessed Valuation..... 24.92%

1986 Estimated Net Taxable Assessed Valuation.... \$ 69,500,000(1)(2)(4)

Ratio Total Debt to 1986 Estimated Net Taxable
Assessed Valuation..... 15.68%

1985 District Population Estimate - 1,248 (5)
Per Capita Net Debt - \$8,733
Area - 997.690 acres

- (1) Source: Williamson County Appraisal District
- (2) The District does allow property tax exemptions for disabled veterans only.
- (3) Prior to the issuance of the bonds, the District issued \$16,300,000 of City of Austin Contract Bonds. The District is obligated to pay 34.81% of the debt service attributable to the contract bonds. Payment of the District's share of the principal and interest on the contract bonds is secured by a pledge of first lien on certain revenues. Should these revenues not cover the debt service payments, the District is obligated to raise an ad valorem tax for the rest of the payment.
- (4) All assessed values are estimated at 100% of market value in compliance with the new property tax code of the State of Texas.
- (5) Source: The District

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Assessed Valuation	Funded Debt Outstanding at Year End	Ratio Funded Debt to Net Taxable Assessed Valuation
1984-85 (1)	\$ 2,291,152	\$ -0-	-0-
1985-86	43,743,698	10,899,030	24.92%

- (1) The 1984-85 fiscal year was the first year the District assessed and levied a tax.

ESTIMATED OVERLAPPING FUNDED DEBT PAYABLE FROM AD VALOREM TAXES
(As of 01-01-86)

<u>Taxing Jurisdiction</u>	<u>Total Funded Debt</u>	<u>% (1) Applicable</u>	<u>Overlapping Funded Debt</u>
The District	\$ 10,899,030(2)(3)	100.00%	\$10,899,030
Round Rock Independent School District	117,868,000	1.18%	1,390,842
Travis County	36,580,000	1.37%	501,146
Williamson County	0	.26%	0
TOTAL OVERLAPPING DEBT			<u>\$12,791,018</u>

Ratio Overlapping Funded Debt to 1986 Estimated
Net Taxable Assessed Valuation..... 18.40%

- (1) Source: Williamson County Appraisal District
(2) Includes this issue
(3) Includes contract bonds

TAX DATA

<u>Fiscal Year</u>	<u>Net Taxable Assessed Valuation</u>	<u>Bond Tax</u>	<u>Operation and Maintenance Tax</u>	<u>Current Collection (1)</u>	<u>Total Collection (1)</u>
1984-85	\$ 2,291,152	\$ 0	\$0.40	99.7%	99.7%
1985-86	\$43,743,698	\$ 0	\$0.40	(2)	(2)

- (1) Source: The District
(2) Tax bills for the current tax year were sent out December 15, 1985.

TAX ADEQUACY

1985 Net Taxable Assessed Valuation \$ 43,743,698 (1)
Maximum Annual Debt Service Requirements
(includes this issue at 11.00%) \$ 1,414,567 (2)
A Tax Rate of \$3.41 per \$100 of 1985 Net Taxable
Assessed Valuation assuming a 95% collection,
produces \$ 1,417,077

1986 Estimated Net Taxable Assessed Valuation \$ 69,500,000 (1)
Maximum Annual Debt Service Requirements
(includes this issue at 11.00%) \$ 1,414,567 (2)
A Tax Rate of \$2.15 per \$100 of 1986 Estimated Net
Taxable Assessed Valuation assuming a 95% collection,
produces \$ 1,419,537

- (1) Assessed Valuation as of January 1.
(2) Includes the District's pro rata share of the contract bonds and the Series 1986 Bonds.

TOP TEN TAXPAYERS

Name of Taxpayer	Nature of Property	1985 Assessed Valuation	% of Total Assessed Valuation
1. Milwood Joint Venture II	Residential	\$15,215,703	34.78%
2. Austin 620 Joint Venture	Residential	11,591,185	26.50
3. Miltex	Residential	10,187,868	23.29
4. Bill Milburn, Inc.	Residential	1,180,475	2.70
5. Southern Union Gas	Utilities	700,000	1.60
6. Southwestern Bell	Utilities	150,000	.34
7. Milburn Cable Co.	Commercial	125,000	.29
8. George Sears	Residential	122,867	.28
9. Frank & Carolyn Alan	Residential	117,856	.27
10. R. M. Rongerio	Residential	116,661	.27
TOTAL		\$39,507,615	90.32%

UNFUNDED DEBT AND LEASE OBLIGATIONS

The District currently has no outstanding unfunded debt or lease obligations.

CONTRACT BONDS

On February 21, 1984, the City of Austin (the "City") entered into a Utility Construction Contract (the "Contract") with the District. Under the terms of the Contract, the District has agreed to acquire and construct certain water and wastewater facilities for the benefit of the City and to issue City of Austin Contract Bonds to provide financing for such purpose. Pursuant to the Contract, the District issued its \$16,300,000 City of Austin, Texas Contract Bonds, Series 1985, dated December 1, 1985.

The District is obligated to pay 34.81% of the debt service attributable to the Contract Bonds.

Payment of the principal and interest on the Contract Bonds is secured by a pledge of and first lien on certain revenues and or taxes to be received by the District pursuant to the Contract, wherein the City has agreed to make semiannual payments to the District's Trustee in amounts sufficient to pay principal of and interest on the Contract Bonds when due.

AGREEMENT FOR WATER AND SEWER SERVICE

Simultaneously with entering into the Utility Construction Agreement as described above, the District entered into another agreement with the City entitled Agreement Concerning Creation and Operation of North Austin Municipal Utility District No. 1 (the "Agreement"). The Agreement has been amended and any references to the Agreement are as amended. The Agreement provides, among other matters, that the City shall provide water and sanitary sewer service to the District and that the District shall pay for such service at rates to be established by the District, which shall not be less than the rates established by the City for comparable customers within the City, and the District shall, in

addition, make semiannual payments to the City equal to a pro rata share of the debt service payments to be made by the City pursuant to the Contract. The Agreement also provides that the District will establish a special water and sewer service base rate. The District has set this rate at \$18.20 per month for each single family residential customer, or the equivalent, of the District's water or sewer system as calculated under the terms of the Agreement. All such revenues, as collected, are to be paid over to the City and credited by the City, first against the semiannual payments due the City from the District, and thereafter against amounts due the City for water and sewer service.

See "SEWAGE CAPACITY" for explanation of the current status of the supply of sanitary sewer service to the District by the City and for a discussion of the efforts being undertaken by the District to supply sanitary sewer service to its new customers.

See Appendix B for a PROJECTED PRO FORMA OF DISTRICT CONTRACT PAYMENTS TO THE CITY OF AUSTIN.

DISTRICT DEVELOPMENT STATUS

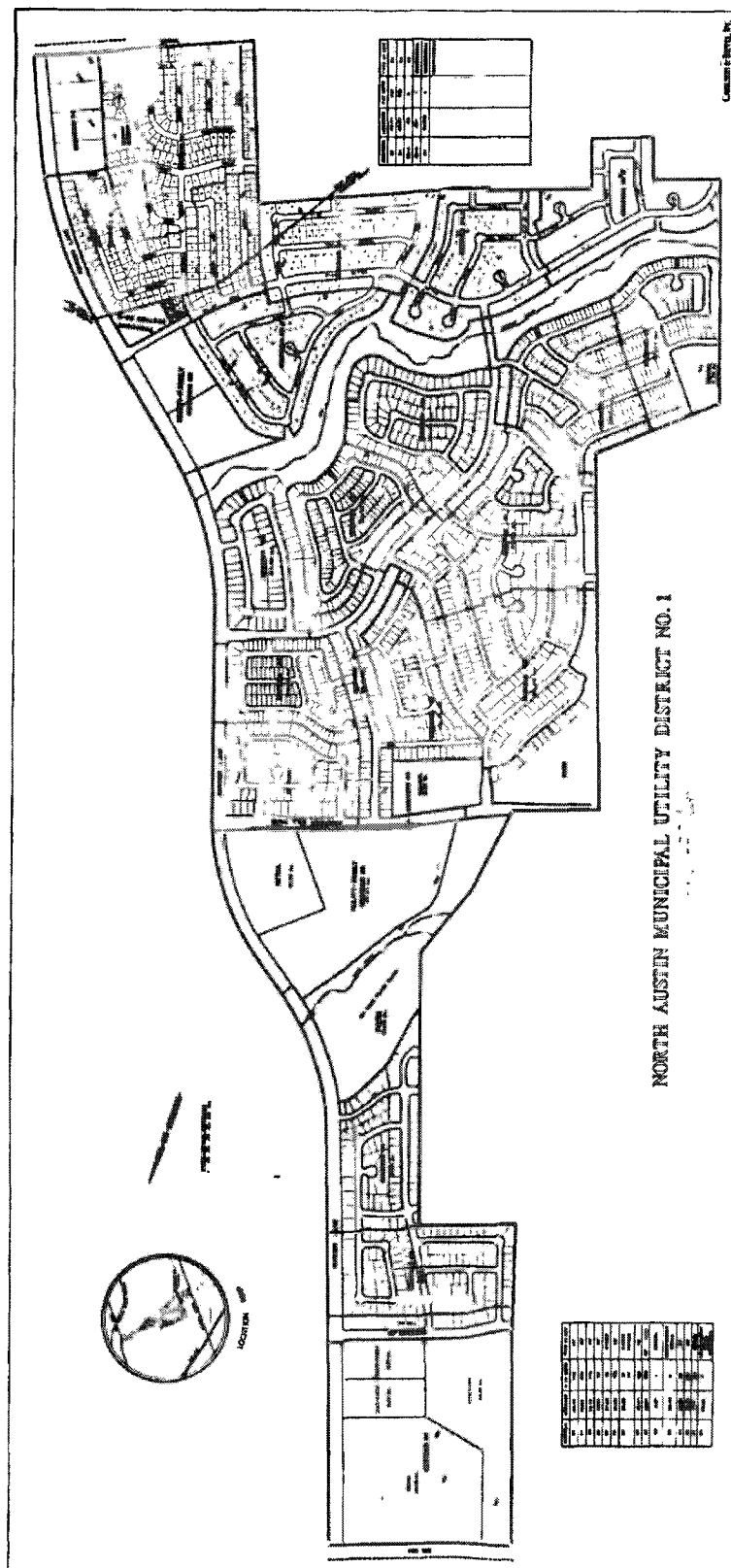
Residential development within the District includes single family, duplex, fourplex and apartment units.

As of January 15, 1986, the District's development status of residential units is as follows:

<u>Units Started</u>	<u>Units Completed</u>	<u>Units Occupied</u>
518	453	416

DISTRICT MANAGEMENT

The District is governed by a Board of five Directors, all of whom own property in the District subject to a note and deed of trust in favor of the Developer. The Board meets monthly and has control over and management supervision of all affairs of the District. The general management of the facilities and administrative duties are handled by Am-Tex Corporation. Toni Rucker is associated with Am-Tex and is in charge of this account.



THE DEVELOPERS

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

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

Milburn, one of the largest individually-owned homebuilding and development firms in the nation (45th-1981), has operated in the City since 1961. Milburn is presently developing land and building homes in Austin, Cedar Park, Oak Hill and Round Rock, Texas. Current subdivision activity includes Milwood, Anderson Mill West, Maple Run, Texas Oaks, Shadow Ridge Crossing, Fern Bluff, The Settlement, Stony Brook, Oakmont Crossing, Willow Run and Windmill Run. Milburn has developed more than 4,000 acres and built and sold over 15,000 homes in the past 15 years. Milburn is the only home builder in the District.

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

THE WATER AND WASTEWATER SYSTEM

The City agrees to sell and to deliver to the District all water reasonably required by users within the boundaries of the District for domestic and commercial uses, such water to be supplied from the City's water distribution system as extended by the District pursuant to the Agreement, at a point or points of delivery adjacent to the boundaries of the District to be designated by the District's engineer and approved by the City. The sale of water to the District shall be nondiscriminatory and shall be uniform with the policy or policies established by the Austin City Council for the provision of utilities outside the City limits. Water as used in this context means potable water meeting the requirements of the Texas Department of Health for human consumption and other domestic uses. The City will increase its present facility size and maintain an adequate water supply to provide service to the District.

The City shall furnish, install, operate and maintain, at its expense, at each point of delivery to the District, the necessary metering devices to measure the water delivered to the District under this Contract. The District shall furnish and install a meter house or pit and appurtenances to accept the water meter. The City shall calibrate the metering equipment whenever requested by the District, but no more frequently than once every twelve (12) months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure, unless the City and the District agree on a different amount. The metering equipment shall be read once each calendar month.

SEWAGE CAPACITY

Pursuant to the Agreement, the City agreed to receive, treat and dispose of all sewage collected by the District and delivered to the City at a point or points of delivery into the City's sanitary sewer trunk line as extended by the District pursuant to the Agreement, said point or points of delivery to be designated by the District's engineer and approved by the City. In the Agreement, the City covenanted that sewage treatment and disposal services provided to the District shall be nondiscriminatory and uniform with the policy or policies established by the Austin City Council for the provision of utilities outside the City limits. In the Agreement, the City covenanted that it would construct and maintain adequate sewage treatment capacity to provide service to the District. According to the District's engineer's design criteria, this contractual capacity would be adequate for full District development, assuming that the City's sewage treatment facilities are adequate to meet their contractual obligations. The City receives, treats and disposes of sewage collected by the District at its Walnut Creek Wastewater Treatment Facility (the "Walnut Creek Facility").

STORM DRAINAGE SYSTEM

The District's storm drainage system has been reviewed and approved by the City of Austin. The City has also inspected and approved the construction of this system.

WATER AND WASTEWATER SERVICE RATES, CHARGES AND TAP FEES

Monthly Sewer Rates Per Connection (Effective November 1, 1985)

A. Usage Charge per connection (includes 2,000 gallons)	\$5.10
B. Gallonage Charge (per 1,000 gallons)	\$3.28

Monthly Water Rates Per Living Unit Equivalent (Effective November 1, 1985)

A. Usage Charge per Living Unit Equivalent (includes 2,000 gallons)	\$4.55
B. Gallonage Charge (per 1,000 gallons)	\$2.03

Monthly Water and Sewer Surcharge. In addition to the regular water and sewer rates of the District, the District shall charge and collect a special water and sewer service base rate. The District has set this rate at \$18.20 per month for each single family residential customer or its equivalent in accordance with the Agreement as amended.

All Services Required. Except as otherwise expressly authorized in the Rules, no service shall be provided by and through the District's Systems unless the applicant agrees to take both water and wastewater service.

All Services Charged. At no time shall the District render water and/or sewer services without charge to any person, firm, corporation, organization or entity.

Tap and Inspection Fees

The District's water tap fees shall be as follows:

<u>Meter Size</u>	<u>Tap Fee</u>
5/8"	\$300.00
3/4"	\$425.00
1"	\$650.00
1-1/2" and over 1-1/2"	To be installed by the District at cost times 3

The District's sanitary sewer tap fees shall be as follows:

Residential	\$ 100.00
Commercial	\$1,000.00

Sewer tap installation involving excavation of the sewer main shall be performed by the District at cost plus 25% in addition to the above sewer tap fee.

If more than one (1) inspection is required before a tap is approved by the District, the fee for each additional inspection shall be \$75.00.

Security Deposit. A security deposit per connection shall be paid to the District's representative by each customer in the following amounts:

<u>Meter Size</u>	<u>Security Deposit</u>
5/8"	\$ 50.00
3/4"	\$ 75.00
1"	\$150.00
1-1/2"	\$250.00
2"	\$375.00
over 2"	3 times estimated monthly usage

Security deposits shall not be transferable and shall be held by the District to assure the prompt payment of all bills for water and wastewater services to the customer. Following eight (8) months of prompt payment, when due, of the District's utility bills, a customer who owns and occupies a residence within the District shall, upon written request to the District's representative, be entitled to a refund of its security deposit; provided, however, that the district may require the customer to replace the security deposit in the event the customer thereafter makes late payments for two (2) or more consecutive months. At its option, the district may apply all or any part of a customer's security deposit against any delinquent bill of the customer. Upon discontinuation of service, the deposit shall be applied against amounts due, including any disconnection fees, whether because of the customer's delinquency or upon the customer's request. Any portion of the deposit remaining after deduction of such amounts shall be refunded to the customer. In no event shall the security deposit bear interest for the benefit of the customer.

Additional Charges. Any non-routine charges incurred by the District in connection with any water tap, sewer tap and/or inspection shall be the responsibility of the applicant for such connection and shall be payable to the District upon demand.

Charges for Reconnection. In the event of any discontinuation of service, whether because of a customer's delinquency or upon a customer's request, the District shall charge the following charge per connection prior to reconnecting such customers:

1. Water System
 - a. when meter removed \$100.00
 - b. when meter not removed \$ 40.00
2. Wastewater System - Two times the cost to the District.

Delinquent Accounts. A late charge of ten percent (10%) of the amount of the bill shall be added for each monthly billing date the delinquent amount remains unpaid. If a bill remains delinquent for thirty (30) days, or is paid with a check which is dishonored, water service shall be discontinued in accordance with this paragraph. The customer shall be notified in the next billing after such thirty (30) day period of the delinquency and the date upon which water service shall be terminated if the account is not paid, which date shall be not less than five (5) days from the date such notice is sent. Such notice shall state the time and place at which the account may be paid and that any errors in the bill may be corrected by contacting the District's representative, whose telephone number shall also be given in such notice. A similar notice shall be left by the District's representative on the door at the address to which the service in question was provided.

GENERAL AND ECONOMIC INFORMATION REGARDING THE DISTRICT AND ITS SURROUNDING AREA

Employers

There are several major employers within close proximity of the District. These include Schlumberger, Texas Instruments, Abbott Labs, Columbia Scientific, IBM, Tandem and MCC. The District is located only 11 miles north of the central business district of Austin.

Retail Centers

The District is primarily dependent upon strip centers located along U.S. Highway 183. The largest shopping mall within close proximity is the Arboretum.

Schools

The District is located in the Round Rock Independent School District which has an enrollment for the 1985-86 school year of 16,370. The school district consists of two high schools, four middle schools and 13 elementary schools. Five more schools are under construction this year.

Recreational Facilities

Sixty-four acres have been set aside for parkland and playground equipment. There is a five to six acre park with recreational facilities being built in the District.

BOND RESOLUTION

General. The Bond Resolution authorizes the issuance and sale of the Bonds and prescribes terms, conditions and provisions for the payment of principal of and interest on the Bonds by the District. Set forth below is a summary of certain provisions of the Bond Resolution. Capitalized terms in such summary are used as defined in the Bond Resolution. Such summary is not a complete description of the entire Bond Resolution and is qualified by reference to the Bond Resolution, copies of which are available from the District's Financial Advisor upon request.

Security. The Bonds are secured by and payable from the levy of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, upon all taxable property within the District.

Funds. The Bond Resolution affirms the creation of the following funds: (1) the Debt Service Fund, and (2) the 1986 Construction Fund. Each fund is to be kept separate from other funds of the District and used solely as provided in the Bond Resolution so long as any of the Bonds are outstanding. The District reserves the right to invest the moneys on deposit in such funds, and all profits or interest income realized from such investments will belong to the fund from which the moneys for the investment were taken, provided that the Board of Directors may authorize the transfer of profits or interest income on any investment to the Debt Service Fund.

Flow of Funds. Taxes levied and collected by the District pursuant to the provisions of the Bond Resolution, after paying the expenses incurred in connection with the levy and collection of such taxes, are to be deposited into the applicable debt service funds for the payment of debt service on the Bonds, and any additional unlimited tax bonds.

Debt Service. The Bond Resolution provides that the District will transfer from the Debt Service Fund to the Registrar, no later than five business days prior to any principal or interest payment date on the Bonds, an amount sufficient to pay the principal and/or interest due on such payment date.

Bond Proceeds. From the proceeds of the Bonds, the District will deposit in the Debt Service Fund an amount sufficient to pay two (2) years of interest on the Bonds. In addition, moneys received from the purchasers of the Bonds representing accrued interest on the Bonds from their date to the date of delivery, will be deposited into the 1986 Debt Service Fund. All other Bond proceeds will be deposited into the 1986 Construction Fund. The District covenants to use the Bond proceeds in such manner that the Bonds will not be "arbitrage bonds" under Section 103(c)(2) of the Internal Revenue Code of 1954, as amended, and the regulations prescribed from time to time thereunder.

Redemption Provisions. Bonds maturing on or after August 1, 1997, may be redeemed by the District, in whole or in part, prior to their scheduled maturities, on August 1, 1996, or on any interest payment date thereafter, at the respective redemption prices, expressed as percentages of the principal amount of the Bonds to be redeemed plus accrued interest to the date fixed for redemption. On any date four years after annexation by the City, the Bonds are subject to redemption at the option of the City. The Bonds may be so redeemed as a whole on any date at the redemption price, expressed as a percentage of the principal amount plus accrued interest to the date of redemption. Notice of each

exercise of the right of redemption shall be given at least thirty (30) days prior to the date fixed for redemption by sending such notice by certified or registered mail to each of the Registered Owners of the Bonds and by publishing notice one time in a financial newspaper, journal or publication of general circulation in the city of New York, New York, and in the state of Texas. When Bonds or portions thereof have been called for redemption, the right of the holders of such Bonds to collect interest which would otherwise accrue on such Bonds, or the portions thereof called for redemption, after the date fixed for redemption will be terminated. If less than all of the Bonds are redeemed, the District shall determine the principal amount of the Bonds of each maturity to be redeemed and shall select the particular Bonds to be redeemed in such manner as the District shall deem fair and appropriate.

Remedies in Event of Default. The Bond Resolution provides that in the event of default in the payment of principal of or interest on any of the Bonds when due or, in the event the District fails to make the payments required to be made into the Debt Service Fund or any other fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Resolution, the Registered Owners will be entitled to a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Resolution.

Registration, Transfer, and Exchange. The Bonds are transferable only on the Bond Register kept by the Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity in any authorized denomination upon surrender of the Bonds to be exchanged at the principal office of the Registrar. No service charge will be made for any transfer or exchange, but the District may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

RISK FACTORS

General

The security for payment of the principal of and interest on the Bonds depends on the ability of the Tax Assessor/Collector to collect the Levy on behalf of the District in an amount sufficient to meet debt service requirements and, in the event of foreclosure, on the priority of the District's tax lien over conventional liens and similar taxing authorities. The District cannot and does not make any representation that over the life of the Bonds the construction of taxable improvements or continued development of taxable property within the District will accumulate or maintain taxable values sufficient to assure continued payment of taxes by property owners.

The District makes no representation about the probability of development or about the ability of owners of property within the District to implement development plans. Prospective investors and purchasers are urged to personally inspect the District and to make such investigations as are deemed necessary concerning possible future development of the District.

Bondholders' Remedies

The Order obligates the District to assess and collect an annual ad valorem tax sufficient to pay the principal of and interest on the Bonds, as more fully described herein. Although a Bondholder could presumably obtain a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds, such judgment could not be satisfied by foreclosure on the Improvements or by execution against any property of the District. The Bondholders' only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to assess and collect the Levy in an amount sufficient to pay principal of and interest on the Bonds as they become due. Under those circumstances, the Bondholders could be required to enforce such remedy on a periodic basis because no provision exists for acceleration of maturity of the Bonds.

The enforcement or claim for payment of principal of or interest on the Bonds, including the remedy of mandamus, and the validity of the pledge of and lien on taxes and revenues, would be subject to the applicable provisions of the federal bankruptcy laws and to any similar laws affecting the rights of creditors of political subdivisions generally.

Dependence on Construction of Future Improvements

Unless the District's tax base grows rapidly and continuously as a result of construction of housing, commercial property, and other taxable improvements, the District will be required to levy taxes at a rate substantially higher than projected in the Section entitled "TAX ADEQUACY." Should no development occur in the District beyond that reflected by the 1986 estimated and net taxable assessed valuation of \$69,500,000, a tax rate of approximately \$2.15 per \$100 of assessed valuation (assuming 95% collection) would be required to pay the maximum annual debt service requirements on the Bonds.

Economic Factors

Continued development in the District is directly related to the housing industry. The housing industry has historically been a cyclical industry, affected by both short and long-term interest rates, availability of mortgage and development funds, labor conditions, and general economic conditions. An increase in mortgage rates to higher than present levels may adversely affect the availability and desirability of mortgage financing for new homes and the number of new housing starts, hence reducing demand for lots within the District available for sale to builders.

The housing industry in the Austin area is competitive and the District can give no assurance that the building programs planned by the developers in the District will be implemented or completed. Competition from developers and developments outside the District is directly related to tax revenues to be received by the District and the growth and maintenance of taxable values in the District.

Investment Earnings and Other Federal Income Tax Considerations

The possible investment earnings on the unexpended amount of Bond proceeds to be used for the payment of capitalized interest are based on assumed earnings rates, as indicated herein. If H.R. 3838 is enacted in substantially its current form, the District would be required to periodically pay to the United States certain arbitrage "profits" from the investment of such proceeds and amounts held for the payment of debt service on the Bonds and, if the District does not comply with certain covenants, such noncompliance will cause interest on the Bonds to become subject to federal income taxation retroactively to the date of issue of the Bonds. See "TAX EXEMPTION."

Additional Bonds

The District may issue bonds necessary to provide improvements and facilities, with approval of the Texas Water Commission (the "TWC"), and in the case of bonds payable from taxes, the voters of the District. The District is further empowered to borrow money for any corporate purpose and may do so through issuance of revenue notes, bonds, bond anticipation notes and tax anticipation notes. Subsequent to the issuance of the Bonds, \$51,575,000 of District bonds will remain authorized but unissued.

Regulation of Issuance

Neither the Attorney General of Texas, the Texas Water Commission, nor the District guarantees or passes upon the safety of the Bonds as an investment, or passes upon the adequacy of the information contained in this Official Statement.

TAX EXEMPTION AND PENDING LEGISLATION

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

On December 17, 1985, the U.S. House of Representatives passed H.R. 3838, entitled the "Tax Reform Act of 1985," which includes proposed amendments to the provisions of the Internal Revenue Code of 1954 that generally relate to the tax-exempt status of interest on municipal bonds. These proposed amendments, in general, are to be effective for bonds issued after December 31, 1985. The amendments would generally condition the exemption from federal income taxation of interest on bonds such as the Bonds upon (1) the periodic payment by the District to the United States of certain arbitrage "profits" from the investment of certain funds, including those earned from the investment of proceeds of such bonds and amounts held for the payment of debt service on such bonds; (2) the expenditure of certain minimum amounts of proceeds of such bonds by certain dates; (3) the continued use of the facilities financed by the proceeds of such

bonds in the governmental activities of the District and not otherwise; and (4) the filing by the District of an informational report on such bonds with the Internal Revenue Service within a certain period of time after issuance of such bonds. If H.R. 3838 or similar legislation is enacted into law with the effective date described above, noncompliance with these requirements will cause interest on the Bonds to become taxable retroactively to the date of issue of the Bonds. (In addition, if H.R. 3838 as passed by the House should ultimately be enacted into law, it would change certain Federal tax effects of ownership of the Bonds under certain circumstances, including but not limited to the following: (i) the deduction currently allowable to certain financial institutions for interest expense incurred or continued to purchase or carry tax-exempt securities would be eliminated; (ii) for property and casualty insurance companies, the amount of the deduction for losses would be reduced by ten percent (10%) (15% for taxable years beginning after 1987) of the sum of tax-exempt interest income received, and the deductible portion of dividends received, by such companies; and (iii) for taxable years beginning after 1987, an alternative minimum tax would be imposed on net gain of property and casualty insurance companies from operations, including interest from such tax-exempt obligations. The foregoing is only a general summary of certain provisions of H.R. 3838; holders of Bonds should consult their own tax advisors as to the tax effects, if any, of that legislation in their particular circumstances.

The District has covenanted in the Bond Resolution that, from the date of issue of the Bonds, it will comply with the provisions of H.R. 3838 which, if enacted, would relate to the Bonds (and with any substantially similar provisions in any amendment thereto or other bill introduced in either house of the U.S. Congress in the current session), unless and until an opinion of counsel nationally recognized in the field of municipal bond law is delivered to the District to the effect that failure to comply with such provisions would not adversely affect such exemption under the existing or pending law. The opinion of Bond Counsel will note the pendency of H.R. 3838 and that, if such bill or any similar bill is enacted into law in substantially its current form, the exemption of interest on the Bonds from federal income taxation from date of issue will be dependent upon compliance by the District with such covenant.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

Legal Proceedings. Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds, as represented by Bonds Nos. R-1 through R-16, aggregating \$5,225,000, which the Attorney General will have examined, are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas and, based upon their examination of a transcript of certified proceedings relating to the issuance of the Bonds, the approving legal opinion of Bond Counsel to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas, and to the effect that interest on the Bonds is exempt from federal income taxation under existing statutes, regulations, published rulings and court decisions.

In their capacity as Bond Counsel, Brown Maroney Rose Barber & Dye has reviewed the information appearing in this Official Statement under the captions "THE BOND RESOLUTION" and "LEGAL PROCEEDINGS" solely to determine whether such information fairly summarizes the procedures and documents referred to therein and conforms to the Order of the Commission with regard to the sale of the Bonds. Such firms have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the District for the purposes of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the bonds are contingent on the sale and delivery of the Bonds. It is anticipated that Bond Counsels' legal opinion will be printed on the Bonds.

No-Litigation Certificate. On the date of delivery of the Initial Bonds to the Initial Purchaser, the District will execute and deliver to the Initial Purchaser a certificate to the effect that no litigation of any nature has been filed or is pending, as of the date, of which the District has notice, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security, or in any manner question the validity of the Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS IN TEXAS

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

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such institutions or entities or which might otherwise limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or

invest in the Bonds for such purposes, and consequently, the District makes no representation that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes.

AUTHENTICITY OF FINANCIAL INFORMATION

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

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Texas Capital Markets Group, Inc. (the "Financial Advisor"). The fees to be paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold, and delivered, and such fees are contingent on the sale and delivery of the Bonds.

CERTIFICATION OF THE OFFICIAL STATEMENT

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

Steve D. Pena
President
North Austin Municipal Utility District
No. One

January 15, 1986

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX A
Projected Debt Tax Rate Calculations

THIS PAGE INTENTIONALLY LEFT BLANK

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
Combination Unlimited Tax and Revenue Bonds, Series 1986

Fiscal Year	Assessed Valuation	Bond Tax Rate (per \$100)	Tax Coll. @ 95%	Capital. Interest (2)	District funds Available	Debt Serv.		Accum. Fund Balance
						Require. \$5,225,000 SER. 1986 (1)	Available Funds after Debt Ser.	
1986	43,743,698	0.50	207,783	1,149,500	1,357,283	191,583	1,165,699	1,165,699
1987	69,500,000	0.50	330,125		330,125	574,750	(244,625)	921,074
1988	119,416,000	0.50	567,226		567,226	574,750	(7,524)	913,550
1989	140,114,000	0.50	665,542		665,542	574,750	90,792	1,004,342
1990	140,114,000	0.50	665,542		665,542	699,750	(34,209)	970,133
1991	140,114,000	0.50	665,542		665,542	711,000	(45,459)	924,675
1992	140,114,000	0.50	665,542		665,542	694,500	(28,959)	895,716
1993	140,114,000	0.50	665,542		665,542	703,000	(37,459)	858,258
1994	140,114,000	0.50	665,542		665,542	708,750	(43,209)	815,049
1995	140,114,000	0.50	665,542		665,542	711,750	(46,209)	768,841
1996	140,114,000	0.50	665,542		665,542	712,000	(46,459)	722,382
1997	140,114,000	0.50	665,542		665,542	709,500	(43,959)	678,424
1998	140,114,000	0.50	665,542		665,542	704,250	(38,709)	639,715
1999	140,114,000	0.50	665,542		665,542	721,250	(55,709)	584,007
2000	140,114,000	0.50	665,542		665,542	707,750	(42,209)	541,798
2001	140,114,000	0.50	665,542		665,542	716,500	(50,959)	490,840
2002	140,114,000	0.50	665,542		665,542	719,750	(54,209)	436,631
2003	140,114,000	0.50	665,542		665,542	717,500	(51,959)	384,673
2004	140,114,000	0.50	665,542		665,542	709,750	(44,209)	340,464
2005	140,114,000	0.50	665,542		665,542	721,500	(55,959)	284,506

- (1) Interest has been calculated at a rate of 11.00% for purposes of illustration.
- (2) The district will capitalize two years of interest on the bonds.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B

**Projected Pro forma of District Contract Payments
to the City of Austin**