

**OFFICIAL STATEMENT**

**CITY OF AUSTIN, TEXAS**

**\$5,590,000**  
**Certificates of Obligation,**  
**Series 1999**

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**\$10,335,000**  
**Public Property Finance Contractual Obligations,**  
**Series 1999**

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**\$51,100,000**  
**Public Improvement Bonds,**  
**Series 1999**

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**Dated: September 9, 1999**

OFFICIAL STATEMENT

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates of Obligation is excludable from gross income for federal income tax purposes under existing law and the Certificates of Obligation are not private activity bonds. See "Other Relevant Information - Tax Exemption" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

**\$5,590,000**  
**CITY OF AUSTIN, TEXAS**  
**(Travis and Williamson Counties)**  
**CERTIFICATES OF OBLIGATION, SERIES 1999**

**Dated: September 1, 1999**

**Due: As shown below**

Interest on the \$5,590,000 City of Austin, Texas (the "City"), Certificates of Obligation, Series 1999 (the "Certificates"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2000, and will be calculated on the basis of a 360-day year of twelve 30-day months. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "Bond, Certificate and Contractual Obligation Information - Book-Entry-Only System").

The Certificates are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the Certificates (see "Bond, Certificate and Contractual Obligation Information - Security for Bonds, Certificates and Contractual Obligations").

Proceeds from the sale of the Certificates will be used to fund various capital improvements and to pay certain costs of issuance of the Certificates.

**MATURITY SCHEDULE**

<u>Maturity</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>
2000	\$ 170,000	6.00%	3.70%	2010	\$ 270,000	5.05%	5.10%
2001	175,000	6.00	4.10	2011	285,000	5.15	5.20
2002	185,000	6.00	4.20	2012	300,000	5.20	5.30
2003	190,000	6.00	4.30	2013	320,000	5.25	5.38
2004	200,000	6.00	4.40	2014	335,000	5.30	5.45
2005	210,000	6.00	4.55	2015	355,000	5.35	5.50
2006	220,000	6.00	4.65	2016	375,000	5.40	5.55
2007	230,000	6.00	4.75	2017	400,000	5.50	5.60
2008	245,000	5.25	4.85	2018	420,000	5.50	5.65
2009	260,000	5.00	5.00	2019	445,000	5.50	5.70

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above, less the premium, will produce compensation to the Purchasers of approximately \$49,819.94.

The Purchasers have indicated in their bid form that the Certificates will not be insured.

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2010, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2009, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption.

The Certificates are offered for delivery when, as and if issued and subject to the approving opinions of the Attorney General of the State of Texas and of Vinson & Elkins L.L.P., Austin and Dallas, Texas, Bond Counsel. Certain additional legal matters will be passed on for the City by McCall, Parkhurst & Horton L.L.P. The opinion of Bond Counsel will be printed on or attached to the Certificates (see Appendix C - "Forms of Bond Counsel's Opinions").

It is expected that the Certificates will be tendered for delivery through DTC in New York, New York.

**Delivery: Anticipated on or about October 5, 1999**

Dated: September 9, 1999

## OFFICIAL STATEMENT

### NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Contractual Obligations is excludable from gross income for federal income tax purposes under existing law and the Contractual Obligations are not private activity bonds. See "Other Relevant Information - Tax Exemption" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

**\$10,335,000**  
**CITY OF AUSTIN, TEXAS**  
**(Travis and Williamson Counties)**  
**PUBLIC PROPERTY FINANCE CONTRACTUAL OBLIGATIONS, SERIES 1999**

**Dated: September 1, 1999**

**Due: As shown below**

Interest on the \$10,335,000 City of Austin, Texas (the "City"), Public Property Finance Contractual Obligations, Series 1999 (the "Contractual Obligations"), will accrue from the dated date as shown above and will be payable May 1 and November 1 of each year, commencing May 1, 2000, and will be calculated on the basis of a 360-day year of twelve 30-day months. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "Bond, Certificate and Contractual Obligation Information - Book-Entry-Only System").

The Contractual Obligations are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the Contractual Obligations (see "Bond, Certificate and Contractual Obligation Information - Security for Bonds, Certificates and Contractual Obligations").

Proceeds from the sale of the Contractual Obligations will be used to purchase certain equipment and personal property for various City Departments and to pay certain costs of issuance of the Contractual Obligations.

### MATURITY SCHEDULE

<u>Maturity</u> <u>(May 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>Maturity</u> <u>(November 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>
2000	\$ 560,000	4.50%	3.60%	2000	\$ 655,000	4.50%	3.80%
2001	665,000	4.50	4.15	2001	680,000	4.50	4.15
2002	695,000	4.50	4.25	2002	710,000	4.50	4.25
2003	730,000	4.50	4.37	2003	745,000	4.50	4.37
2004	765,000	4.75	4.47	2004	785,000	4.75	4.47
2005	805,000	4.75	4.60	2005	825,000	4.75	4.60
2006	845,000	4.75	4.70	2006	870,000	4.75	4.70

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above, less the premium, will produce compensation to the Purchasers of approximately \$40,381.25.

The Purchasers have indicated in their bid form that the Contractual Obligations will not be insured.

The Contractual Obligations are not subject to redemption prior to their stated maturity.

The Contractual Obligations are offered for delivery when, as and if issued and subject to the approving opinions of the Attorney General of the State of Texas and of Vinson & Elkins L.L.P., Austin and Dallas, Texas, Bond Counsel. Certain additional legal matters will be passed on for the City by McCall, Parkhurst & Horton L.L.P. The opinion of Bond Counsel will be printed on or attached to the Contractual Obligations (see Appendix C - "Forms of Bond Counsel's Opinions").

It is expected that the Contractual Obligations will be tendered for delivery through DTC in New York, New York.

**Delivery: Anticipated on or about October 5, 1999**

Dated: September 9, 1999

## OFFICIAL STATEMENT

### NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "Other Relevant Information - Tax Exemption" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

**\$51,100,000**  
**CITY OF AUSTIN, TEXAS**  
**(Travis and Williamson Counties)**  
**PUBLIC IMPROVEMENT BONDS, SERIES 1999**

**Dated: September 1, 1999**

**Due: September 1, as shown below**

Interest on the \$51,100,000 City of Austin, Texas (the "City"), Public Improvement Bonds, Series 1999 (the "Bonds"), will accrue from the dated date as shown above and will be payable March 1 and September 1 of each year, commencing March 1, 2000 and will be calculated on the basis of a 360-day year of twelve 30-day months. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "Bond, Certificate and Contractual Obligation Information - Book-Entry-Only System").

These Bonds were authorized at elections held on various dates, and are direct and voted obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the Bonds (see "Bond, Certificate and Contractual Obligation Information - Security for Bonds, Certificates and Contractual Obligations").

Proceeds from the sale of the Bonds will be used to finance various capital improvements and to pay certain costs of issuance of the Bonds.

### MATURITY SCHEDULE

<u>Maturity</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>
2000	\$ 410,000	4.250%	3.700%	2010	\$ 3,630,000	5.750%	5.150%
2001	-0-	0	0	2011	3,830,000	5.750	5.250
2002	100,000	4.125	4.250	2012	4,040,000	5.750	5.300
2003	100,000	4.250	4.350	2013	4,260,000	5.750	5.370
2004	100,000	4.300	4.450	2014	4,500,000	5.750	5.450
2005	100,000	4.500	4.600	2015	4,760,000	5.750	5.500
2006	100,000	4.625	4.700	2016	5,030,000	5.375	5.550
2007	100,000	4.750	4.800	2017	5,320,000	5.375	5.600
2008	100,000	4.875	4.900	2018	5,630,000	5.375	5.630
2009	3,035,000	5.250	5.000	2019	5,955,000	5.500	5.650

The initial reoffering yields were supplied to the City by the Purchasers. The initial reoffering yields shown above, less the premium, will produce compensation to the Purchasers of approximately \$275,429.00.

The Purchasers have indicated in their bid form that the Bonds will not be insured.

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2010, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2009, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption.

The Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of Vinson & Elkins L.L.P., Austin and Dallas, Texas, Bond Counsel. Certain additional legal matters will be passed on for the City by McCall, Parkhurst & Horton L.L.P. The opinion of Bond Counsel will be printed on or attached to the Bonds (see Appendix C - "Forms of Bond Counsel's Opinions").

It is expected that the Bonds will be tendered for delivery through DTC, in New York, New York.

**Delivery: Anticipated on or about October 5, 1999**

Dated: September 9, 1999

This Official Statement does not constitute an offer to sell the Bonds, Certificates or Contractual Obligations 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, Certificates and Contractual Obligations, 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 City since the date hereof.

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# CITY OF AUSTIN

## Elected Officials

		Term Expires <u>June 15</u>
Kirk Watson .....	Mayor	2000
Daryl Slusher .....	Councilmember Place 1	2002
Gustavo L. Garcia .....	Councilmember Place 2	2000
Jackie Goodman .....	Mayor Pro Tem, Councilmember Place 3	2002
Beverly Griffith .....	Councilmember Place 4	2002
William Spelman .....	Councilmember Place 5	2000
Willie C. Lewis .....	Councilmember Place 6	2000

## Appointed Officials

Jesus Garza .....	City Manager
Marcia L. Conner .....	Assistant City Manager
Jim Smith .....	Assistant City Manager
Toby Futrell .....	Assistant City Manager
Betty Dunkerley, CPA .....	Director of Finance & Administrative Services
Andrew Martin .....	City Attorney
Shirley A. Brown .....	City Clerk

### **BOND COUNSEL**

Vinson & Elkins L.L.P.  
Austin and Dallas, Texas

### **SECURITIES COUNSEL**

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

### **FINANCIAL ADVISOR**

Public Financial Management  
Austin, Texas

### **AUDITORS**

KPMG LLP  
Austin, Texas

For additional information regarding the City, please contact:

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Director of Finance &  
Administrative Services  
City of Austin  
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Austin, Texas 78767  
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or

Bill Newman  
Public Financial Management  
800 Brazos Street, South Tower, 13<sup>th</sup> Floor  
Austin, Texas 78701  
(512) 472-7194

## SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds, Certificates and Contractual Obligations to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this data page from this Official Statement or to otherwise use it without the entire Official Statement.

This data page was prepared to present the purchasers of the Bonds, Certificates and Contractual Obligations information concerning the Bonds, Certificates and Contractual Obligations, the taxes pledged to payment of the Bonds, Certificates and Contractual Obligations the description of the tax base and other pertinent data, all as more fully described herein.

### **The Issuer**

The City of Austin, Texas, is a political subdivision located in Travis and Williamson Counties, operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters in 1953, as amended. The City operates under the Council/Manager form of government where the mayor and six councilmembers are elected for staggered three-year terms. The Council formulates operating policy for the City while the City Manager is the chief administrative officer.

The City is approximately 253.67 square miles in area (see Appendix A - "General Information Regarding the City").

### **The Bonds**

The Bonds are being issued in the principal amount of \$51,100,000 pursuant to the general laws of the State of Texas, particularly Article 1175, V.A.T.C.S., (codified as Chapter 1331, Texas Government Code, effective September 1, 1999) and an Ordinance passed by the City Council (see "Bond, Certificate and Contractual Obligation Information - Authority for Issuance").

### **The Certificates**

The Certificates are being issued in the principal amount of \$5,590,000 pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act"), and an Ordinance passed by the City Council of the City (see "Bond, Certificate and Contractual Obligation Information - Authority for Issuance").

### **The Contractual Obligations**

The Contractual Obligations are being issued in the principal amount of \$10,335,000 pursuant to the general laws of the State of Texas, particularly Subchapter A of Chapter 271, Texas Local Government Code (the "Public Property Finance Act"), and an Ordinance passed by the City Council of the City (see "Bond, Certificate and Contractual Obligation Information - Authority for Issuance").

### **Security for the Bonds, Certificates and Contractual Obligations**

The Bonds, Certificates and Contractual Obligations constitute direct obligations of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenue (not to exceed \$1,000) of the City's solid waste disposal system.

### **Optional Redemption of Bonds and Certificates**

The City reserves the right, at its option, to redeem the Bonds and Certificates having stated maturities on and after September 1, 2010, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2009, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "Bond, Certificate and Contractual Obligation Information - Redemption of Bonds, Certificates and Contractual Obligations"). The Contractual Obligations are not subject to optional redemption prior to their maturity.

### **Tax Exemption**

In the opinion of Bond Counsel, the interest on the Bonds, Certificates and Contractual Obligations is excludable from gross income for federal income tax purposes under existing law and none of the Bonds, Certificates or the Contractual Obligations will constitute private activity bonds. See "Other Relevant Information - Tax Exemption" for a discussion of the opinion of Bond Counsel including the alternative minimum tax consequences for corporations.

### **Payment Record**

The City has not defaulted since 1900 when all bonds were refunded at par with a voluntary reduction in interest rates.

## Selected Issuer Indices

Fiscal Year Ended 9-30	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Per Capita Taxable Assessed Valuation	Net Funded Tax Debt <sup>(3)</sup>	Per Capita Net Funded Tax Debt	Ratio Net Funded Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
1990	450,830	\$17,764,618,446	\$39,404.25	\$381,406,586	\$846.01	2.15%	99.46%
1991	466,530	17,189,792,203	36,846.06	379,909,732	814.33	2.21%	99.30%
1992	474,715	16,926,074,265	35,655.23	385,028,924	811.07	2.27%	99.60%
1993	478,254	16,977,306,423	35,498.51	418,233,093	874.50	2.46%	99.49%
1994	507,468	18,237,532,094	35,938.29	422,737,988	833.03	2.32%	100.07%
1995	523,352	20,958,589,300	40,046.83	436,867,901	834.75	2.08%	100.10%
1996	541,889	23,303,015,047	43,003.30	443,247,034	817.97	1.90%	99.91%
1997	560,939	25,823,385,257	46,036.00	476,147,167	848.84	1.84%	99.47%
1998	608,214	27,493,058,735	45,202.94	500,027,010	822.12	1.82%	99.37%
1999	609,313	32,496,385,081	53,332.83	492,077,420 <sup>(5)</sup>	807.59 <sup>(5)</sup>	1.51% <sup>(5)</sup>	99.76 <sup>(6)</sup>
2000	623,327	35,498,062,697 <sup>(4)</sup>	56,949.34	525,462,722 <sup>(5)</sup>	843.00 <sup>(5)</sup>	1.48% <sup>(5)</sup>	N/A

(1) Source: City of Austin Planning/Growth Department. Fiscal Year 1990 is that reported by the U.S. Census Bureau.

(2) Property reappraised every year except 1990 and 1992.

(3) Excludes general obligation debt issued for enterprise funds, and general fund departments which transfer in from operating budgets.

(4) Certified Appraised Value, including \$1,343,240,366 in property in the appeals process.

(5) Projected.

(6) Estimated collections as of June 30, 1999.

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# **OFFICIAL STATEMENT**

**Relating to**

**\$51,100,000**

**CITY OF AUSTIN, TEXAS**

**PUBLIC IMPROVEMENT BONDS, SERIES 1999**

**\$5,590,000**

**CITY OF AUSTIN, TEXAS**

**CERTIFICATES OF OBLIGATION, SERIES 1999**

**\$10,335,000**

**CITY OF AUSTIN, TEXAS**

**PUBLIC PROPERTY FINANCE CONTRACTUAL OBLIGATIONS, SERIES 1999**

## **INTRODUCTION**

This Official Statement, which includes the cover pages, the summary statement and the appendices hereto, provides certain information regarding the issuance by the City of Austin, Texas (the "City"), of \$51,100,000 City of Austin, Texas, Public Improvement Bonds, Series 1999 (the "Bonds"), \$5,590,000 City of Austin, Texas, Certificates of Obligation, Series 1999 (the "Certificates"), and \$10,335,000 City of Austin, Texas, Public Property Finance Contractual Obligations, Series 1999 (the "Contractual Obligations"). The Bonds, Certificates and Contractual Obligations are being offered separately at competitive sale by the City, and the delivery of each issue is not contingent upon the delivery of the other issues. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the respective ordinance authorizing the issuance of the Bonds (the "Bond Ordinance"), the ordinance authorizing the issuance of the Certificates (the "Certificate Ordinance"), and the ordinance authorizing the issuance of the Contractual Obligations (the "Contractual Obligation Ordinance"), except as otherwise indicated herein. The Bond Ordinance, Certificate Ordinance and Contractual Obligation Ordinance are collectively referred to herein as the "Ordinances".

There follows in this Official Statement descriptions of the Bonds, the Certificates and the Contractual Obligations and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

## **BOND, CERTIFICATE AND CONTRACTUAL OBLIGATION INFORMATION**

### **Authority for Issuance**

The Bonds were authorized at elections held on various dates, and passed by a majority of the participating voters in the City. The City is authorized to incur debt by voter authorization by Article 1175, V.A.T.C.S., (codified effective September 1, 1999 as Chapter 1331, Texas Government Code) and by the Bond Ordinance as authorized in the City Charter adopted by voters on January 31, 1953, as amended.

The Certificates are being issued pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act"), and the Certificate Ordinance passed by the City Council.

The Contractual Obligations are being issued pursuant to the general laws of the State of Texas, particularly Subchapter A of Chapter 271, Texas Local Government Code (the "Public Property Finance Act"), and the Contractual Obligation Ordinance passed by the City Council.

### **General**

The Bonds, Certificates and Contractual Obligations are dated September 1, 1999 and shall bear interest on the unpaid principal amounts from such date, at the respective per annum rates shown on the respective cover pages hereof. Principal is payable, upon presentation thereof, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "Paying Agent/Registrar" herein). Interest thereon is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. The Bonds, Certificates and Contractual Obligations are issued only as fully registered obligations in denominations of \$5,000 or any integral multiple thereof within a maturity.

The record date (the "Record Date") for the interest payable on any interest payment date is the 15th day of the month next preceding such interest payment date, as specified in the respective Ordinance. In the event of a nonpayment of interest on a scheduled interest payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, in accordance with the provisions of the respective Ordinance, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest, which shall be at least 15 days after the Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

### **Security for Bonds, Certificates and Contractual Obligations**

The Bonds, Certificates and Contractual Obligations constitute direct obligations of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on taxable property located within the City in an amount sufficient to pay the principal of and interest on all ad valorem tax debt. The Certificates are additionally secured by and payable from a limited pledge of the surplus revenue (not to exceed \$1,000) of the City's solid waste disposal system.

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter which also limits the City's ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. Within such Charter limitation, the total tax which may be levied annually by the City for municipal general operating purposes may not exceed \$1.00 per \$100 assessed valuation.

### **Bondholder Remedies**

The Ordinances obligate the City Council to assess and collect an annual ad valorem tax sufficient to pay the respective principal of and interest when due on the Bonds, Certificates and Contractual Obligations and they also create a pledge of such tax.

Each respective Ordinance defines an "Event of Default" as (i) the failure to make payment of principal or interest when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement or obligation of the City, which default materially and adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the City. Upon the happening of any Event of Default, then any Owner (as defined in each respective Ordinance) or an authorized representative thereof, including but not limited to, a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under the respective Ordinance, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained therein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners thereunder or any combination of such remedies but the right to accelerate the debt evidenced by the Bonds, Certificates or Contractual Obligations shall not be available as a remedy under the respective Ordinance. All such proceedings shall be instituted and maintained for the equal benefit of all such Owners.

Although an Owner could presumably obtain a judgment against the City if a default occurred in the payment of principal or interest, such judgment could not be satisfied by execution against any property of the City. The Owner's only practical remedy, if a default occurs in the payment of principal or interest, is a mandamus or mandatory injunction proceeding to compel the City Council to levy, assess and collect an annual ad valorem tax within the tax rate limitation sufficient to pay principal and interest as it becomes due. The Owner could be required to enforce such remedy on a periodic basis. No right to accelerate maturity is granted by the respective Ordinances.

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

### **Redemption of Bonds, Certificates and Contractual Obligations**

The City reserves the right, at its option, to redeem Bonds and Certificates having stated maturities on and after September 1, 2010, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2009, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption. If less than all of the Bonds or all of the Certificates are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity is to be redeemed, the Paying Agent/Registrar shall determine by lot the Bonds or Certificates, or portions thereof, within such maturity to be redeemed.

The Contractual Obligations are not subject to optional redemption prior to their maturity.

At least thirty days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Bond or Certificate to be redeemed at the address shown on the Security Register and subject to the terms and provisions relating thereto contained in the Ordinance. If a Bond or Certificate (or an portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Bond or Certificate (or the portion of its principal sum to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date thereof, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

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

***The City has elected to utilize the Book-Entry-Only System of DTC as described under this heading. The obligation of the City is to timely pay the Paying Agent/Registrar the amount due under the Ordinances. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Bonds, Certificates and Contractual Obligations are described herein.***

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds, Certificates and Contractual Obligations. The Bonds, Certificates and Contractual Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each respective maturity of the Bonds, Certificates and Contractual Obligations in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds, Certificates and Contractual Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds, Certificates and Contractual Obligations on DTC's records. The ownership interest of each actual purchaser of each Bond, Certificate or Contractual Obligation ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds, Certificates and Contractual Obligations are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests, except in the event that use of the book-entry system is discontinued.

To facilitate subsequent transfers, all Bonds, Certificates and Contractual Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds, Certificates and Contractual Obligations with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners; DTC's records reflect only the identity of the Direct Participants to whose accounts they are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds or Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds, Certificates or Contractual Obligations. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds, Certificates and Contractual Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds, Certificates and Contractual Obligations will be made to DTC. DTC's practice is to immediately credit Direct Participants' accounts in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds, Certificates and Contractual Obligations at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds, Certificates and Contractual Obligations are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds, Certificates and Contractual Obligations will be printed and delivered.

*Use of Certain Terms in Other Sections of this Official Statement.* In reading this Official Statement it should be understood that while the Bonds, Certificates and Contractual Obligations are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, Certificates and Contractual Obligations, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the respective Ordinance will be given only to DTC.

So long as DTC (or a successor securities depository) is securities depository for the Bonds, Certificates and Contractual Obligations, the City shall have no responsibility to the respective Direct Participants, Indirect Participants or Beneficial Owners with respect to payment to, or providing notice to such Direct Participants, Indirect Participants or Beneficial Owners, or with respect to the records maintained by DTC, successor securities depository, Direct Participant or Indirect Participant.

**Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City.**

#### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Bonds, Certificates and Contractual Obligations is State Street Bank and Trust Company of Missouri, N.A. or its successor. Interest on and principal of the Bonds, Certificates and Contractual Obligations will be payable, and transfer functions will be performed at the corporate trust office of the Paying Agent/Registrar in St. Louis, Missouri (the "Designated Payment/Transfer Office"). In each Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds, Certificates and Contractual Obligations are outstanding and any successor Paying Agent/Registrar shall be a commercial bank, trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, Certificates or Contractual Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds, Certificates or Contractual Obligations by United States mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

#### **Transfer, Exchange and Registration**

In the event the Book-Entry-Only System should be discontinued, the Bonds, Certificates or Contractual Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond, Certificate or Contractual Obligation may be assigned by the execution of an assignment form thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond, Certificate or Contractual Obligation will be delivered by the Paying Agent/Registrar, in lieu of the Bond, Certificate or Contractual Obligation being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds, Certificates or Contractual Obligations issued in an exchange or transfer will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt thereof to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds,

Certificates or Contractual Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds, Certificates or Contractual Obligations surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds, Certificates and Contractual Obligations.

### **Limitation on Transfer of Bonds and Certificates Called for Redemption**

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond or Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled principal of a Bond or Certificate.

## **TAX INFORMATION**

### **Ad Valorem Tax Law**

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Texas Property Tax Code (the "Tax Code"), for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section I-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant:

- (1) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision;
- (2) An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a sum of \$12,000.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Personal property not used in the business of a taxpayer, such as automobiles or light trucks, is exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property.

Article VIII, Section 1-j of the Texas Constitution provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. The City grants such exemption.

The City grants an exemption to the appraised value of the residence homestead of persons 65 years of age or older and to the disabled of \$51,000.

The City may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has adopted criteria for granting tax abatements which establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The City has entered into several such abatement agreements in recent years.

## Tax Valuation

January 1, 1999 Appraised Valuation <sup>(1)</sup>		\$37,823,806,428
Less Local Exemptions to Assessed Values: <sup>(2)</sup>		
Residential Homestead over 65	\$990,352,626	
Homestead 10% Increase Cap	247,680,136	
Disabled Veterans	35,069,694	
Agricultural and Historical Exemptions	217,323,664	
Disability Exemption	81,565,708	
Freeport Exemption	<u>753,751,903</u>	<u>2,325,743,731</u>
January 1, 1999 Net Taxable Assessed Valuation <sup>(1)</sup>		\$35,498,062,697

(1) 1999 Certified Appraised Value includes \$1,343,240,366 in property in the appeals process.

(2) Exemptions or adjustments to assessed valuation granted in 1999 include (a) exemptions of \$51,000 for resident homestead property of property owners over 65 years of age; (b) exemptions for residents homestead property exceeding a 10 percent increase in valuation from the previous year; (c) exemptions ranging from \$5,000 to \$12,000 for property of disabled veterans or certain surviving dependents of disabled veterans; (d) certain adjustments to productive agricultural lands; (e) exemptions to the land designated as historically significant sites by certain public bodies; (f) exemptions of \$51,000 to disabled resident homestead property owners; (g) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

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## Statement of Debt

The following table sets forth on a pro forma basis the amount of Public Improvement Bonds, Assumed Bonds, Contract Tax Bonds, Certificates of Obligation, Contractual Obligations and Tax Notes outstanding and certain debt ratios related thereto.

	As of <u>September 30, 1999</u>	
Public Improvement Bonds <sup>(1)</sup>	\$469,686,574	
Certificates of Obligation <sup>(1)</sup>	38,765,000	
Contractual Obligations <sup>(1)</sup>	37,250,000	
Assumed Bonds <sup>(2)</sup>	36,736,000	
Contract Tax Bonds <sup>(3)</sup>	2,430,000	
Tax Notes	17,700,000	
The Bonds <sup>(4)</sup>	51,100,000	
The Certificates <sup>(4)</sup>	5,590,000	
The Contractual Obligations <sup>(4)</sup>	<u>10,335,000</u>	
Total		\$669,592,574
Less Self-Supporting Debt:		
Assumed Bonds <sup>(2)</sup>	\$27,743,891	
Contract Tax Bonds <sup>(3)</sup>	2,430,000	
Airport <sup>(5)</sup>	1,344,798	
Austin Energy <sup>(5)</sup>	3,282,187	
Convention Center <sup>(5)</sup>	599,144	
Fleet Management <sup>(5)</sup>	2,312,565	
Golf <sup>(5)</sup>	9,354,218	
Solid Waste <sup>(5)</sup>	22,983,583	
Transportation <sup>(5)</sup>	653,793	
UCSO <sup>(5)</sup>	334,435	
Water and Wastewater <sup>(5)</sup>	13,445,770	
Watershed Protection <sup>(5)</sup>	<u>1,711,995</u>	86,196,379
Interest and Sinking Fund, All Public Improvement Bonds <sup>(6)</sup>		<u>7,659,646</u>
Net Debt <sup>(7)</sup>		\$575,736,549
Ratio Total Debt to 2000 Net Taxable Assessed Valuation		1.89%
Ratio Net Debt to 2000 Net Taxable Assessed Valuation		1.62%
2000 Population (Estimate) - 623,327 <sup>(8)</sup>		
Per Capita Net Taxable Assessed Valuation - \$56,949.34		
Per Capita Net Debt Outstanding - \$923.65		

(1) Excludes the new money issuance.

(2) Represents bonds of utility districts annexed by the City.

(3) Represents bonds of certain utility districts which the City has agreed to pay from the levy of an ad valorem tax sufficient to pay debt service if surplus water and sewer revenues are not sufficient to meet debt service requirements.

(4) New Money issued September 9, 1999 with delivery in October 1999.

(5) Airport, Austin Energy, Convention Center, Fleet Management, Golf, Solid Waste, Transportation, UCSO, Water, Wastewater and Watershed Protection represent a portion of the City's Outstanding Public Improvement Bonds, Certificates of Obligation and/or Contractual Obligations. Debt service for Airport, Austin Energy, Convention Center, Fleet Management, Golf, Solid Waste, Transportation, UCSO, Water, Wastewater and Watershed Protection is paid from revenue of the respective enterprises. Fleet Management is an internal service fund, which generates revenue through charges to user departments.

(6) Represents estimate of cash plus investments at cost on 09-30-99.

(7) Various general fund departments have issued debt which is supported by a transfer into the debt service fund from the issuing department. These departments budget the required debt service which reduces the debt service tax requirement. If excluded, these obligations would lower net debt by \$24,329,129.

(8) Source: City of Austin Planning/Growth Department. This figure does not include areas annexed for limited purposes.

## Revenue Debt

In addition to the above, on a pro forma basis, the City had outstanding as of September 1, 1999, \$2,396,640,060 Combined Utility Systems Revenue Bonds payable from a prior lien on the combined net revenue of the Electric System and the Waterworks and Sewer System; \$357,804,512 Water, Sewer and Electric Revenue Bonds payable from a subordinate lien on the combined net revenue of the Electric System and the Waterworks and Sewer System; \$99,330,000 Separate Lien Obligations payable from a subordinate lien on the net revenue of the Waterworks and Sewer System, and \$322,744,000 Combined Utility Systems Commercial Paper payable from a subordinate lien on the combined net revenue of the Electric System and the Waterworks and Sewer System.

The City also has outstanding \$422,245,000 Airport System Prior Lien Revenue Bonds payable from revenue of the City's Airport System. The City also has outstanding \$213,555,000 in Convention Center Refunding Bonds, payable from hotel/motel occupancy tax collections and revenue of the Convention Center.

## Obligations Subject to Annual Appropriation

The City has entered into two subleases (the "Subleases") with respect to space to house the Electric Utility and the Water and Wastewater Utility, and \$12,650,000 and \$8,950,000, respectively, of Certificates of Participation are outstanding and payable from payments made under such Subleases. The City anticipates funding the required lease payments from the revenue of the respective utility system, although the City may make such payments from any available funds of the City as a whole appropriated for such purposes. The revenue of the Electric System and the Waterworks and Sewer System are not specifically pledged in such Subleases.

## Valuation and Funded Debt History

Fiscal Year Ended 9-30	Estimated Population <sup>(1)</sup>	Net Taxable Assessed Valuation <sup>(2)</sup>	Net Taxable Assessed Valuation Per Capita	Net Funded Tax Debt	Ratio Net Funded Debt to Taxable Assessed Valuation	Per Capita Net Funded Tax Debt
1990	450,830	\$17,764,618,446	\$39,404.25	\$381,406,586 <sup>(3)</sup>	2.15%	\$846.01
1991	466,530	17,189,792,203	36,846.06	379,909,732 <sup>(3)</sup>	2.21%	814.33
1992	474,715	16,926,074,265	35,655.23	385,028,924 <sup>(3)</sup>	2.27%	811.07
1993	478,254	16,977,306,423	35,498.51	418,233,093 <sup>(3)</sup>	2.46%	874.50
1994	507,468	18,237,532,094	35,938.29	422,737,988 <sup>(3)</sup>	2.32%	833.03
1995	523,352	20,958,589,300	40,046.83	436,867,901 <sup>(3)</sup>	2.08%	834.75
1996	541,889	23,303,015,047	43,003.30	443,247,034 <sup>(3)</sup>	1.90%	817.97
1997	560,939	25,823,385,257	46,036.00	476,147,167 <sup>(3)</sup>	1.84%	848.84
1998	608,214	27,493,058,735	45,202.94	500,027,010 <sup>(3)</sup>	1.82%	822.12
1999	609,313	32,496,385,081	53,332.83	492,077,420 <sup>(3)(4)</sup>	1.51% <sup>(4)</sup>	807.59 <sup>(4)</sup>
2000	623,327	35,498,062,697 <sup>(5)</sup>	56,949.34	525,462,722 <sup>(3)(4)</sup>	1.48% <sup>(4)</sup>	843.00 <sup>(4)</sup>

(1) Source: City of Austin Planning/Growth Department; Fiscal Year 1990 population is that reported by the U.S. Bureau of Census.

(2) Property reappraised every year except 1990 and 1992.

(3) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer in from Operating Budget.

(4) Projected.

(5) Certified Appraised Value, including \$1,343,240,366 in property in the appeals process.



## Tax Rate, Levy and Collection History

Fiscal Year Ended 9-30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
1989	\$0.5300	\$0.2521	\$0.2779	\$101,588,091	97.02%	99.53%
1990	0.5750	0.3069	0.2681	102,146,556	97.36%	99.46%
1991	0.5695	0.2984	0.2711	97,895,866	97.31%	99.30%
1992 <sup>(1)</sup>	0.6027	0.3265	0.2762	102,013,450	97.81%	99.60%
1993	0.6410	0.3460	0.2950	108,824,534	98.03%	99.49%
1994	0.6225	0.3462	0.2763	113,528,637	98.76%	100.07%
1995	0.5625	0.3132	0.2493	117,892,065	99.00%	100.10%
1996	0.5446	0.3177	0.2269	126,908,220	99.03%	99.91%
1997	0.5251	0.3117	0.2134	135,598,596	98.96%	99.47%
1998	0.5401	0.3304	0.2097	148,490,010	98.80%	99.37%
1999	0.5142	0.3265	0.1877	167,096,412	98.75% <sup>(2)</sup>	99.76% <sup>(2)</sup>
2000 <sup>(3)</sup>	0.5034	0.3222	0.1812	178,697,428	N/A	N/A

- (1) Annexation of the North Central Austin Growth Corridor MUD No. 1 on December 18, 1990 increased the assessed valuation property base.
- (2) Estimated collections as of June 30, 1999.
- (3) Proposed Budget.

## Ten Largest Taxpayers

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	1999 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Motorola Corporation <sup>(1)</sup>	Manufacturing	\$ 900,284,259	2.5%
Advanced Micro Devices, Inc.	Manufacturing	687,048,672	1.9%
Samsung Austin Semiconductor <sup>(2)</sup>	Manufacturing	364,942,415	1.0%
IBM Corporation	Manufacturing	315,177,271	0.9%
Applied Materials Inc.	Manufacturing	264,921,814	0.8%
Southwestern Bell Telephone Company	Telephone Utility	234,821,280	0.7%
Crescent Real Estate Equities	Real Estate	224,984,140	0.6%
Minnesota Mining and Manufacturing Company	Manufacturing	164,106,060	0.5%
Dell Computer Corporation	Manufacturing	147,632,540	0.4%
Hub Properties Trust	Real Estate	<u>134,436,703</u>	<u>0.4%</u>
		\$3,438,355,154	9.7%

Source: Travis Central Appraisal District.

- (1) The Motorola Corporation received an abatement for \$480,123,210 in real and personal property value.
- (2) The Samsung Corporation received an abatement for \$290,985,037 in real and personal property value.

## Property Tax Rate Distribution

	Fiscal Year Ended September 30,				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u> <sup>(1)</sup>
General Fund	\$ .3177	\$ .3117	\$ .3304	\$ .3265	\$ .3222
Interest and Sinking Fund	<u>.2269</u>	<u>.2134</u>	<u>.2097</u>	<u>.1877</u>	<u>.1812</u>
Total Tax Rate	\$ .5446	\$ .5251	\$ .5401	\$ .5142	\$ .5034 <sup>(2)</sup>

- (1) Proposed Budget
- (2) Set at one cent over the Effective Tax Rate.

# Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended 9-30	Valuation Date	Real Property		Personal Property		Net Taxable Assessed Valuation <sup>(1)</sup>	Total Tax Levy	% Current Collections	% Total Collections
		Amount	% of Total	Amount	% of Total				
1989	1-1-88	\$16,252,511,027	84.79%	\$2,915,053,352	15.21%	\$19,167,564,379	\$101,588,091	97.02%	99.53%
1990	1-1-89	14,488,058,712	81.56%	3,276,559,734	18.44%	17,764,618,446	102,146,556	97.36%	99.46%
1991	1-1-90	13,961,549,227	81.22%	3,228,242,976	18.78%	17,189,792,203	97,895,866	97.31%	99.30%
1992	1-1-91	13,461,306,863	79.53%	3,464,767,402	20.47%	16,926,074,265	102,013,450	97.80%	99.60%
1993	1-1-92	13,518,317,808	79.60%	3,458,988,615	20.40%	16,977,306,423	108,824,534	98.03%	99.49%
1994	1-1-93	14,828,873,350	81.30%	3,408,658,744	18.70%	18,237,532,094	113,528,637	98.76%	100.07%
1995	1-1-94	17,350,805,301	82.79%	3,607,783,999	17.21%	20,958,589,300	117,892,065	99.00%	100.10%
1996	1-1-95	19,478,990,278	83.59%	3,824,024,769	16.41%	23,303,015,047	126,908,220	99.03%	99.91%
1997	1-1-96	21,488,717,069	83.21%	4,334,668,188	16.79%	25,823,385,257	135,598,596	98.96%	99.47%
1998	1-1-97	22,693,966,978	82.54%	4,799,091,757	17.46%	27,493,058,735	148,490,010	98.80%	99.37%
1999	1-1-98	27,213,324,891	83.74%	5,283,060,190	16.26%	32,496,385,081	167,096,412	98.75% <sup>(2)</sup>	99.76% <sup>(2)</sup>
2000	1-1-99	29,998,894,667	84.51%	5,499,168,030	15.49%	35,498,062,697	178,697,248 <sup>(3)</sup>	N/A	N/A

(1) Property reappraised every year except 1990 and 1992.

(2) Estimated collections through June 30, 1999.

(3) Proposed Budget.

## **Tax Rate Limitation**

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Assessed Valuation for all City purposes. The City operates under a Home Rule Charter which also limits the City's ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. With such Charter limitation, the total tax which may be levied annually by the City for municipal general operating purposes may not exceed \$1.00 per \$100 assessed valuation.

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the upcoming fiscal year beginning October 1. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Tax Code, the City Council is prohibited from adopting a tax rate that will result in any increase in total tax revenue from the preceding fiscal year until it has held a public hearing on the proposed increase following notice to the taxpayers.

Each year the City must calculate and publicize certain information concerning its proposed tax rate, including its "rollback tax rate." The rollback tax rate is the rate that will produce last year's maintenance and operation tax levy multiplied by 1.08 plus a rate that will produce the current year's debt service, with such rates being adjusted to take into account new exemptions and property additions to the tax roll. If the adopted rate exceeds the rollback tax rate, the qualified voters of the City may petition the City Council to call an election to determine whether to reduce the tax rate adopted for the City to the rollback tax rate.

Reference is made to the Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

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## DEBT INFORMATION

### Debt Service Requirements

Fiscal Year Ending 09/30	Public Improvement Bonds	Certificates of Obligation	Short - Term Obligations (a)	Contract Tax Bonds	Assumed MUD & WCID Bonds	The Bonds, Certificates and Contractual Obligations (b)	Grand Total Requirements	Less Self-Supporting Requirements (c)	Net Total Requirements	Percent Principal Payout
2000	\$58,161,077	\$3,635,025	\$11,456,148	\$1,028,873	\$4,841,306	\$4,599,443	\$83,721,872	\$16,720,770	\$67,001,102	
2001	58,468,799	3,637,550	9,918,346	1,054,388	5,075,425	5,045,985	83,200,493	16,038,789	67,161,703	
2002	59,504,557	3,609,581	9,244,843	159,661	5,146,350	5,140,523	82,805,515	14,304,845	68,500,670	
2003	56,609,377	3,622,376	9,719,118	172,948	4,832,436	5,132,748	80,089,002	13,924,954	66,164,048	
2004	56,875,292	3,332,184	18,532,254	160,705	4,887,194	5,131,510	88,919,139	23,273,904	65,645,235	
2005	56,844,161	3,332,573	4,132,388	148,553	4,316,638	5,133,466	73,907,778	10,211,380	63,696,397	42.22%
2006	54,996,961	3,352,063	1,565,700		4,577,691	5,129,891	69,622,306	9,092,508	60,529,798	
2007	48,508,084	3,389,633			2,497,253	4,241,673	58,636,641	5,377,238	53,259,403	
2008	39,501,794	3,409,570			2,523,020	3,347,460	48,781,844	5,467,840	43,314,003	
2009	33,372,144	3,203,090			2,542,245	6,279,723	45,397,201	5,355,226	40,041,975	
2010	32,007,621	3,230,765			2,564,315	6,712,385	44,515,086	5,480,177	39,034,909	
2011	27,696,724	3,250,583			2,579,608	6,705,025	40,231,939	5,282,264	34,949,675	77.79%
2012	23,127,876	3,282,350			2,602,551	6,695,123	35,707,900	5,207,086	30,500,814	
2013	18,806,895	3,299,768			2,628,015	6,687,223	31,421,900	4,979,365	26,442,535	
2014	17,197,270	2,059,290			2,329,835	6,680,473	28,266,868	3,873,898	24,392,970	
2015	13,233,943	2,071,213			2,338,464	6,683,968	24,327,586	3,652,674	20,674,912	
2016	8,922,073	2,088,788			2,088,104	6,681,275	19,780,239	3,255,093	16,525,146	
2017	5,148,660	2,111,563			1,679,520	6,705,663	15,645,405	2,783,245	12,862,160	97.25%
2018	1,597,438	1,964,063			1,162,470	6,727,713	11,451,683	2,067,987	9,383,695	
2019					448,305	6,752,000	7,200,305	526,916	6,673,389	
2020					454,125		454,125	234,976	219,149	
2021					458,085		458,085	237,034	221,051	
2022					164,800		164,800	89,569	75,231	100.00%

(a) Includes principal and interest on the Contractual Obligations and Taxable Tax Notes, Series 1997.

(b) Includes principal and interest on the Bonds, Certificates and Contractual Obligations, Series 1999.

(c) Includes principal and interest on all self-supporting debt (see "Statement of Debt", p. 8).

**Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 09-30-98)**

Expenditures of the various taxing bodies within the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on properties within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the date stated above, and such entities may have programs requiring the issuance of substantial amounts of additional bonds the amount of which cannot be determined. The following table reflects the estimated share of overlapping funded debt of these various taxing bodies.

<u>Taxing Jurisdiction</u> <sup>(1)</sup>	<u>Total Funded Debt</u>	<u>Estimated % Applicable</u>	<u>Overlapping Funded Debt</u>
City of Austin <sup>(2)</sup>	\$492,077,420	100.00%	\$492,077,420
Austin Independent School District	525,309,422	81.26	426,866,436
Travis County	336,804,146	89.00	299,755,690
Round Rock Independent School District	263,641,167	3.08	8,120,148
Leander Independent School District	141,455,698	0.51	721,424
Pflugerville Independent School District	102,894,148	1.87	1,924,121
Williamson County	47,230,000	2.65	1,251,595
Manor Independent School District	39,705,418	1.32	524,112
Eanes Independent School District	39,147,614	2.77	1,084,389
Austin Community College	29,645,000	81.26	24,089,527
North Austin Municipal Utility District No. 1	15,619,760	100.00	15,619,760
Northwest Travis County Road District No. 3	6,975,000	100.00	6,975,000
Del Valle Independent School District	6,025,000	32.00	1,928,000
Northwest Austin Municipal Utility District No. 1	5,949,231	100.00	5,949,231
Austin Municipal Utility District No. 2	1,785,000	100.00	1,785,000
Anderson Mill Municipal Utility District	1,104,999	1.49	16,464
Total Direct and Overlapping Funded Debt			\$1,288,688,317
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation			3.63% <sup>(3)</sup>
Per Capita Overlapping Funded Debt			\$2,067.44 <sup>(4)</sup>

(1) Source: City of Austin Comprehensive Annual Financial Report for the year ended 9-30-98.

(2) As of 9-30-99. Projected.

(3) Based on assessed valuation of \$35,498,062,697.

(4) Based on 2000 population estimate of 623,327.

**Authorized General Obligation Bonds**

<u>Purpose</u>	<u>Date</u> <u>Authorized</u>	<u>Amount</u> <u>Authorized</u>	<u>Amount</u> <u>Heretofore</u> <u>Issued</u>	<u>Amount</u> <u>Being</u> <u>Issued</u>	<u>Unissued</u> <u>Balance</u>
Brackenridge 2000	10-22-83	\$ 50,000,000	\$ 40,785,000	\$ 0	\$ 9,215,000
Drainage and Flood Control	09-08-84	48,535,000	46,544,000	0	1,991,000
Parks Improvements	09-08-84	9,975,000	9,648,000	0	327,000
Erosion & Flood Control (VWO) (1)	06-01-85	15,750,000	4,585,000	3,130,000	8,035,000
Cultural Arts	01-19-85	20,285,000	14,890,000	0	5,395,000
Asbestos Abatement, ADA Compliance & East Austin Health Clinic	08-08-92	18,800,000	14,730,000	1,000,000	3,070,000
Erosion & Flood Control	08-08-92	21,570,000	15,953,000	3,690,000	1,927,000
Communications Equipment	05-03-97	38,000,000	12,690,000	890,000	24,420,000
Cultural Arts	11-03-98	21,421,000	0	1,800,000	19,621,000
Erosion & Flood Control	11-03-98	10,750,000	0	10,750,000	0
Library	11-03-98	24,969,000	0	3,950,000	21,019,000
Park Improvements	11-03-98	75,925,000	0	11,735,000	64,190,000
Public Safety	11-03-98	54,675,000	0	8,925,000	45,750,000
Street Improvements	11-03-98	152,000,000	0	<u>5,230,000</u>	<u>146,770,000</u>
<b>TOTAL</b>				<u><b>\$51,100,000</b></u>	<u><b>\$351,730,000</b></u>

(1) \$3,130,000 being issued for Erosion & Flood Control authorized by the Village at Western Oaks (VWO) in 1985. The City of Austin assumed the Village at Western Oaks on December 31, 1997 and under Texas law has the ability to issue unissued general obligations bonds of the district for the voted purposes.

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### **Anticipated Issuance of General Obligation Bonds**

The City does not anticipate the issuance of any additional general obligation bonds until the fall of 2000. The City continues to review opportunities for refunding certain previously issued general obligation bonds.

### **Funded Debt Limitation**

No direct funded debt limitation is imposed on the City under current State law or the City's Home Rule Charter. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter which adopts the constitutional provisions.

## **FISCAL MANAGEMENT**

### **The Capital Improvement Plan and Capital Budget**

The Capital Improvement Plan is a five-year list of capital improvements and a corresponding spending plan for financing these improvements. It is developed through public input and department prioritization of needs. The process includes neighborhood meetings, department requests, Budget Office assessment of requested projects, input from the Planning Commission's CIP Subcommittee and other Boards and Commissions, and citizen input from public hearings. Each year, the Planning Commission reviews the Capital Improvement Plan and submits a recommendation to the City Manager detailing specific projects to be included in the Capital Budget for the next fiscal year.

The City Manager considers the Planning Commission's recommended Plan to propose a Capital Budget to City Council. The Capital Budget contains requested appropriations for new projects, additional appropriations for previously approved projects and any requests to revise prior year appropriations. Unlike the Operating Budget, which authorizes expenditures for only one fiscal year, Capital Budget appropriations are multi-year, lasting until the project is complete or until changed by Council.

The City Council reviews the Capital Budget, holds public hearings to gather final citizen input and establishes the amount of revenue and general obligation bonds to sell to fund capital improvements.

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## 1999-2000 Capital Budget

The 1999-2000 five-year Capital Improvement Program (CIP) plan was reviewed by the Planning Commission, the Bond Oversight Committee and other boards and commissions. Public input was received at a public hearing held by the Planning Commission and the Bond Oversight Committee. The plan estimates city-wide capital spending in 1999-2000 of \$341.3 million in enterprise funds and \$164.8 million in general government funds.

The first year of the five-year plan was used to determine the new appropriations required for inclusion in the 1999-2000 Capital Budget. Total new proposed appropriation for General Government CIP Funds is \$125.6 million and total new proposed appropriation for Enterprise CIP Funds is \$329.1 million. Appropriation by department is listed below.

Summary of 1999-2000 Proposed Capital Budget (in millions):	
Austin Energy	\$191.7
Aviation	14.3
Convention Center	2.0
Golf	1.3
Solid Waste Services	5.9
Wastewater Utility	68.2
Water Utility	41.8
Watershed Protection (Drainage Only)	<u>3.9</u>
Enterprise Appropriations	\$329.1
Emergency Management Services	\$ 0.7
Fire	5.1
Fleet Maintenance	0.5
General Government	5.4
Health and Human Services	0.8
Library	4.0
Parks and Recreation Department	14.2
Austin Police Department	2.5
Public Works and Transportation	63.5
Telecommunications	20.4
Watershed Protection General Government	<u>8.5</u>
General Government Appropriations	\$125.6
TOTAL PROPOSED NEW APPROPRIATIONS	<u>\$454.7</u>

## Operating Budget

The City's Home Rule Charter (the "Charter") and Texas law require the City Manager to prepare and submit to the City Council a balanced budget consisting of an estimate of the revenues and expenditures in the budget period and the undesignated General Fund balance available for reappropriation. The budget process in the City normally commences with all department heads submitting to the Director of Finance and Administrative Services a detailed estimate of the appropriations required for their respective departments during the next fiscal year. The Director of Finance and Administrative Services, in turn, forwards these estimates to the City Manager who submits them to the Mayor and City Council for their consideration and approval.

In June 1989, the City Council approved Financial Management Policies, which were amended in July 1999. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least 5% of total departmental annual expenditures shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than \$2,000,000, shall be budgeted annually. The 1999-2000 proposed budget is in compliance with these requirements.



**1999-2000 Budget (Amounts are in thousands)**

The proposed budget was prepared in accordance with guidelines provided by the City Council and included a proposed tax rate of \$0.5034 cents per \$100 assessed valuation, a decrease of 2.1% as compared to the 1998-99 rate of \$0.5142. The City Council will hold work sessions and will conduct public hearings on the budget prior to its adoption. The following is a summary of the proposed 1999-2000 General Fund Budget.

Beginning Balance, October 1, 1999 (Budget Basis) (000's omitted)		\$ 12,757
<u>Summary of Budgeted General Fund Resources</u>		
Revenues:		
General Property Taxes	\$ 113,973	
City Sales Tax	116,680	
Mixed Drink Tax	2,925	
Gross Receipts Fees	20,141	
Miscellaneous	<u>62,031</u>	
Total Revenues		\$315,750
Transfers In:		
Electric Light and Power System Fund	\$ 60,400	
Waterworks and Sewer System Fund	<u>17,152</u>	
Total Transfers In		<u>\$77,552</u>
Total General Fund Resources		<u>\$393,302</u>
<u>Summary of Budgeted General Fund Requirements</u>		
Departmental Appropriations:		
Administrative Services	\$ 8,868	
Urban Growth Management	10,337	
Public Safety	188,053	
Public Works	5,849	
Public Health and Human Services	51,344	
Public Recreation and Culture	<u>42,267</u>	
Total Departmental Appropriations		\$306,718
Transfers Out:		
Support Services Fund	\$ 31,939	
Fleet and Vehicle Acquisition Funds	7,632	
Other Funds	<u>32,067</u>	
Total Transfers Out		\$ 71,638
Other Requirements		27,703
Total General Fund Requirements		<u>\$406,059</u>
Excess (Deficit) Use of Beginning Balance		<u>\$(12,757)</u>
Budgeted Reserve Requirements:		
Emergency Reserve	\$ 17,455	
Contingency Reserve	<u>3,491</u>	
Total Budgeted Reserve Requirements		<u>\$ 20,946</u>

## **Deficit Budgeting**

The City is barred by Texas law and the City's Charter from deficit budgeting.

## **Accounting System**

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenue being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise and internal service funds are maintained on an accrual basis.

Article VII, Section 15 of the City's Charter requires an annual audit of all accounts of the City by an independent certified public accountant. This charter requirement has been complied with and the accountant's report is included herein.

## **Short-Term Borrowing**

Pursuant to Article 1264, V.A.T.C.S., the City has the authority to conduct short-term borrowings to provide for the payment of current expenses, through the issuance of current expense warrants. Such warrants must be repaid within the fiscal year in which they are issued. The City has not issued short-term warrants and does not have plans to issue such warrants in the current fiscal year.

## **INVESTMENTS**

The City of Austin invests its available funds in investments authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

### **Legal Investments**

Under Chapter 2256, Texas Government Code (The Public Funds Investment Act), the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) bankers' acceptances, so long as each such acceptance has a stated maturity of 270 days or less from the date of its issuance, will be liquidated in full at maturity, is eligible collateral for borrowing from a Federal Reserve Bank and is accepted by a domestic bank whose short-term obligations are rated at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency or which is the largest subsidiary of a bank holding company whose short-term obligations are so rated; (6) commercial paper with a stated maturity of 270 days or less from the date of its issuance that either (a) is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or, (b) is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof; (7) fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas, and secured by obligations described by 1 above (the principal and interest on which are guaranteed by the United States or any of its agencies), pledged with a third party selected or approved by the City, and having a market value of no less than the principal amount of the funds disbursed, (the term includes direct security repurchase agreements and reverse security repurchase agreements and the term of any reverse repurchase agreement may not exceed 90 days after the reverse security repurchase agreement is delivered. Money received by the City under the terms of a reverse security repurchase agreement may be used to acquire additional authorized investments, but the term of the authorized investment acquired must mature not later than the expiration date stated in the reverse security repurchase agreement); (8) certificates of deposit issued by state and national banks domiciled in Texas that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issues that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the City; (9) certificates of deposit issued by savings and loan associations domiciled in Texas that are (a) guaranteed or insured by the Federal Savings and Loan Insurance Corporation or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates, or in any other manner and amount provided by law for deposits of the City; (10) share certificates issued by a state or federal credit union domiciled in Texas that are (a) guaranteed or insured by the National Credit Union Share Insurance Fund or its successor; or, (b) secured by obligations that are described by 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates, or in any other manner and amount provided by law for deposits of the City; (11) SEC-regulated, no-load money market mutual funds with a dollar-weighted average stated portfolio maturity of 90 days or less and whose investment objectives include seeking to maintain a stable

net asset value of \$1 per share, (excluding bond proceeds, no more than 80% of the City's monthly average fund balance may be invested in money market mutual funds and excluding bond proceeds, the City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund); and (12) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described by 1-9 above. A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service.

State law strictly prohibits investment in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investments in collateralized mortgage obligations are strictly prohibited by the City of Austin investment policy. These securities are also disallowed for collateral positions.

### **Investment Policies**

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield and maturity; and also addresses the quality and capability of investment personnel. The policy includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement must describe the investment objectives for the particular fund using the following priorities: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority of the City Council or the Director of Finance and Administrative Services.

### **Additional Provisions**

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council, (3) require the registered principal of firms seeking to sell securities to the City to (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; and (5) provide specific investment training for the Director of Finance and Administrative Services, Treasurer and Investment Officers.

## Current Investments

As of June 30, 1999, the City's investable funds were invested in the following categories:

<u>Type of Investment:</u>	<u>Percentage:</u>
U.S. Treasury Notes	40.6 %
U.S. Treasury Strips	0.0
U.S. Agencies	39.4
Commercial Paper	8.9
Repurchase Agreements	0.0
Money Market Funds	0.8
Local Government Investment Pools	10.3

The dollar weighted average maturity for the combined City investment portfolios is 1.82 years. The City of Austin prices the portfolios daily utilizing a market pricing service.

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**GENERAL FUND REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCE**

	Fiscal Year Ended 9-30				
	1994	1995	1996	1997	1998
<b>Revenues:</b>					
Taxes <sup>(1)</sup>	\$140,854,407	\$148,888,824	\$160,405,219	\$171,109,680	\$190,949,086
Franchise Fees	11,982,640	12,183,178	13,337,896	14,743,888	16,861,639
Fines, forfeitures and penalties	9,764,462	10,966,311	12,159,358	12,570,388	14,492,863
Licenses, permits and inspections	12,850,578	13,074,490	14,311,481	12,888,265	15,540,712
Charges for services	6,518,502	8,021,247	8,174,721	9,427,193	10,260,908
Interest and other	6,093,626	6,086,132	6,015,253	5,586,512	12,623,348
Unrealized gain on investments	0	0	0	0	452,669
Total revenues	\$188,064,215	\$199,220,182	\$214,403,928	\$226,325,926	\$261,181,225
<b>Expenditures:</b>					
Administration	\$ 5,050,210	\$ 5,404,390	\$ 6,299,068	\$ 6,596,487	\$ 6,696,560
Urban growth management	10,860,524	11,401,778	10,567,446	7,501,086	8,380,122
Public safety	122,433,078	131,742,620	141,140,763	144,288,202	162,733,100
Public services and utilities	14,087,484	15,550,020	11,903,772	9,675,512	10,128,139
Public health	39,454,664	40,431,597	43,647,282	43,189,920	37,060,371
Public recreation and culture	28,770,857	29,874,687	30,092,171	32,764,540	35,861,623
Social services management	7,152,881	7,334,861	7,285,563	6,738,940	8,204,845
Nondepartmental expenditures	(398,994)	7,875,105	31,836,942 <sup>(4)</sup>	39,823,069 <sup>(4)</sup>	41,130,459 <sup>(4)</sup>
Total expenditures	\$227,410,704	\$249,615,058	\$282,773,007	\$290,577,756	\$310,195,219
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	(\$ 39,346,489)	(\$ 50,394,876)	(\$ 68,369,079)	(\$ 64,251,830)	(\$ 49,013,994)
<b>Other financing sources (uses):</b>					
Transfers from other funds	\$ 67,939,376	\$ 71,313,929	\$ 73,925,240	\$ 71,705,860	\$ 72,721,264
Transfers to other funds	(24,503,922)	(25,183,744)	(5,932,110) <sup>(4)</sup>	(3,116,124) <sup>(4)</sup>	(9,846,866) <sup>(4)</sup>
Net other financing sources	\$ 43,435,454	\$ 46,130,185	\$ 67,993,130	\$ 68,589,736	\$ 62,874,398
Excess (deficiency) of total revenues and other services over expenditures and other uses	\$ 4,088,965	(\$ 4,264,691)	(\$ 375,949)	\$ 4,337,906	\$ 13,860,404
Residual equity transfers in (out)	(1,350,928) <sup>(2)</sup>	0	0	0	0
Adjustment for a change in accounting principle	7,678,547 <sup>(3)</sup>	0	0	0	0
Fund balances at beginning of year, as restated for accounting changes	25,314,693	35,731,277	31,466,586	31,090,637	35,428,543
Fund balances at end of year	\$ 35,731,277	\$ 31,466,586	\$ 31,090,637	\$ 35,428,543	\$ 49,288,947

(1) Consists of property, sales and mixed drinks tax.

(2) Residual equity transfers out to the Federally Qualified Health Center Fund (\$336,283), the Parks and Recreation Fund (\$33,479), the Support Services Fund (\$776,550), the Information Systems Fund (\$183,083), and the Utility Customer Service Fund (\$21,533).

(3) In 1995, the City implemented Governmental Accounting Standards Board Statement No. 22, which required the City to accrue one additional month of sales tax revenues. Fiscal year 1994 was restated for the additional accrual. Earlier years were not restated.

(4) In 1996, 1997 and 1998, nondepartmental expenditures included \$25,467,935, \$33,834,066 and \$35,639,567 respectively. These expenditures were reported as "transfers to other funds" in prior years.

## CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

### Municipal Sales Tax

At an election held on September 30, 1967, the citizens of Austin voted a 1% retail sales and use tax to become effective on January 1, 1968. This tax provides an additional revenue source to the General Fund of the City. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, who currently remits the proceeds of the tax to the City monthly. Revenue from this source has been:

Fiscal Year Ended <u>9-30</u>	Per Capita Sales and <u>Use Tax</u>	Sales and <u>Use Tax</u>	% of Ad Valorem <u>Tax Levy</u>
1990	\$114.32	\$ 51,540,272	50.46%
1991	118.75	55,400,628	56.59%
1992	122.72	58,255,348	57.11%
1993	140.21	67,054,207	61.62%
1994	149.33	75,780,061	66.75%
1995	153.77	80,474,693	68.26%
1996	154.43	83,681,314	65.94%
1997	157.15	88,150,309	65.01%
1998	164.83	97,581,417	65.61%
1999 <sup>(1)</sup>	174.49	106,316,097	63.63%
2000 <sup>(2)</sup>	187.19	116,680,000	65.29%

(1) Estimate.

(2) Proposed Budget.

### Transfers From Utility Funds

The City owns and operates a Waterworks and Sewer System and an Electric Light and Power System, the financial operations of which are accounted for in the Utility Funds. Transfers from the Utility Funds to the General Fund have historically provided a significant percentage of the receipts for operation of the General Fund. The following sets forth the amount of such transfers.

Fiscal Year Ended <u>9-30</u>	<u>Transfers</u>	% of General Fund <u>Requirements</u>
1990	\$63,665,887	31.5%
1991	63,054,576	30.0%
1992	73,237,718	33.2%
1993	68,581,868	31.9%
1994	67,914,376	29.9%
1995	71,110,681	28.5%
1996	73,582,839	25.5%
1997	71,449,866	24.0%
1998	72,721,264	22.6%
1999 <sup>(1)</sup>	74,204,479	19.8%
2000 <sup>(2)</sup>	77,551,603	19.1%

(1) Estimate.

(2) Proposed Budget.

## ENTERPRISE FUNDS

### Summary of Income, Expenses and Changes in Retained Earnings

The Enterprise Funds account for the activities of the City which render services on a user charge basis to the general public. Set forth on pages 79 and 80 of Appendix B hereto is a condensed summary of the revenues, expenses, transfers and retained earnings of the City's ten enterprise funds for the year ended September 30, 1998.

### Electric Utility

The electric industry in Texas has experienced dramatic statutory and regulatory changes in the past several years which have had and will have significant impact on the Electric Utility and the other electric utilities in Texas. On February 7, 1996, the PUC adopted its transmission open access rules (the "PUC Open Access Rules") to implement legislation adopted in 1995 which required that all electric utilities that own transmission facilities to provide access to their transmission systems under rates, terms, and conditions comparable to the rates, terms and conditions by which the utilities use their transmission systems for their own sales. The PUC Open Access Rules treat the interconnected ERCOT transmission grid as a single, integrated system, and all load-serving utilities are responsible for paying a portion of the total costs of the grid. In return, all load-serving utilities have equal rights of access to the system and may use the system in the same manner as the transmission owners. Cost responsibility is based primarily on the size of the load obligation, and secondarily on the distance between the loads and the generators they rely upon for their peak capacity requirements.

SB 7 dramatically restructures the electric industry in Texas. SB 7 allows retail customers of investor owned utilities ("IOUs") to choose their electric supplier beginning January 1, 2002 as well as the retail customers of municipally owned utilities including the Electric Utilities ("Municipal Utilities") and electric cooperatives ("Electric Coops"), provided that such utilities elect to participate in retail competition. The Electric Utility has established a Strategic Planning Committee which is currently studying SB 7 and the Electric Utility's options in the light of SB 7.

Portions of SB 7 are described below. While certain of the summarized provisions of SB 7 do not apply directly to the Electric Utility, those provisions will effect the transition of the Texas electric industry into a market of retail electric competition.

*Provisions for Municipal Utilities and Electric Coops.* Municipal Utilities and Electric Coops are largely exempt from the requirements of SB 7. While IOUs will be subject to open competition on January 1, 2002, the governing bodies of Municipal Utilities and Electric Coops have the sole discretion to determine whether and when to open their service territories to retail competition. However, if a Municipal Utility or Electric Coop has not voted to open its territory, it will not be able to compete for retail customers at unregulated rates outside its traditional service territory. While IOUs must unbundle their generation from transmission and distribution and from retail sales activities, Municipal Utilities and Electric Coops retain the discretion to determine whether to unbundle those business activities.

Municipal Utilities and Electric Coops will also determine the rates for use of their distribution systems after they open their territories to competition, although the PUC will determine the terms and conditions for access to those systems. Additionally, Municipal Utilities and Electric Coops that do not elect to participate in open competition are required to offer distribution services upon conditions and terms established by the PUC.

SB 7 also permits Municipal Utilities and Electric Coops to recover their "stranded costs," through collection of a non-bypassable transition charge from their customers if so determined by such entities in a similar fashion to IOUs. Unlike IOUs, the governing board of a Municipal Utility determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing board. The stranded costs of Electric Coops is determined pursuant to the PUC Stranded Costs Report. Municipal Utilities and Electric Coops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs.

*Unbundling.* SB 7 requires all IOUs and the Lower Colorado River Authority ("LCRA") to "unbundle" their generation, transmission and distribution, and retail energy service functions by September 1, 2000 and to further segregate these functions into separate companies by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies that may be owned by a common holding

company, but which must operate largely independent of each other. The services offered by such separate entities must be available to other parties on a non-discriminatory basis. LCRA is required to separate its generation, and transmission and distribution functions into separate companies or affiliates by January 1, 2002 but need not operate these affiliates independently from one another to the extent required of IOU affiliated companies.

Retail sales activities will be performed by new companies called "Retail Electric Providers" ("REPs") which are the only entities authorized to sell electricity to retail customers. REPs must register with the PUC, demonstrate financial capabilities, and comply with certain consumer protection requirements. They will buy electricity from Power Generation Companies, power marketers or other parties and may resell that electricity to retail customers at any location in the State. Transmission and Distribution Utilities will be obligated to deliver the electricity. Generating assets will be owned by "Power Generation Companies." Power Generation Companies must register with the PUC and must comply with certain rules that are intended to protect consumers, but they will otherwise be unregulated and may sell electricity at market prices. Owners of transmission and/or distribution facilities will be "Transmission and Distribution Utilities" and will be fully regulated by the PUC. The PUC must approve the construction of new transmission facilities, and may order the construction of new facilities to relieve transmission bottlenecks. Transmission and Distribution Utilities will be required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Each type of unbundled company may not provide services that are provided by the other types of unbundled companies.

*Measures to Foster Competition and Assure Service.* SB 7 also provides a number of consumer protection provisions. Every area of the State will have a "Provider of Last Resort" approved by the PUC. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUC. The Provider of Last Resort must also serve any customer whose REP has failed to provide service.

Beginning September 1, 1999, each IOU must freeze its existing rates (except for a fuel factor passthrough) and must continue to serve its retail customers at such rates until 2002. Beginning in 2002, the unbundled REP of the IOU that held the certificate to provide retail service to an area (the "Affiliated REP") must reduce electric rates by 6% below the frozen rates and offer that reduced rate to all retail customers in the area formerly served by the IOU. The Affiliated REP must serve all residential and commercial customers who do not choose a different REP at such reduced rate. The Affiliated REP may not sell electricity to residential or commercial customers (generally small businesses) at any other rate until either 40% of the residential or commercial customers in the area have chosen to be served by other REPs or until January 1, 2005, whichever occurs first. Although the Affiliated REP may thereafter compete by offering prices that differ from the reduced rate, it must continue to offer such rate until January 1, 2007, to assure a maximum price that consumers will have to pay. SB 7 does allow Affiliated REPs to compete for industrial customers, and for certain aggregated commercial loads owned by a common entity.

To prevent concentration of generation in a single Power Generation Company, SB 7 requires IOUs to hold periodic "Capacity Auctions," supervised by the PUC, in which they must sell 15% of their power to others. Affiliated REPs are not allowed to purchase power from a related Power Generation Company. The Capacity Auctions will end four years after retail competition begins. SB 7 also provides protection by limiting the amount of generation that any single Power Generation Company, or group of commonly owned Power Generation Companies may own, to 20% of the available generation within a "power region" which will be created by the PUC. SB 7 requires any IOU (or affiliated Power Generation Company) that owns more than 20% of the installed electric generation within a power region to file a mitigation plan with the PUC by December 31, 2001 whereby (i) its excess generation plants will be sold at an independent sale, (ii) its excess generation capacity will be auctioned off to an independent party in a Capacity Auction, (iii) selling of its excess capacity for at least a four year period to an independent party, or (iv) some other reasonable mitigation method.

SB 7 provides for a transmission system operator that would be independent of market participants and which will be responsible for directing and controlling the operation of the transmission network within ERCOT.

*Stranded Cost Recovery.* Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets," which recovery is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market based rates in the open competition market. Such stranded costs are based, in large measure, on the amount of stranded costs associated with the respective



IOUs determined in the PUC's April 1998 Potentially Strandable Investment (ECOM Report: 1998 Update (the "PUC Stranded Cost Report")). SB 7 establishes the procedure to determine the amount of stranded costs and regulatory assets. Once determined, the stranded costs will be collected through a non-bypassable competition transition charge collected from the end retail electric users, within the IOU's service territory as it existed on May 1, 1999, through, primarily, an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

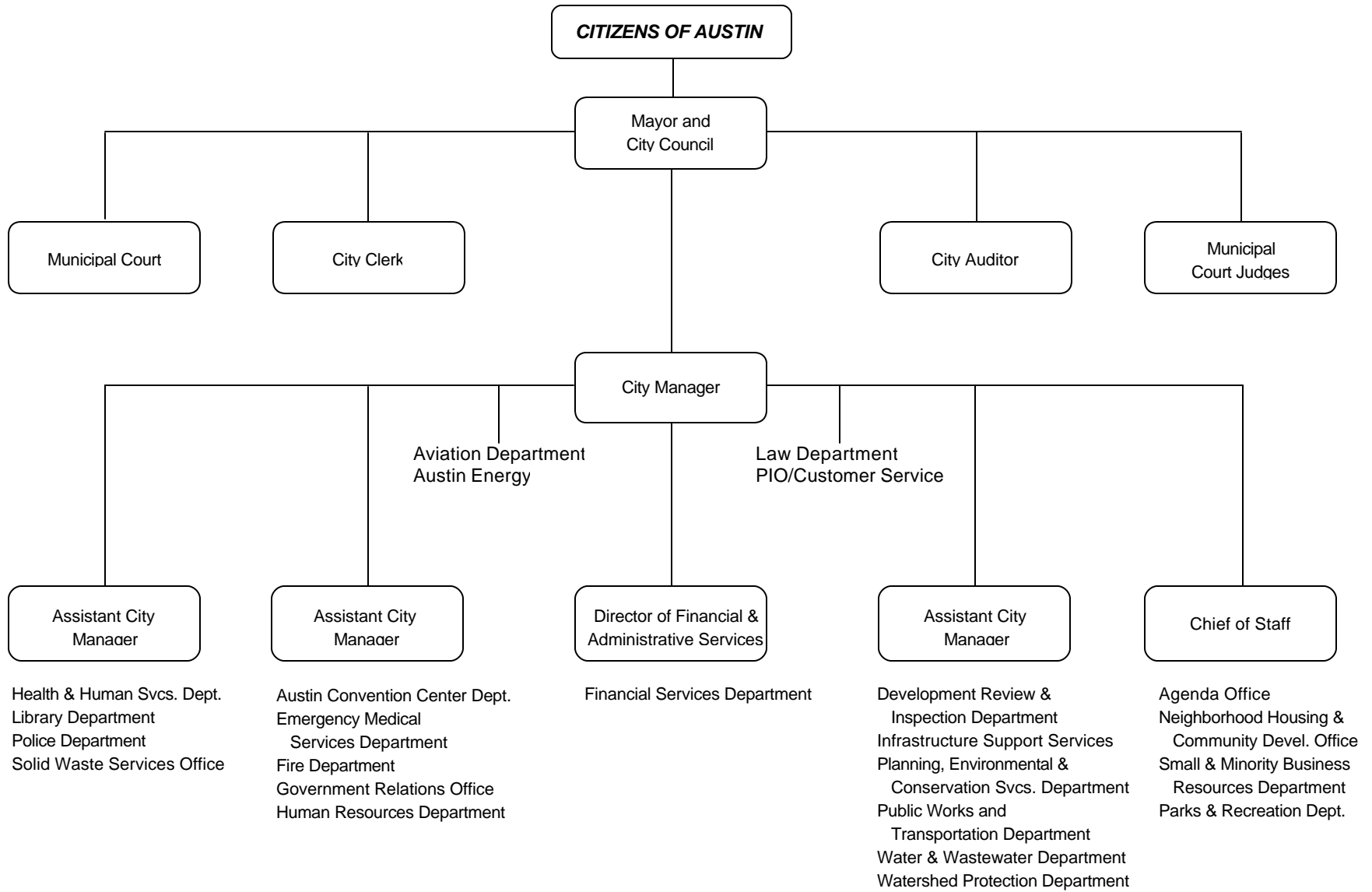
IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing and refinancing such bonds is secured by a qualified rate order of the PUC that creates the "competition transition charge." Neither the State nor the PUC may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

*Miscellaneous Provisions.* SB 7 requires all old "grandfathered" power plants – plants that have not previously been required to comply with air quality emissions standards administered by the Texas Natural Resources Conservation Commission – that are owned by IOUs, LCRA, Municipal Utilities and Electric Coops to be brought into compliance with the air quality emissions standards by May 2003.

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# CITY OF AUSTIN, TEXAS

## Organization Chart



## **THE CITY**

### **Administration**

Incorporated in 1839, the City operates under a Council/Manager form of government under its Charter. The City Council is comprised of a mayor and six council members elected at-large for staggered three-year terms.

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The City Manager's duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report of the finances and administrative activities. Jesus Garza was appointed City Manager effective June 22, 1994.

#### **City Manager . . . Jesus Garza**

Mr. Garza received his Masters in Public Affairs from the Lyndon Baines Johnson School of Public Affairs of The University of Texas and a Bachelor of Science degree from The University of Texas at Austin. Mr. Garza served as Acting City Manager and Assistant City Manager for the City of Austin prior to his appointment as City Manager. He previously held positions as Executive Director of the Texas Water Commission and Deputy City Manager of Corpus Christi.

#### **Director of Finance and Administrative Services . . . Betty Dunkerley, CPA**

Ms. Dunkerley received her Bachelor of Arts from Southern Methodist University, was elected to Phi Beta Kappa honor society, and is a Certified Public Accountant. She joined the City of Austin in March 1990, providing extensive experience in governmental accounting, auditing and finance. Prior to joining the City, she served as Director of Financial Services and Assistant City Manager for the City of Beaumont, Texas.

### **Services Provided by the City**

The City's major activities include police and fire protection, emergency medical services, parks and libraries, public health and social services, planning and zoning, general administrative services, solid waste disposal, and maintenance of bridges, streets and storm drains. The City currently owns and operates several major enterprises including an electric utility system, waterworks and sewer utility system, an airport and two public event facilities. In addition, the City owns a hospital that is operated by the Daughters of Charity Health Services of Austin under the terms of a long term lease.

### **Employees**

Municipal employees are prohibited from engaging in strikes and collective bargaining under State law. An exception allows fire and police employees to engage in collective bargaining (but not the right to strike) after a favorable vote of the electorate. The voters have not approved collective bargaining for either firemen or policemen. Approximately 11% of the City employees are members of the American Federation of State, County and Municipal Employees, 9% are members of the American Police Association and 7% are members of the International Association of Fire Fighters.

The City does not have automatic escalators in its payroll or in its retirement systems. The retirement systems may grant cost-of-living increases up to 6% for the municipal employees and police officers and a percentage based on the amount of increase in the Consumer Price Index for the firemen only if recommended by the independent actuary and approved by the retirement boards.

### **Annexation Program**

Annexation of territory by the City is regulated by Chapter 43 of the Texas Local Government Code. The recently adopted Texas Senate Bill 89, effective September 1, 1999, substantially amended Chapter 43. Until that date, prior to annexing territory, the City must develop a service plan describing the municipal services - police and fire protection, sanitation, provision and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks - to be provided to the annexed area. Those services may not be at a lower level of services than that provided in the area immediately prior to annexation, but the City is not obligated to provide a uniform level of services to all areas of the City where differing characteristics of population, topography, and land use provide a sufficient basis for different service levels.

Under current law, construction of capital improvements necessary to provide municipal services in the annexed area must commence within two years and be substantially complete within four and one-half years following annexation. Failure to provide municipal services in accordance with the service plan may provide grounds for disannexation of the area. The City may not reannex any area that was disannexed for failure to provide services within five years of the disannexation.

Annexations historically have included developed areas where water, sewer, and drainage services were being provided by utility districts created for such purposes (see "Services Financed by Utility Districts"). Those districts issue bonds in order to finance their own improvements. Such bonds are generally payable from the receipts of ad valorem taxes imposed by the district and, in some cases, are further payable from the net revenues, if any, derived from the operation of its water and sanitary sewer systems. State law generally requires that districts be annexed in their entirety. Upon dissolution, the City assumes the district's outstanding bonds and other obligations, and may levy and collect on taxable property within the corporate limits of the City ad valorem taxes sufficient to pay the principal of and interest on such assumed obligations. However, as a matter of policy, these debts and obligations have traditionally been funded by revenues of the Water and Wastewater Utility and the Drainage Utility, respectively, based on the purpose for which the bonds were originally issued.

The City's Charter and the State's annexation laws provide for two types of annexation. "Full purpose" annexation, discussed above, annexes territory into the City for all purposes, including the assessment and collection of ad valorem taxes on taxable property, collection of sales tax revenue and imposition of service-based user and franchising fees. The second type of annexation is known as "limited purpose" annexation by which territory may be annexed for the limited purposes of "planning and zoning" and "health and safety". Territory so annexed is subject to ordinances achieving these purposes: chiefly, the City's zoning ordinance, building code, and related ordinances regulating land development, if annexed for planning and zoning, and the City's health and safety regulations if annexed for those purposes also. Taxes may not be imposed on property annexed for limited purposes; municipal services are not provided; and residents of the area are restricted to voting only in City elections for City Council and Charter amendments, and not in bond elections. Since certain land use regulations can be imposed without invoking the extension of full municipal services, limited purpose annexation has typically been utilized as a mechanism for managing growth. Under current state law, areas annexed for limited purpose are then typically converted to full purpose within three years. As noted below, the City annexed over 20,000 acres of territory for limited purposes in 1984<sup>1</sup>. The City has historically developed biennial Strategic Annexation Programs since 1987. These programs prioritized areas to be considered for annexation at the end of the calendar year, thereby minimizing the fiscal impact to the City due to annexation. Annexation programming will continue to be developed on an annual basis, however, new statutory requirements mandate the additional three-year annexation plan.

As an alternative to annexation and dissolution of a utility district, the City may enter into a strategic partnership agreement (SPA) with a utility district, which is used to frame a negotiated annexation that will occur at some future date. In addition, the City may annex for limited purposes the retail areas within the district and collect sales tax revenue prior to full purpose conversion. The City successfully executed a strategic partnership agreement with Anderson Mill Municipal Utility District (MUD) in November of 1998. Under that agreement, the MUD will come into the City's full purpose jurisdiction in the year 2004.

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<sup>1</sup> The 1984 limited purpose annexations were not subject to current statutory requirements for a three-year conversion to full purpose.

The following table sets forth (in acres) the current results of the City's annexation program:

Calendar <u>Year</u>	Areas Fully <u>Annexed</u> <sup>(a)</sup>	Limited Purpose <u>Annexations</u> <sup>(b)</sup>	Net <u>Annexation</u>
1982	585	2,579	3,164
1983	3,739	1,860	5,599
1984	16,183	20,096	36,279
1985	15,502	11,158	26,660
1986	8,480	8,095	16,575
1987	(9,317)	2,420	(6,897)
1988	3,310	(6,734)	(3,424)
1989	(1,602)	(12,629)	(14, 231)
1990	729	(973)	(244)
1991	2,270	(1,334)	936
1992	957	(796)	161
1993	271 <sup>(c)</sup>	(1,227)	(956)
1994	3,057	(735)	2,322
1995 <sup>(d)</sup>	(1,748)	2,185	437
1996	2,501	(1,241)	1,260
1997	13,473	(1,337)	12,136
1998	2,409 <sup>(e)</sup>	(411)	1,998

(a) Represents areas which will be taxed and fully serviced by the City.

(b) Represents areas controlled for planning and zoning purposes, without the benefit of City services or taxation.

(c) Includes dissolution of 2,476 full purpose acres. (5 inactive MUDs were dissolved in 1993.)

(d) Includes conversion of Harris Branch and Moore's Crossing MUDs from full purpose to limited purpose due to legislation.

(e) Includes conversion of the Harris Branch MUDs from limited purpose to full purpose.

#### Recent Annexations

As of December 31, 1998, the City completed ten full purpose annexations in 1998, including the conversion of the limited purpose areas of the Harris Branch MUDs, for a total taxable valuation of \$50,018,270 with a population of 2,290 residents. In addition, the City also completed two limited purpose annexations for the purposes of planning, zoning, health and safety. The City also executed a strategic partnership agreement (SPA) with the Anderson Mill MUD that allowed for the limited purpose annexation of the retail areas west of US Hwy 183 and full purpose annexation of the retail areas east of US Hwy 183 within the MUD that allows for the subsequent collection of sales tax revenue.<sup>1</sup>

Annexation of the Harris Branch MUDs will generate the following tax revenue <sup>(1)</sup> for the City:

<u>Municipal Utility District</u>	<u>Population</u>	<u>Assessed Value</u> <u>(1998 Certified)</u>	<u>Property Tax</u> <u>Revenue Impact</u>
Austin MUDs 1(remainder), 2, & 3	1,741	\$ 131,797,400	\$ 249,274

<sup>(1)</sup> Calculated using the approved 1999-2000 City property tax rate of \$0.5034 per \$100 valuation and a 99% collection rate. The 1999 certified taxable value does not include approximately \$82 million of 1998 taxable value related to Applied Materials which was already within the full purpose jurisdiction of the City.

The limited purpose annexations included: 1) the Del Valle area which borders the Austin-Bergstrom International Airport that opened in May, 1998, and 2) the proposed Motorola development site. Del Valle was annexed as a means of managing new growth associated with the opening of the airport with full purpose conversion occurring in the year 2001. The proposed Motorola site was annexed as part of a planned development agreement with full purpose conversion expected in the year 2003.

<sup>1</sup> The City initiated proceedings for two additional full purpose and five limited purpose annexations that were completed after January 1, 1999. The Anderson Mill SPA prompted six of those seven annexations. The two full purpose annexations, with an estimated assessed valuation of \$164,100, will appear on the tax roll in the year 2000. Sales tax revenue collection will begin mid-year 1999.

## Future Annexations

As noted above, Senate Bill 89 of the 1999 Texas legislative session, made substantial changes to Chapter 43 of the Texas Local Government Code governing annexation, effective September 1, 1999. Cities are now required to adopt a three-year annexation plan governing certain types of nonconsensual annexations. The plan represents a three-year planning cycle where annexation occurs within thirty-one days subsequent to the plan's three-year anniversary. Annexations that are exempt from the requirement to be included in a three-year annexation plan include: areas with fewer than 100 tracts on which is located a residential, consensual annexations, areas that are subject to a strategic partnership agreement or that are included in an industrial district, areas within colonias as defined by Section 2306.581 of the Government Code, areas located within a military installation, areas subject to a nuisance condition as defined by law, and areas subject to some condition that pose some imminent threat to life or property. Exempt areas are not subject to the three-year planning cycle and can be completed within the formerly standard three- to four-month time frame.

In addition, cities cannot preclude the continuation of land uses if they were legal at the time annexation proceedings were instituted. This may limit a municipality's authority to annex for the purpose of imposing certain land use controls, however, limited purpose annexation can be used as an interim regulatory mechanism for the purpose of managing growth and development.

Full municipal services, including water and wastewater, must now be extended within two and one-half years, however, that time frame can be expanded to four and one-half years if there is reasonable cause and a schedule is adopted as part of the service plan. Service levels must remain comparable to other parts of the municipality based on similar population density and topography. If service levels exceeded that of the existing city for operation and maintenance of infrastructure, the superior levels must be maintained. In addition, annexation cannot diminish service levels within the existing city. The law continues to provide for the strategic partnership agreement as an annexation plan alternative and introduces the ability to contract for service in lieu of annexation.

Finally, legislation allows for annexations to occur under current law with a few notable exceptions during the interim period between 1999–2002. The City will continue to annex property, recognizing those changes that apply during the interim period.

In response to statutory changes, the City will review and evaluate all annexation options permitted by law during the interim three-year period, as well as adopt the mandated annexation plan which will become effective December 31, 1999. The City will also continue to explore the possibility of Strategic Partnership Agreements allowed under the Texas Local Government Code 43.0751, for various MUDs. Included among these MUDs are the following:

<u>Municipal Utility District</u>	<u>Population</u>	<u>Assessed Value <sup>(1)</sup> (1998 Certification)</u>	<u>Property Tax <sup>(2)</sup> Revenue Impact</u>
River Place	2,420	\$ 156,671,608	\$ 797,549
Lost Creek	4,300	388,746,139	1,978,943
Wells Branch	16,000	476,258,453	2,424,432
Shady Hollow	5,250	150,935,804	768,351
Springwoods	5,600	179,055,064	911,494
North Austin MUD No. 1	<u>8,320</u>	<u>330,268,023</u>	<u>1,681,256</u>
Totals	41,890	\$1,681,935,091	\$ 8,562,025

- (1) Assessed value are based on a projected Austin Taxable Value (1998-99) with those exemptions recognized by the City of Austin .
- (2) Calculated using the approved 1998-99 City property tax rate of \$0.5142 per \$100 valuation and a 99% collection rate. Wells Branch MUD cannot be annexed prior to September 1, 1999 under terms of a settlement agreement. Shady Hollow MUD cannot be annexed prior to December 2000 under its consent agreement. Springwoods MUD cannot be annexed prior to December 2002 under the terms of an amendment to its consent agreement negotiated with the City during the 1997 annexation program.

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

## **Pension Plans**

There are three contributory defined benefit retirement plans for the Municipal, Fire, and Police employees. State law requires the City to make contributions to the funds in an amount at least equal to the contribution of the employee group.

The Police Officers contribute 9% and the City contributes 18% of payroll. The Municipal employees and the City each contribute 7%. The Firefighters (who are not members of the Social Security System) contribute 11.7% of payroll, the City contributes 20.05%.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability of the Police Officer's Fund and Firefighters Fund over 28.0 years and 10.6 years, respectively. The Municipal Employees Fund is fully funded.

The actuarial accrued liability for the Municipal Employees Fund as of December 31, 1997 was \$832,140,000. The actuarial accrued liability for the Police Officers' Fund as of December 31, 1997 was \$222,703,000. The actuarial accrued liability for the Firefighters' Pension Fund as of December 31, 1997 was \$279,472,000. See Note 9 to the City's Financial Statements for additional information on the Pension Plans.

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees. Any retiree who is eligible to receive retirement benefits under any of the City's three pension plans is eligible for these benefits. Post retirement benefits include health insurance and \$1,000 of life insurance for the retired employee only. The City pays either all or a portion of the retiree's health insurance premiums, depending upon the health care plan selected. Retirees may also receive health insurance benefits for dependents eligible under the plan at their own cost.

The City recognizes the cost of providing these benefits to employees and retirees by expensing the City contributions to the health benefits fund in the year in which the contributions are made. Total contributions were \$24,600,422 in 1998 and \$25,034,114 in 1997. The cost for providing those benefits for 1,769 retirees and 8,699 active employees in 1998 and 1,648 retirees and 8,847 active employees in 1997 is not separable.

## **Insurance**

The Liability Reserve Fund is the insurance fund of the City for settled claims, expenses and reserves relating to third party liability claims for injury and property damage, including professional liability. The Liability Reserve Fund is used to pay for actual claims incurred and related expenses for settling these claims, for budgeted administrative costs for the fund's operations, and to estimate incurred but not reported claims. The Liability Reserve Fund had accrued liabilities of approximately \$13.3 million for claims and damages at the end of fiscal year 1998. Employee injuries are covered by the Workers' Compensation Fund, and health claims are protected by the Health Benefits Fund.

## **Year 2000 Issues**

In July 1996, the City commenced a comprehensive project to deal with its Year 2000 issues with a target date for compliance of December 31, 1998 to allow for testing on January 1, 1999 and to have an additional year's worth of processing in 1999 to increase success during 2000 and beyond. The City is continuing to implement this plan which includes the operating and billing systems of the Utility Systems. The City has completed various phases of the comprehensive Y2K plan and plans on being 100% compliant by September 1, 1999. In addition, the City is working on implementing detailed contingency measures.

All of the City's outstanding debt is DTC eligible and a substantial amount has been issued under the Book-Entry-Only System of DTC. See "Description of the Bonds - Book-Entry-Only System" herein. None of the outstanding Utility Systems debt or the City's general obligation debt involves a January 1 interest payment or principal maturity date. Some defeased debt payable from escrowed government securities have a January 1, 2000 payment date. The City's Escrow Agent's, Paying Agent's and DTC have all submitted certificates of compliance to the City Treasurer assuring the City that they are Y2K compliant. The City cannot ensure "business as usual" if companies and organizations the City relies on are not compliant. While attempting to be aware of and address the internal and external issues involved in the Year 2000 problem, no assurance can be given that problems will not arise within and outside the control of the City and its various departments.

## OTHER RELEVANT INFORMATION

### Ratings

The City applied to Moody's Investors Service, Inc. ("Moody's"), 99 Church Street, New York, New York, 10007, Standard & Poor's Ratings Group ("S&P"), 55 Water Street, 38<sup>th</sup> Floor, New York, New York, 10041, and Fitch IBCA, Inc. ("Fitch"), One State Street Plaza, New York, New York, 10004, for credit ratings on the Bonds, Certificates and Contractual Obligations. The presently outstanding tax supported debt of the City is rated "Aa2" by Moody's, "AA" by S&P and "AA" by Fitch. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Bonds, Certificates and Contractual Obligations. The City will undertake no responsibility to notify the owners of the Bonds, Certificates and Contractual Obligations of any such revisions or withdrawal of ratings.

### Tax Exemption

In the opinion of Bond Counsel, (i) interest on the Bonds, Certificates and Contractual Obligations is excludable from gross income for federal income tax purposes under existing law, and (ii) the Bonds, Certificates and Contractual Obligations are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds, Certificates and Contractual Obligations is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, Certificates and Contractual Obligations, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file information reports with the Internal Revenue Service. The City has covenanted in the Ordinances that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinances pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds, Certificates and Contractual Obligations for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Purchaser, with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Purchasers, which Bond Counsel has not independently verified. If the City should fail to comply with any of the covenants in the Ordinances or if any of the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds, Certificates or Contractual Obligations, as the case may be, could become taxable from the date of delivery thereof, regardless of the date on which the event causing such taxability occurs.

The Code imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, a corporation's alternative minimum taxable income includes 75% of the amount by which a corporation's "adjusted current earnings" exceeds its other alternative minimum taxable income. Because interest on tax-exempt obligations such as the Bonds, Certificates and Contractual Obligations is included in a corporation's "adjusted current earnings," ownership of the Bonds, Certificates or Contractual Obligations could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, Certificates and Contractual Obligations, received or accrued during the year.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or disposition of the Bonds, Certificates or Contractual Obligations.

Prospective purchasers of the Bonds, Certificates and Contractual Obligations should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Bonds, Certificates and Contractual Obligations. The federal income tax consequences of the purchase, ownership, and redemption,



sale or other disposition of Bonds, Certificates and Contractual Obligations which are not purchased in the initial offering at the initial offering price may be determined according to special federal income tax accounting rules. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective.

### **Litigation**

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

### **Registration and Qualification of Bonds, Certificates and Contractual Obligations**

The sale of the Bonds, Certificates and Contractual Obligations 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, Certificates and Contractual Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds, Certificates and Contractual Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds, Certificates and Contractual Obligations under the securities laws of any jurisdiction in which the Bonds, Certificates and Contractual Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds, Certificates and Contractual Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### **Legal Investments and Eligibility to Secure Public Funds in Texas**

Over a period of years, the Texas Legislature has enacted three statutes which pertain to the eligibility of bonds issued by municipalities, such as the Bonds, Certificates and Contractual Obligations, as investments for certain entities and as security for deposits of public funds: Article 717k-6, Vernon's Texas Civil Statutes (codified effective September 1, 1999 as Chapter 1201, Texas Government Code); Chapter 2256, Texas Government Code ("Public Funds Investment Act"); and Chapter 2257, Texas Government Code ("Public Funds Collateral Act"). Reconciliation of these three statutes leads to the following conclusions: (1) banks, savings and loan associations, insurance companies, fiduciaries, trustees and the State of Texas may invest in the Bonds, Certificates and Contractual Obligations; (2) the Bonds, Certificates and Contractual Obligations may be used to secure the deposit of public funds and (3) political subdivisions of the State of Texas may not invest in the Bonds, Certificates and Contractual Obligations unless they have been rated by a nationally-recognized investment rating firm and received a rating of not less than "A" or its equivalent. No review by the City has been made of the laws in other states to determine whether the Bonds, Certificates and Contractual Obligations are legal investments for various institutions in those states.

### **Legal Opinions and No-Litigation Certificate**

The City will furnish complete transcripts of proceedings had incident to the authorization and issuance of the Bonds, Certificates and Contractual Obligations, including the unqualified approving legal opinions of the Attorney General of the State of Texas approving the Initial Bond, Certificate and Contractual Obligation and to the effect that the Bonds, Certificates and Contractual Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Bonds, Certificates and Contractual Obligations will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Exemption" herein, including the alternative minimum tax consequences for corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, Certificates and Contractual Obligations, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds, Certificates and Contractual Obligations will also be furnished. Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds, Certificates and Contractual Obligations in the Official Statement to verify that such description conforms to the provisions of the respective Ordinances. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds, Certificates and Contractual Obligations are contingent on the sale and delivery of the Bonds, Certificates and Contractual Obligations. Certain additional legal matters will be passed upon for the City by McCall, Parkhurst & Horton L.L.P., Austin and Dallas, Texas.

## **Financial Advisor**

Public Financial Management, Austin, Texas is employed as Financial Advisor to the City in connection with the issuance, sale and delivery of the Bonds, Certificates and Contractual Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds, Certificates and Contractual Obligations is contingent upon the issuance and delivery of the Bonds, Certificates and Contractual Obligations. Public Financial Management, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds, Certificates and Contractual Obligations.

## **Continuing Disclosure of Information**

In each respective Ordinance, the City has made the following agreement for the benefit of the respective holders and beneficial owners of the Bonds, Certificates and Contractual Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds, Certificates and Contractual Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

*Annual Reports* - The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all the quantitative financial information and operating data with respect to the City of the general type included (i) in the portions of the financial statements of the City appended to the Official Statement as Appendix B, but for the most recently concluded fiscal year end and (ii) in the main text of the Official Statement under the subcaptions: "Tax Valuation" with respect to the appraised value as of January 1 during the fiscal year as to which such annual report relates, "Current Investments", "Valuation and Funded Debt History," "Tax Rates, Levy and Collection History," "Ten Largest Taxpayers," "Property Tax Rate Distribution," "General Fund Revenues And Expenditures And Changes In Fund Balance," "Municipal Sales Tax," and "Transfers From Utility Fund". The City will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year ending in or after 1999 unless otherwise noted above. The City will provide the update information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The update information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial statements by that time and will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year is October 1 to September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

*Material Event Notice* - The City will also provide timely notices of certain events relating to the Bonds, Certificates or the Contractual Obligations to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, Certificates or the Contractual Obligations, if such event is material within the meaning of the federal securities laws; (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds, Certificates or the Contractual Obligations; (7) modifications to rights of holders of the Bonds, Certificates or the Contractual Obligations; (8) Bond, Certificate or the Contractual Obligation calls; (9) defeasance; (10) release, substitution, or sale of property securing repayment of the Bonds, Certificates or the Contractual Obligations; and (11) rating changes with respect to the Bonds, Certificates or the Contractual Obligations. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

*Availability of Information from NRMSIRs and SID* - The City has agreed to provide the foregoing information to NRMSIRs and any SID only. The information will be available to holders of Bonds, Certificates and Contractual Obligations only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947.

*Limitations and Amendments* - The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds, Certificates or the Contractual Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds, Certificates or the Contractual Obligations in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds, Certificates or the Contractual Obligations consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds, Certificates or the Contractual Obligations. If the City amends its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data will be provided.

*Compliance with Prior Undertakings* - The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

#### **Authenticity of Financial Data and Other Information**

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

This Official Statement, and the execution and delivery of this Official Statement will be authorized by the City Council on September 9, 1999.

/s/ Kirk Watson  
Mayor,  
City of Austin, Texas

ATTEST:

/s/ Shirley A. Brown  
City Clerk,  
City of Austin, Texas

## APPENDIX A

### GENERAL INFORMATION REGARDING THE CITY AND ITS ECONOMY

The following information has been presented for informational purposes only. The Bonds are a general obligation of the City.

#### Life in Austin

Austin is a unique city known for its beauty, its dynamic style, and its diverse community. Located in the heart of the Texas Hill Country, the Austin area is blessed with panoramic views, an abundance of rivers and lakes, and a climate that is conducive to outdoor activity.

Austin is a great place to enjoy the outdoors. With winter temperatures rarely dipping below freezing and often reaching into the 70's and 80's and with long summers, Austin's city, county, and state parks and recreation facilities are busy year-round.

#### Austin Weather

Mean temperature	69
Mean low temperature	58
Mean high temperature	78
Clear days	116
Average rainfall	32"
Average days of sunshine	300

Austin's Parks and Recreation Department is acknowledged as one of the finest in the country. The city has a number of public outdoor recreational facilities, including 23 greenbelts, 88 athletic fields, 77 neighborhood parks, 5 golf courses, 106 tennis courts, the Veloway for bicyclists and inline skaters, and 47 swimming pools, including renowned Barton Springs, where as many as 400,000 people a year enjoy its constant 68 degree spring-fed water. Austin is home to a number of outdoor events and festivals, including the Capitol 10,000 Race, the Annual Texas Hill Country Wine and Food Festival, the Pecan Street Arts Festival, the Annual Spam-O-Rama, where hundreds of devotees of SPAM converge for cooking and sculpting contests, and the nightly flights of the world's largest urban bat colony.

In addition to outdoor recreational opportunities, Austin has a wide variety of indoor recreational activities to choose from. Austin has long been recognized as the "live music capital of the world," with more than 100 live music venues nightly offering a complete range of musical styles. Austin also has a number of museums and art galleries to choose from and has a wide variety of restaurants and bars offering all types of food and drink, especially in the popular Sixth Street area and the developing Warehouse District.

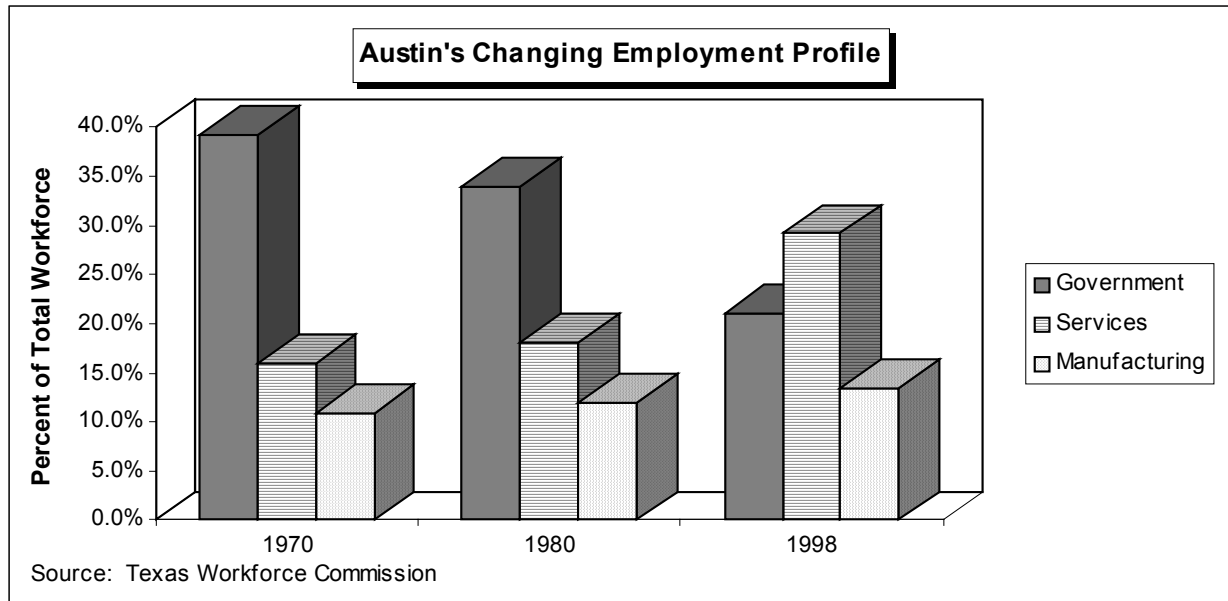
With its seven institutions of higher learning, education is a significant aspect of life in the Austin area. Access to these institutions, especially the University of Texas at Austin (UT), has attracted many of the high-technology industries that now drive most of the growth in the city's economy. The University of Texas library is ranked fifth among public universities in the United States, and the University's academic programs and professional schools rank largely among the top 10 programs and schools in the country. *U.S. News & World Report* ranks fifteen graduate programs and specialties in the top five nationally, including public and private universities, and the National Research Council ranks seven of UT's doctoral programs in the top ten nationally. The *Public Accounting Report* ranks UT's graduate accounting program first nationally.

Austin is one of the most highly educated of U.S. cities with a population of over 250,000, with 35% of its adults having 16 or more years of schooling. The city may also have the most computer-literate populace in the country. *Yahoo Magazine* recently rated Austin as the second-most wired city in the nation.

## Industry and Business

In 1998 the Austin metropolitan area continued to receive national recognition for its dynamic economy and its quality of life. *FORTUNE* magazine ranks Austin as “The Best City for Business in North America,” and *Newsweek* ranks Austin as one of the hottest high-tech cities in the world. *Money Magazine* includes Austin as 14th on the list of “Best Large City of the South”.

As the capital of Texas and the home of the University of Texas, Austin has long been considered a government and university town. However, Austin is also one of the premier high-tech communities in the country. Austin has approximately 1,800 technology companies of all kinds employing 115,000 people, with another 200 professional service and low-tech firms employing about 15,000 people, bringing the area’s tech-related jobs to about 130,000. While government employment is still a stabilizing force in the Austin economy, it now accounts for a much lower percentage of the make-up of Austin’s total employment. As the comparison below shows, since 1970, government employment has decreased substantially relative to the other large employment sectors in the Austin area.



The outlook for Austin’s high-technology industry remains very promising and the city’s ability to attract new businesses and individuals remains strong, as Austin is a unique place that offers an abundance of recreational and cultural activities and excellent municipal services. The large student population of more than 100,000, half of them at the University of Texas, help keep the city intellectually active and provide a valuable resource to companies locating to the area.

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

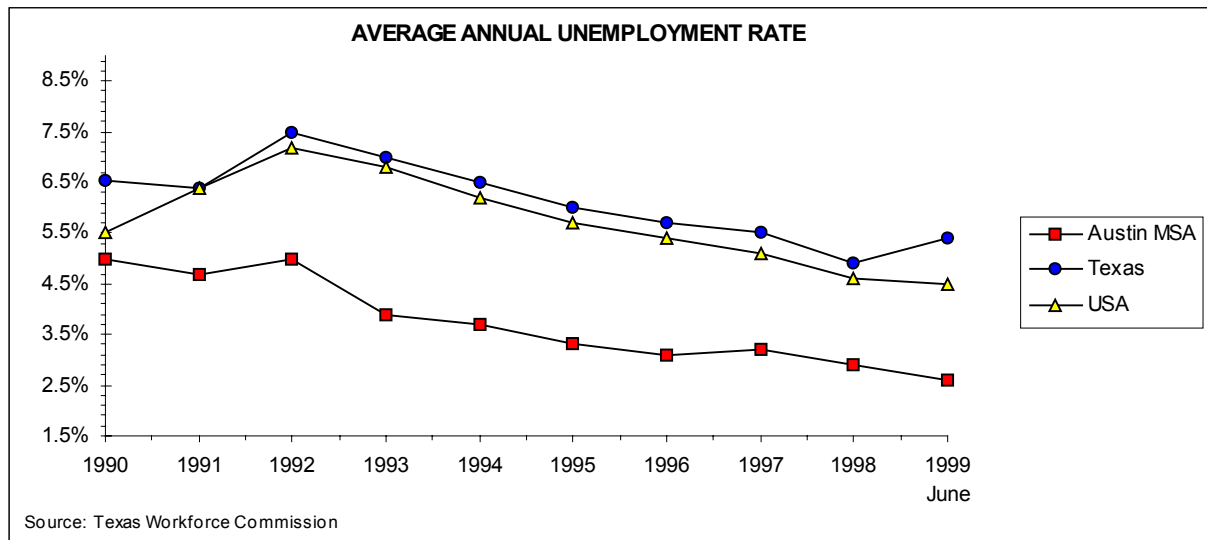
**Employment Characteristics**

<u>Industrial Classification</u>	12 Months Ended December 31 <u>1970</u>	% of <u>Total</u>	12 Months Ended December 31 <u>1996</u>	% of <u>Total</u>	12 Months Ended December 31 <u>1997</u>	% of <u>Total</u>	12 Months Ended December 31 <u>1998</u>	% of <u>Total</u>	6 Months Ended June 30 1999 <sup>(b)</sup>	% of <u>Total</u>
Manufacturing	13,300	10.3%	71,500	13.1%	75,485	13.5%	81,871	13.8%	84,100	13.5%
Government	51,150	39.5%	130,400	23.8%	127,151	22.7%	130,036	21.9%	126,200	20.3%
Trade	26,100	20.2%	122,700	22.4%	121,548	21.8%	128,552	21.6%	135,400	21.8%
Services and Miscellaneous	19,600	15.1%	148,600	27.1%	156,173	27.9%	168,985	28.4%	183,800	29.6%
Finance, Insurance and Real Estate	6,150	4.7%	29,100	5.3%	29,083	5.2%	30,587	5.1%	32,700	5.3%
Contract Construction	8,750	6.8%	26,800	4.9%	29,954	5.4%	33,758	5.7%	36,600	5.9%
Transportation, Communications & Utilities	4,000	3.1%	17,500	3.2%	18,501	3.3%	19,451	3.3%	21,100	3.4%
Mining	<u>450</u>	<u>0.3%</u>	<u>1,100</u>	<u>0.2%</u>	<u>1,224</u>	<u>0.2%</u>	<u>1,308</u>	<u>0.2%</u>	<u>1,300</u>	<u>0.2%</u>
Total	<u>129,500</u>	<u>100.0%</u>	<u>547,700</u>	<u>100.0%</u>	<u>559,119</u>	<u>100.0%</u>	<u>594,548</u>	<u>100.0%</u>	<u>621,200</u>	<u>100.0%</u>

(a) Information is updated periodically, data contained herein is latest provided.

(b) Subject to revision.

Source: 1998 Comprehensive Annual Financial Report, Texas Workforce Commission.



**AVERAGE ANNUAL UNEMPLOYMENT RATE**

	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
1990	5.0%	6.5%	5.5%
1991	4.7%	6.4%	6.4%
1992	5.0%	7.5%	7.2%
1993	3.9%	7.0%	6.8%
1994	3.7%	6.5%	6.2%
1995	3.3%	6.0%	5.7%
1996	3.1%	5.7%	5.4%
1997	3.2%	5.5%	5.1%
1998	2.9%	4.9%	4.6%
1999 June	2.6%	5.4%	4.5%

Note: Information is updated periodically, data contained herein is latest provided.

Source: 1998 Comprehensive Annual Financial Report, Texas Workforce Commission.

**CITY SALES TAX COLLECTIONS**

(In Millions)

<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>
1-1-95	\$6.108	1-1-96	\$5.790	1-1-97	\$ 5.421	1-1-98	\$ 6.399	1-1-99	\$ 7.335
2-1-95	9.222	2-1-96	9.213	2-1-97	10.626	2-1-98	10.708	2-1-99	12.155
3-1-95	5.666	3-1-96	6.393	3-1-97	5.734	3-1-98	6.641	3-1-99	7.318
4-1-95	5.329	4-1-96	5.945	4-1-97	5.848	4-1-98	6.780	4-1-99	7.252
5-1-95	7.491	5-1-96	7.425	5-1-97	7.861	5-1-98	9.155	5-1-99	10.027
6-1-95	5.369	6-1-96	6.262	6-1-97	6.446	6-1-98	7.367	6-1-99	7.900
7-1-95	5.552	7-1-96	6.041	7-1-97	6.013	7-1-98	7.056	7-1-99	7.632
8-1-95	7.881	8-1-96	7.932	8-1-97	8.541	8-1-98	9.587	8-1-99	10.611
9-1-95	5.529	9-1-96	6.456	9-1-97	6.569	9-1-98	7.251		
10-1-95	5.880	10-1-96	5.796	10-1-97	6.967	10-1-98	7.277		
11-1-95	7.874	11-1-96	7.524	11-1-97	8.477	11-1-98	8.623		
12-1-95	5.426	12-1-96	6.060	12-1-97	6.770	12-1-98	7.417		

Source: State of Texas Comptroller's Office.

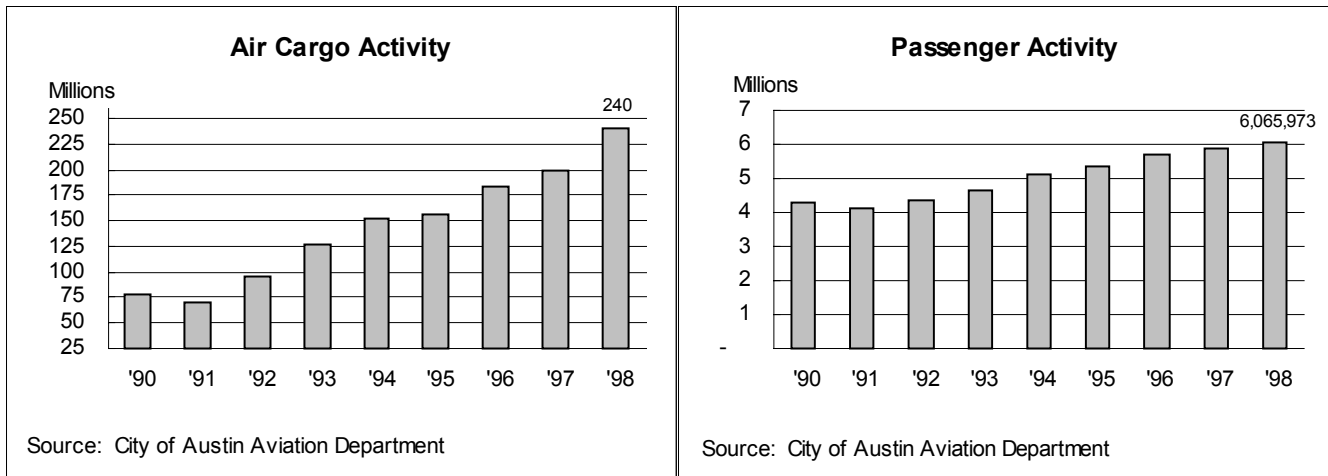
**TEN LARGEST EMPLOYERS**  
(as of September 30, 1998)

<u>Employer</u>	<u>Product or Service</u>	<u>Number of Employees</u>
The University of Texas at Austin	Education and research	20,342
Dell Computer Corporation	Computers	10,700
City of Austin	City Government	10,606
Motorola, Inc.	Electronic components	10,000
Austin Independent School District	Education	9,159
IBM Corporation	Office machines	7,000
Internal Revenue Service	Federal Agency	5,700
Texas Department of Health	State Government	5,634
Advanced Micro Devices	Computers	4,200
Texas Department of Public Safety	State Government	4,000

Source: 1998 Comprehensive Annual Financial Report.

**Transportation**

**Austin-Bergstrom International Airport**



Prior to May 23, 1999 all passenger activity was out of Robert Mueller Municipal Airport.

Rail facilities are furnished by Union Pacific and Longhorn Railway Company. Amtrak brought passenger trains back to the City in January 1973, as one of the infrequent stops on the Mexico City-Kansas City route. Bus service is provided by Greyhound, and Kerrville and Valley Transit.

On January 19, 1985, the citizens of Austin and several surrounding areas approved the creation of a metropolitan transit authority ("Capital Metro") and adopted an additional one percent sales tax to finance a transit system for the area which was later reduced to three quarters of a percent, effective April 1, 1989. On June 12, 1995, the Capital Metro board approved an one quarter percent increase in the sales tax thus returning to one percent effective October 1, 1995.

Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999, is served by 8 major airlines: American, America-West, Continental, Delta, Northwest, Southwest, TWA and United. In addition, Austin Express serves Austin as a commuter airline. Direct service is available to all major U.S. destinations.



## Growth Indicators

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

### POPULATION

	<u>Austin<sup>(1)</sup></u>		<u>Travis County<sup>(1)</sup></u>		<u>Texas<sup>(2)</sup></u>		<u>United States<sup>(2)</sup></u>	
	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
1950	132,459	50.6%	160,980	45.0%	7,711,194	20.2%	151,326,000	14.5%
1960	186,545	40.8%	212,136	31.8%	9,579,677	24.2%	179,323,000	18.5%
1970	253,539	35.9%	295,516	39.3%	11,198,655	16.9%	203,302,000	13.4%
1980	345,496	36.3%	419,573	42.0%	14,228,383	27.1%	222,100,000	9.3%
1985	406,584	17.7%	527,120	25.6%	16,370,000	15.1%	238,740,000	7.5%
1986	431,851	6.2%	551,101	4.6%	16,685,000	1.9%	241,078,000	1.0%
1987	444,684	3.0%	563,787	2.3%	16,790,000	0.6%	243,249,000	0.9%
1988	447,582	0.7%	569,700	1.1%	16,841,000	0.3%	247,031,000	1.6%
1989	450,107	0.6%	573,805	0.7%	17,451,000	3.6%	247,732,000	0.3%
1990	450,830	0.2%	576,407	0.5%	16,986,510	-2.7%	249,632,692	0.8%
1991	466,530	3.5%	585,731	1.6%	17,349,000	2.1%	252,177,000	1.0%
1992	474,715	1.8%	594,560	1.5%	17,615,745	1.5%	255,020,000	1.1%
1993	478,254	0.8%	600,427	1.0%	17,805,566	1.1%	257,592,000	1.0%
1994	507,468	6.1%	636,991	6.1%	18,291,000	2.7%	261,212,000	1.4%
1995	523,352	3.1%	656,979	3.1%	18,724,000	2.4%	262,755,000	0.6%
1996	541,889	3.5%	681,654	3.8%	19,128,000	2.2%	265,410,000	1.0%
1997	560,939	3.5%	703,717	3.2%	19,439,337	1.6%	267,792,000	0.9%
1998	608,214	8.4%	725,669	3.1%	19,759,614	1.7%	271,685,044	1.5%

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

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

### CONNECTIONS AND PERMITS

<u>Year</u>	<u>Utility Connection</u>			<u>Building Permits</u>		
	<u>Electric</u>	<u>Water</u>	<u>Gas</u>	<u>Taxable</u>	<u>Federal State and Municipal</u>	<u>Total</u>
1989	257,525	136,233	109,366	\$ 361,440,727	\$12,516,321	\$ 373,957,048
1990	275,840	137,936	111,114	309,999,799	48,312,493	358,312,292
1991	281,926	142,721	131,713	327,777,503	33,619,419	361,396,922
1992	286,413	141,210	139,529	435,053,697	5,162,800	440,216,497
1993	291,896	146,396	143,088	607,717,144	70,976,449	678,693,593
1994	298,662	148,148	142,373	840,043,119	19,643,501	859,686,620
1995	306,670	149,867	147,023	870,446,315	11,087,831	881,534,146
1996	319,518	151,757	148,124	1,246,232,619	89,945,847	1,336,178,466
1997	326,816	156,397	156,752	1,023,114,762	2,574,539	1,025,689,301
1998	342,263	168,907	165,274	1,434,660,615	46,722,845	1,481,383,460

Source: City of Austin and Southern Union Gas Company.

## Wealth and Income Indicators

The Austin MSA compares favorably with both the state and the nation in per capita effective buying income (EBI), and per capita retail sales.

### EFFECTIVE BUYING INCOME AND RETAIL SALES

<u>Area</u>	Median House Hold	Per Capita	% of Households by EBI Group*				Per Capita
	<u>EBI</u>	<u>EBI</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>Retail Sales</u>
City of Austin	\$33,690	\$18,999	28.9%	23.0%	16.8%	31.3%	\$16,223
Austin Metropolitan Area	36,669	18,424	26.6%	21.5%	17.1%	34.8%	11,405
Texas	33,190	15,603	30.2%	22.3%	16.9%	30.6%	9,013
USA	34,618	16,281	28.0%	22.5%	18.2%	31.3%	9,422

\* Group A \$0 - \$19,999; Group B \$20,000 - 34,999; Group C \$35,000 - 49,999; Group D \$50,000 and over.

Source: 1998 Survey of Buying Power, Sales and Marketing Management.

## Housing Units

The average rental rate for a 1,000 square foot apartment in the Austin MSA was \$880 per month during the second quarter of 1999. The City's occupancy rate rose from 96.5% during the third quarter of 1998 to 97.4% during the second quarter of 1999.

### RESIDENTIAL SALES DATA

<u>Year</u>	Number of Sales	Total Volume	Average Price
1990	7,159	\$ 627,287,229	\$ 87,622
1991	7,581	711,123,662	93,803
1992	8,503	887,249,588	104,345
1993	9,926	1,139,100,456	114,759
1994	10,571	1,272,585,426	120,385
1995	11,459	1,439,915,043	125,658
1996	12,597	1,672,441,903	132,765
1997	12,439	1,762,198,574	141,667
1998	15,537	2,325,211,910	149,656
1999 June	8,433	1,330,315,466	157,751

Note: Information is updated periodically, data contained herein is latest provided.

Source: Real Estate Center at Texas A&M University.

### CITY-WIDE AUSTIN OFFICE OCCUPANCY RATE

<u>Year</u>	<u>Occupancy Rate</u>
1990	75.5%
1991	78.9%
1992	82.6%
1993	86.3%
1994	87.9%
1995	88.4%
1996	92.2%
1997	94.7%
1998	93.4%
1999 (2 <sup>nd</sup> Quarter)	92.0%

Source: Colliers Oxford Commercial Research Services.

## Education

The Austin Independent School District had an enrollment of 75,915 for the Spring of 1999. This reflects an increase of 0.3% in enrollment from the Spring of 1998. The District includes 100 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
1989/90	63,887	60,835
1990/91	65,952	62,632
1991/92	67,063	63,267
1992/93	68,712	63,817
1993/94	70,665	66,086
1994/95	72,298	67,788
1995/96	73,795	68,953
1996/97	74,315	70,361
1997/98	75,693	71,241
1998/99	75,915	71,712

Source: Austin Independent School District.

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

The University of Texas at Austin had an enrollment of 46,357 for the spring semester of 1999 and is a major research university with many nationally ranked academic programs at the graduate level. It is also known for its library collections and research resources. The present site has expanded more than 300 acres since classes began on the original 40 acres near downtown Austin. Additionally, University-owned property located in other areas of Austin includes the Pickle Research Center and the Brackenridge Tract, partially used for married student housing. The McDonald Observatory on Mount Locke in West Texas, the Marine Science Institute at Port Aransas and the Institute for Geophysics (Galveston) on the Gulf Coast operate as specialized research units of The University of Texas at Austin.

## Banking

According to the 1999 spring edition of the Texas Banking Red Book, there are 19 banks and bank branches serving the Austin area.

## Tourism

The impact of tourism on the Austin economy is significant. Total travel expenditures in Travis County were \$1.6 billion in 1997. There are more than 15,700 hotel rooms available within the Austin Metropolitan Area. The substantial increase in supply of rooms contributed to decreasing occupancy rates in the last three years. For 1998, the occupancy rate for the Austin area was 67.8%, with a city-wide average room rate of \$77.70.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy tax collections and revenues of the facility, the Palmer Auditorium with a seating capacity of 5,996 or 60,000 square feet of exhibit space; and City Coliseum which has a seating capacity of 3,600 or 28,000 square feet of exhibit space. Other facilities in Austin include the Frank Erwin Center, a 17,000-seat arena at The University of Texas, the Texas Exposition and Heritage Center and the Austin Opera House. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Opera House has a concert seating capacity of 1,700 and 9,000 square feet of exhibit space.

## **APPENDIX B**

### **Excerpts From the Annual Financial Report**

## INDEPENDENT AUDITORS' REPORT

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

We have audited the general purpose financial statements of the City of Austin, Texas ("City") as of and for the year ended September 30, 1998, as listed in the accompanying table of contents under "General Purpose Financial Statements" and the following individual fund supporting financial statements included in Exhibit F-1, Exhibit F-2, and Exhibit F-3: Electric Fund Balance Sheet, Electric Fund Statement of Revenues, Expenses, and Changes in Retained Earnings, Electric Fund Statement of Cash Flows, Water and Wastewater Fund Balance Sheet, Water and Wastewater Fund Statement of Revenues, Expenses, and Changes in Retained Earnings, Water and Wastewater Fund Statement of Cash Flows, Airport Fund Balance Sheet, Airport Fund Statement of Revenues, Expenses, and Changes in Retained Earnings, and Airport Fund Statement of Cash Flows. These general purpose financial statements and individual fund supporting financial statements listed above are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements and individual fund supporting financial statements listed above based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Austin, Texas as of September 30, 1998, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the individual fund supporting financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds as of September 30, 1998, and the results of operations and the cash flows of such funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1, the City of Austin implemented Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, effective as of September 1, 1997, which changed its method of accounting for investments.

The year 2000 supplementary information on page 71 is not a required part of the general purpose financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the City is or will become year 2000 compliant, that the City's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the City does business are or will become year 2000 compliant.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the individual fund supporting financial statements referred to in the first paragraph. The accompanying combining, individual fund and individual account group financial statements and schedules, other than those referred to in the first paragraph, and schedules of general obligation bonds authorized and unissued and revenue bonds authorized, deauthorized, and unissued, as listed under "Supplemental Information" in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Austin, Texas. Such information, other than those individual fund supporting financial statements referred to in the first paragraph, has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole. The schedules listed under "Statistical Section" in the accompanying table of contents were not audited by us, and, accordingly, we express no opinion on them.

KPMG LLP

*Martinez, Mendoza & Company, P.C.*

Austin, Texas  
February 5, 1999



**ALL FUND TYPES AND ACCOUNT GROUPS  
COMBINED BALANCE SHEET  
September 30, 1998  
With comparative totals for September 30, 1997**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>ASSETS AND OTHER DEBITS</b>				
Current assets:				
Cash	\$ 81,573	5,613	--	--
Pooled investments and cash	44,561,333	38,841,615	--	114,814,363
Investments, at fair value	--	2,884,395	7,063,255	--
Working capital advances	--	--	--	--
Cash and investments held by trustee	--	--	--	--
Receivables, net of allowances:				
Property taxes	3,882,207	--	2,936,311	--
Accounts and other receivables	22,026,520	6,118,731	--	2,115,489
Receivables from other governments	--	15,923,071	--	--
Due from other funds	--	14,855,721	556,876	4,366,615
Inventories, at cost	1,149,717	--	--	--
Real property held for resale	--	1,065,241	--	--
Other assets	31,045	1,691,985	--	1,818,720
Total current assets	71,732,395	81,386,372	10,556,442	123,115,187
Restricted assets:				
Revenue bond current debt service account	--	--	--	--
Revenue bond future debt service account	--	--	--	--
Revenue bond retirement reserve account	--	--	--	--
Tax and revenue bond debt service account	--	--	--	--
Construction account	--	--	--	--
Construction account due from other funds	--	--	--	--
Construction account advances to other funds	--	--	--	--
Decommissioning account	--	--	--	--
Capital improvement account	--	--	--	--
Operating reserve account	--	--	--	--
Hotel occupancy tax account	--	--	--	--
Renewal and replacement account	--	--	--	--
Investments and cash held by trustee	--	--	--	--
Nuclear fuel inventory acquisition account	--	--	--	--
Mueller disposition account	--	--	--	--
Customer and escrow deposits	--	--	--	--
Other restricted accounts	--	--	--	--
Total restricted assets	--	--	--	--
Fixed assets, at cost:				
Property, plant and equipment	--	--	--	--
Less accumulated depreciation	--	--	--	--
Net property, plant and equipment	--	--	--	--
Investment in municipal utility districts	--	--	--	--
Advances to other funds	--	--	--	--
Other long-term assets	--	--	--	--
Deferred costs and expenses, net of amortization	--	--	--	--
Other debits:				
Amount available in Debt Service Fund	--	--	--	--
Amount to be provided for accrued compensated absences	--	--	--	--
Amount to be provided for retirement of general long-term debt	--	--	--	--
<b>Total assets</b>	<b>\$71,732,395</b>	<b>81,386,372</b>	<b>10,556,442</b>	<b>123,115,187</b>

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



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

Proprietary Fund Types		Fiduciary Fund Types Trust and Agency	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service		General Fixed Assets	General Long- Term Debt	1998	1997
39,450	26,291	--	--	--	152,927	186,647
92,277,017	42,494,089	7,381,704	--	--	340,370,121	334,965,249
--	--	--	--	--	9,947,650	11,216,351
3,867,194	--	--	--	--	3,867,194	3,942,259
--	234,786	--	--	--	234,786	195,759
--	--	--	--	--	6,818,518	6,248,314
103,851,816	312,013	--	--	--	134,424,569	116,461,745
30,234	--	22,581	--	--	15,975,886	13,498,669
1,774,085	339,062	--	--	--	21,892,359	15,076,314
42,591,663	1,726,931	--	--	--	45,468,311	38,319,391
--	--	--	--	--	1,065,241	2,088,225
15,639,212	1,711	--	--	--	19,182,673	14,415,978
260,070,671	45,134,883	7,404,285	--	--	599,400,235	556,614,901
104,832,101	--	--	--	--	104,832,101	105,003,695
156,547,474	--	--	--	--	156,547,474	102,798,751
175,635,855	--	--	--	--	175,635,855	197,443,346
100,265	--	--	--	--	100,265	93,857
346,167,073	340,394	--	--	--	346,507,467	398,223,683
384,424	--	--	--	--	384,424	538,424
1,037,571	--	--	--	--	1,037,571	1,421,995
49,332,878	--	--	--	--	49,332,878	39,110,328
17,706,677	--	--	--	--	17,706,677	11,346,690
12,255,351	--	--	--	--	12,255,351	6,576,044
1,466,403	--	--	--	--	1,466,403	437,016
5,842,437	--	--	--	--	5,842,437	5,301,666
24,745,878	--	--	--	--	24,745,878	5,934,207
31,424,932	--	--	--	--	31,424,932	23,573,057
608,543	--	--	--	--	608,543	960,464
14,426,120	--	--	--	--	14,426,120	9,105,205
2,360,770	--	--	--	--	2,360,770	3,401,009
944,874,752	340,394	--	--	--	945,215,146	911,269,437
5,274,190,287	43,740,463	--	550,451,274	--	5,868,382,024	5,432,654,097
(1,505,908,171)	(21,404,204)	--	--	--	(1,527,312,375)	(1,377,654,793)
3,768,282,116	22,336,259	--	550,451,274	--	4,341,069,649	4,054,999,304
2,746,428	--	--	--	--	2,746,428	19,187,815
19,101	--	--	--	--	19,101	161,745
532,854	--	--	--	--	532,854	--
586,384,558	71,242	--	--	--	586,455,800	558,667,755
--	--	--	--	7,269,980	7,269,980	7,529,385
--	--	--	--	42,658,185	42,658,185	33,079,299
--	--	--	--	500,027,010	500,027,010	475,076,408
5,562,910,480	67,882,778	7,404,285	550,451,274	549,955,175	7,025,394,388	6,616,586,049

(continued)

**ALL FUND TYPES AND ACCOUNT GROUPS  
COMBINED BALANCE SHEET  
September 30, 1998  
With comparative totals for September 30, 1997**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>				
Current liabilities:				
Accounts payable	\$ 3,320,799	4,572,301	--	8,254,654
Accrued payroll	10,390,255	875,055	--	--
Accrued compensated absences	2,601,515	131,777	--	--
Claims payable	--	--	--	--
Construction contracts payable	--	--	--	--
Contract revenue bonds payable	--	--	--	--
Due to other governments	--	--	--	--
Due to other funds	112,827	14,855,721	452,832	4,328,300
Interest payable on other debt	--	--	--	--
General obligation bonds payable and other tax supported debt	--	--	--	--
Water improvement district bonds payable	--	--	--	--
Capital lease obligations payable	--	--	--	--
Other liabilities	6,018,052	35,248,700	2,833,630	1,652,867
Total current liabilities	22,443,448	55,683,554	3,286,462	14,235,821
Liabilities payable from restricted assets:				
Accounts and retainage payable	--	--	--	--
Due to other funds	--	--	--	--
Accrued interest payable	--	--	--	--
General obligation bonds and other tax supported debt payable	--	--	--	--
Revenue bonds payable within one year	--	--	--	--
Decommissioning expense payable	--	--	--	--
Nuclear fuel expense payable	--	--	--	--
Other liabilities	--	--	--	--
Total liabilities payable from restricted assets	--	--	--	--
Long-term obligations, net of current portion:				
Accrued compensated absences	--	--	--	--
Claims payable	--	--	--	--
Construction contracts payable	--	--	--	--
Contract revenue bonds payable, net of discount	--	--	--	--
Advances from other funds	--	--	--	--
Capital appreciation bond interest payable	--	--	--	--
Commercial paper notes payable	--	--	--	--
Revenue notes payable	--	--	--	--
General obligation bonds payable and other tax supported debt, net of discount and inclusive of premium	--	--	--	--
Revenue bonds payable, net of discount and inclusive of premium	--	--	--	--
Water improvement district bonds payable	--	--	--	--
Capital lease obligations payable	--	--	--	--
Decommissioning assessment payable	--	--	--	--
Accrued landfill closure and postclosure costs	--	--	--	--
Deferred revenue and other credits	--	--	--	--
<b>Total liabilities</b>	<b>\$22,443,448</b>	<b>55,683,554</b>	<b>3,286,462</b>	<b>14,235,821</b>

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

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

Proprietary Fund Types		Fiduciary Fund Types Trust and Agency	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service		General Fixed Assets	General Long- Term Debt	1998	1997
22,947,057	3,603,251	65,101	--	--	42,763,163	63,219,726
7,426,027	2,961,961	--	--	--	21,653,298	21,115,721
11,517,073	4,225,976	--	--	--	18,476,341	16,727,803
--	13,071,737	--	--	--	13,071,737	12,275,579
204,041	--	--	--	--	204,041	161,922
5,695,000	--	--	--	--	5,695,000	5,020,000
1,083,021	--	1,470,413	--	--	2,553,434	3,589,663
573,814	728,842	38,315	--	--	21,090,651	15,614,738
5,579,223	112,867	--	--	--	5,692,090	4,110,494
2,855,513	1,348,917	--	--	--	4,204,430	3,492,969
332,000	--	--	--	--	332,000	130,000
1,848,919	--	--	--	--	1,848,919	1,776,312
6,836,267	933,274	2,235,214	--	--	55,758,004	54,170,781
66,897,955	26,986,825	3,809,043	--	--	193,343,108	201,405,708
42,969,941	--	--	--	--	42,969,941	23,185,850
1,186,132	--	--	--	--	1,186,132	--
59,296,239	--	--	--	--	59,296,239	62,868,981
4,194,973	--	--	--	--	4,194,973	2,669,357
101,808,872	--	--	--	--	101,808,872	95,807,453
48,827,308	--	--	--	--	48,827,308	39,110,328
31,424,932	--	--	--	--	31,424,932	23,573,057
19,532,303	--	--	--	--	19,532,303	5,015,030
309,240,700	--	--	--	--	309,240,700	252,230,056
5,889,737	1,750,374	--	--	42,658,185	50,298,296	40,908,727
--	6,629,290	--	--	--	6,629,290	11,270,557
2,018,023	--	--	--	--	2,018,023	2,727,507
101,359,940	--	--	--	--	101,359,940	107,455,000
61,651	995,021	--	--	--	1,056,672	1,583,740
98,328,153	--	--	--	--	98,328,153	119,112,419
294,412,023	--	--	--	--	294,412,023	229,108,000
28,000,000	--	--	--	--	28,000,000	--
57,293,201	5,752,273	--	--	507,296,990	570,342,464	521,154,838
2,707,378,996	--	--	--	--	2,707,378,996	2,760,241,266
1,076,000	--	--	--	--	1,076,000	483,000
21,599,999	--	--	--	--	21,599,999	23,448,918
2,791,495	--	--	--	--	2,791,495	2,791,495
6,224,517	--	--	--	--	6,224,517	8,640,380
6,833,287	--	--	--	--	6,833,287	7,792,346
3,709,405,677	42,113,783	3,809,043	--	549,955,175	4,400,932,963	4,290,353,957

(continued)

**ALL FUND TYPES AND ACCOUNT GROUPS  
COMBINED BALANCE SHEET  
September 30, 1998  
With comparative totals for September 30, 1997**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>				
<b>Continued</b>				
Equity and other credits:				
Contributions from municipality	\$ --	--	--	--
Contributions from State and Federal governments	--	--	--	--
Contributions in aid of construction	--	--	--	--
Contributions from the private sector	--	--	--	--
Investment in general fixed assets	--	--	--	--
Retained earnings:				
Reserved for renewal and replacement	--	--	--	--
Reserved for passenger facility charge	--	--	--	--
Unreserved	--	--	--	--
Fund balances:				
Reserved for encumbrances	7,605,930	3,806,754	--	34,276,462
Reserved for inventories and prepaid items	1,180,762	--	--	--
Reserved for notes receivable	--	3,421,204	--	--
Reserved for real property held for resale	--	1,065,241	--	--
Reserved for nonexpendable trust	--	--	--	--
Unreserved:				
Designated for emergency reserve	14,838,623	--	--	--
Designated for contingency reserve	164,110	--	--	--
Designated for future use	--	17,445,371	--	--
Designated for debt service	--	--	7,269,980	--
Designated for purposes of trust	--	--	--	--
Undesignated	25,499,522	(35,752)	--	74,602,904
<b>Total equity and other credits</b>	<b>49,288,947</b>	<b>25,702,818</b>	<b>7,269,980</b>	<b>108,879,366</b>
<b>Total liabilities, equity and other credits</b>	<b>\$71,732,395</b>	<b>81,386,372</b>	<b>10,556,442</b>	<b>123,115,187</b>

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

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

Proprietary Fund Types		Fiduciary Fund Types Trust and Agency	Account Groups		Totals (Memorandum Only)	
Enterprise	Internal Service		General Fixed Assets	General Long- Term Debt	1998	1997
52,135,175	26,685,384	--	--	--	78,820,559	70,654,913
142,919,642	--	--	--	--	142,919,642	141,603,047
352,178,607	--	--	--	--	352,178,607	324,049,533
4,175,344	--	--	--	--	4,175,344	3,775,344
--	--	--	550,451,274	--	550,451,274	499,241,649
5,842,437	--	--	--	--	5,842,437	5,301,666
116,638	--	--	--	--	116,638	1,494,965
1,296,136,960	(916,389)	--	--	--	1,295,220,571	1,113,180,742
--	--	--	--	--	45,689,146	32,905,590
--	--	--	--	--	1,180,762	895,142
--	--	--	--	--	3,421,204	2,222,487
--	--	--	--	--	1,065,241	2,088,225
--	--	76,374	--	--	76,374	76,374
--	--	--	--	--	14,838,623	14,373,711
--	--	--	--	--	164,110	1,858,337
--	--	--	--	--	17,445,371	11,338,666
--	--	--	--	--	7,269,980	7,529,385
--	--	3,518,868	--	--	3,518,868	2,942,403
--	--	--	--	--	100,066,674	90,699,913
1,853,504,803	25,768,995	3,595,242	550,451,274	--	2,624,461,425	2,326,232,092
5,562,910,480	67,882,778	7,404,285	550,451,274	549,955,175	7,025,394,388	6,616,586,049

**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**Year ended September 30, 1998**  
**With comparative totals for year ended September 30, 1997**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>REVENUES</b>				
Taxes	\$ 190,949,086	19,592,578	57,639,024	--
Franchise fees	16,861,639	--	--	--
Fines, forfeitures and penalties	14,492,863	2,609,672	--	--
Licenses, permits and inspections	15,540,712	--	--	--
Charges for services/goods	10,260,908	37,414,331	--	--
Intergovernmental revenues	--	46,517,401	--	11,114,049
Property owners' participation and contributions	--	--	--	963,557
Contributions to trusts	--	--	--	--
Interest and other	12,623,348	6,610,835	3,161,610	6,735,239
Unrealized gain on investments	452,669	231,505	--	600,065
<b>Total revenues</b>	<b>261,181,225</b>	<b>112,976,322</b>	<b>60,800,634</b>	<b>19,412,910</b>
<b>EXPENDITURES</b>				
Current, including capital outlay in the General Fund of \$3,916,632				
Administration	6,696,560	46,374,184	--	--
Urban growth management	8,380,122	--	--	--
Public safety	162,733,100	--	--	--
Public services and utilities	10,128,139	--	--	--
Public health	37,060,371	--	--	--
Public recreation and culture	35,861,623	--	--	--
Social services management	8,204,845	--	--	--
Nondepartmental expenditures	41,130,459	--	--	--
Special projects	--	48,909,943	--	--
Capital outlay for construction	--	--	--	57,873,877
Debt service:				
Principal retirement	--	--	22,570,196	--
Interest, commissions and other	--	--	40,751,170	--
<b>Total expenditures</b>	<b>310,195,219</b>	<b>95,284,127</b>	<b>63,321,366</b>	<b>57,873,877</b>
Excess (deficiency) of revenues over expenditures	(49,013,994)	17,692,195	(2,520,732)	(38,460,967)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of refunding bonds	--	--	--	--
Payment to refunded bond escrow agent	--	--	--	--
Proceeds of refunding bonds	--	--	103,705,974	--
Payment to escrow agent	--	--	(103,705,974)	--
Proceeds from issuance of general obligation bonds and other tax supported debt	--	--	--	37,605,000
Operating transfers in	72,721,264	21,561,687	2,261,327	20,094,160
Operating transfers out	(9,846,866)	(31,600,710)	--	(13,262,709)
<b>Total other financing sources (uses)</b>	<b>62,874,398</b>	<b>(10,039,023)</b>	<b>2,261,327</b>	<b>44,436,451</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	13,860,404	7,653,172	(259,405)	5,975,484
Fund balances at beginning of year	35,428,543	18,049,646	7,529,385	102,903,882
<b>Fund balances at end of year</b>	<b>\$ 49,288,947</b>	<b>25,702,818</b>	<b>7,269,980</b>	<b>108,879,366</b>

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

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

Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)	
	1998	1997
--	268,180,688	242,201,621
--	16,861,639	14,743,888
--	17,102,535	14,124,302
--	15,540,712	12,888,265
--	47,675,239	45,982,895
--	57,631,450	52,850,367
--	963,557	25,143
364,574	364,574	747,171
180,226	29,311,258	19,114,862
13,423	1,297,662	--
558,223	454,929,314	402,678,514
--	53,070,744	52,244,787
--	8,380,122	7,501,086
36,392	162,769,492	144,320,511
50,364	10,178,503	9,731,954
14,855	37,075,226	43,194,526
290,147	36,151,770	33,106,873
--	8,204,845	6,738,940
--	41,130,459	39,823,069
--	48,909,943	50,984,108
--	57,873,877	62,700,644
--	22,570,196	21,502,464
--	40,751,170	38,481,239
391,758	527,066,347	510,330,201
166,465	(72,137,033)	(107,651,687)
--	--	--
--	--	--
--	103,705,974	--
--	(103,705,974)	--
--	37,605,000	58,650,000
410,000	117,048,438	96,128,963
--	(54,710,285)	(30,985,250)
410,000	99,943,153	123,793,713
576,465	27,806,120	16,142,026
2,942,403	166,853,859	150,711,833
3,518,868	194,659,979	166,853,859

**GENERAL FUND, SPECIAL REVENUE FUNDS AND DEBT SERVICE FUND  
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL-BUDGET BASIS  
Year ended September 30, 1998**

	General Fund			Annually Budgeted Special Revenue Funds		
	Actual- Budget Basis	Budget	Variance -- Favorable (Unfavorable)	Actual- Budget Basis	Budget	Variance -- Favorable (Unfavorable)
<b>REVENUES</b>						
Taxes	\$ 190,949,086	182,671,354	8,277,732	--	--	--
Franchise fees	16,861,639	15,218,152	1,643,487	--	--	--
Fines, forfeitures and penalties	14,492,863	12,829,131	1,663,732	--	--	--
Licenses, permits and inspections	15,540,712	13,301,691	2,239,021	--	--	--
Charges for services/goods	10,260,908	10,607,241	(346,333)	--	--	--
Interest and other	13,076,017	11,230,724	1,845,293	58,541,723	55,205,942	3,335,781
<b>Total revenues</b>	<b>261,181,225</b>	<b>245,858,293</b>	<b>15,322,932</b>	<b>58,541,723</b>	<b>55,205,942</b>	<b>3,335,781</b>
<b>EXPENDITURES</b>						
Administration	6,675,279	6,715,122	39,843	45,771,492	49,759,627	3,988,135
Urban growth management	8,167,036	8,182,155	15,119	--	--	--
Public safety	160,429,734	161,329,977	900,243	--	--	--
Public services and utilities	9,933,983	10,332,039	398,056	--	--	--
Public health	37,622,968	40,884,055	3,261,087	--	--	--
Public recreation and culture	35,940,511	36,068,329	127,818	--	--	--
Social services management	8,118,390	8,118,390	--	--	--	--
Nondepartmental expenditures	7,291,326	6,455,460	(835,866)	--	--	--
Principal redemption	--	--	--	--	--	--
Interest and other	--	--	--	--	--	--
Fees and commissions	--	--	--	--	--	--
<b>Total expenditures</b>	<b>274,179,227</b>	<b>278,085,527</b>	<b>3,906,300</b>	<b>45,771,492</b>	<b>49,759,627</b>	<b>3,988,135</b>
Excess (deficiency) of revenues over expenditures	(12,998,002)	(32,227,234)	19,229,232	12,770,231	5,446,315	7,323,916
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	72,721,264	73,221,264	(500,000)	21,401,687	20,270,559	1,131,128
Operating transfers out	(45,486,433)	(45,626,433)	140,000	(31,400,722)	(28,109,045)	(3,291,677)
<b>Total other financing sources (uses)</b>	<b>27,234,831</b>	<b>27,594,831</b>	<b>(360,000)</b>	<b>(9,999,035)</b>	<b>(7,838,486)</b>	<b>(2,160,549)</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	14,236,829	(4,632,403)	18,869,232	2,771,196	(2,392,171)	5,163,367
Fund balances at beginning of year	33,024,140	19,887,970	13,136,170	6,090,320	6,090,320	--
<b>Fund balances at end of year</b>	<b>\$ 47,260,969</b>	<b>15,255,567</b>	<b>32,005,402</b>	<b>8,861,516</b>	<b>3,698,149</b>	<b>5,163,367</b>

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



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

<b>Debt Service Fund</b>			<b>Totals (Memorandum Only)</b>		
<b>Actual- Budget Basis</b>	<b>Budget</b>	<b>Variance -- Favorable (Unfavorable)</b>	<b>Actual- Budget Basis</b>	<b>Budget</b>	<b>Variance -- Favorable (Unfavorable)</b>
57,639,024	58,090,650	(451,626)	248,588,110	240,762,004	7,826,106
--	--	--	16,861,639	15,218,152	1,643,487
--	--	--	14,492,863	12,829,131	1,663,732
--	--	--	15,540,712	13,301,691	2,239,021
--	--	--	10,260,908	10,607,241	(346,333)
4,321,074	4,107,015	214,059	75,938,814	70,543,681	5,395,133
61,960,098	62,197,665	(237,567)	381,683,046	363,261,900	18,421,146
--	--	--	52,446,771	56,474,749	4,027,978
--	--	--	8,167,036	8,182,155	15,119
--	--	--	160,429,734	161,329,977	900,243
--	--	--	9,933,983	10,332,039	398,056
--	--	--	37,622,968	40,884,055	3,261,087
--	--	--	35,940,511	36,068,329	127,818
--	--	--	8,118,390	8,118,390	--
--	--	--	7,291,326	6,455,460	(835,866)
28,577,772	28,318,641	(259,131)	28,577,772	28,318,641	(259,131)
43,237,006	43,823,414	586,408	43,237,006	43,823,414	586,408
5,449	10,000	4,551	5,449	10,000	4,551
71,820,227	72,152,055	331,828	391,770,946	399,997,209	8,226,263
(9,860,129)	(9,954,390)	94,261	(10,087,900)	(36,735,309)	26,647,409
9,600,724	9,541,093	59,631	103,723,675	103,032,916	690,759
--	--	--	(76,887,155)	(73,735,478)	(3,151,677)
9,600,724	9,541,093	59,631	26,836,520	29,297,438	(2,460,918)
(259,405)	(413,297)	153,892	16,748,620	(7,437,871)	24,186,491
7,529,385	7,573,926	(44,541)	46,643,845	33,552,216	13,091,629
7,269,980	7,160,629	109,351	63,392,465	26,114,345	37,278,120

**ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS  
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
RETAINED EARNINGS/FUND BALANCES  
Year ended September 30, 1998  
With comparative totals for year ended September 30, 1997**

	Proprietary Fund Types	
	Enterprise	Internal Service
<b>REVENUES</b>		
Electric services	\$ 668,371,051	--
Water and wastewater services	201,791,794	--
User fees and rentals	126,190,892	--
Billings to departments	--	135,107,376
Employee contributions	--	13,864,121
Operating revenues from other governments	9,075,130	--
Other operating revenues	--	2,909,283
Operating revenues	1,005,428,867	151,880,780
<b>EXPENSES</b>		
Electric operations	332,985,598	--
Water and wastewater operations	80,952,915	--
Other enterprise operations	92,853,875	--
Internal service operations	--	141,200,585
Depreciation	147,273,030	1,959,285
Total operating expenses	654,065,418	143,159,870
<b>Operating income (loss) before nonoperating revenues (expenses) and operating transfers</b>	351,363,449	8,720,910
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and other revenues	75,136,072	795,333
Unrealized gain on investments	10,791,937	46,225
Interest on revenue bonds and other debt	(224,706,381)	(374,797)
Interest capitalized during construction	10,976,299	--
Amortization of bond issue costs	(1,085,868)	(3,178)
Other nonoperating expense	(13,580,840)	(302,287)
Total nonoperating revenues (expenses)	(142,468,781)	161,296
Costs to be recovered in future years	18,774,460	--
Income (loss) before operating transfers	227,669,128	8,882,206
Operating transfers:		
Operating transfers in	18,268,624	--
Operating transfers out	(79,976,777)	(630,000)
<b>Net income (loss)</b>	165,960,975	8,252,206
Add depreciation transferred to contributions	6,989,092	--
Retained earnings reclassified to contributed capital	--	--
Net increase in retained earnings/fund balances	172,950,067	8,252,206
Retained earnings/fund balances at beginning of year	1,129,145,968	(9,168,595)
<b>Retained earnings/fund balances at end of year</b>	<b>\$ 1,302,096,035</b>	<b>(916,389)</b>

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

CITY OF AUSTIN, TEXAS  
Exhibit A-4

Fiduciary Fund Type	Totals	
	(Memorandum Only)	
Nonexpendable		
Trust	1998	1997
--	668,371,051	594,331,154
--	201,791,794	179,930,436
--	126,190,892	107,728,281
--	135,107,376	130,808,492
--	13,864,121	12,739,791
--	9,075,130	--
--	2,909,283	2,474,237
--	1,157,309,647	1,028,012,391
--	332,985,598	308,089,979
--	80,952,915	75,031,366
--	92,853,875	81,059,176
--	141,200,585	142,707,109
--	149,232,315	136,100,328
--	797,225,288	742,987,958
--	360,084,359	285,024,433
--	75,931,405	66,971,854
--	10,838,162	--
--	(225,081,178)	(225,596,952)
--	10,976,299	4,935,692
--	(1,089,046)	(969,842)
--	(13,883,127)	(7,935,959)
--	(142,307,485)	(162,595,207)
--	18,774,460	25,612,997
--	236,551,334	148,042,223
--	18,268,624	10,408,543
--	(80,606,777)	(75,552,256)
--	174,213,181	82,898,510
--	6,989,092	4,420,306
--	--	(3,519,622)
--	181,202,273	83,799,194
76,374	1,120,053,747	1,036,254,553
76,374	1,301,256,020	1,120,053,747

**ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS  
COMBINED STATEMENT OF CASH FLOWS  
Year ended September 30, 1998  
With comparative totals for year ended September 30, 1997**

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

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust (1)	1998	1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 980,797,314	150,331,463	--	1,131,128,777	1,041,569,272
Cash payments to suppliers for goods and services	(362,097,435)	(56,461,362)	--	(418,558,797)	(341,921,097)
Cash payments to employees for services	(139,806,182)	(64,089,989)	--	(203,896,171)	(197,427,271)
Cash payments to claimants/beneficiaries	--	(26,205,411)	--	(26,205,411)	(24,878,116)
Cash received from other governments	7,108,832	--	--	7,108,832	839,569
Taxes collected and remitted to other governments	(14,482,333)	--	--	(14,482,333)	(12,278,859)
<b>Net cash provided by operating activities</b>	<b>471,520,196</b>	<b>3,574,701</b>	<b>--</b>	<b>475,094,897</b>	<b>465,903,498</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Operating transfers in	18,268,624	--	--	18,268,624	10,408,543
Operating transfers out	(79,976,777)	(630,000)	--	(80,606,777)	(75,552,256)
Cash received from other funds	--	77,370	--	77,370	127,465
Interest paid on revenue notes and other debt	(150,611)	--	--	(150,611)	(378,409)
Decrease in deferred assets	316,085	--	--	316,085	(40,188)
Contributions from private sector	400,000	--	--	400,000	--
Loans (to) from other funds	37,156	(77,370)	--	(40,214)	(272,910)
Contributions from municipality	--	165,939	--	165,939	--
<b>Net cash used by noncapital financing activities</b>	<b>(61,105,523)</b>	<b>(464,061)</b>	<b>--</b>	<b>(61,569,584)</b>	<b>(65,707,755)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from long-term debt issues	101,660,000	--	--	101,660,000	98,245,000
Principal paid on long-term debt	(109,009,961)	(1,157,689)	--	(110,167,650)	(93,762,051)
Proceeds from the sale of fixed assets	646,685	--	--	646,685	--
Purchased interest received	9,491	--	--	9,491	860,362
Interest paid on revenue bonds and other debt	(190,603,057)	(346,247)	--	(190,949,304)	(193,469,665)
Acquisition and construction of capital assets	(312,550,475)	(10,447,121)	--	(322,997,596)	(319,105,436)
Contributions from municipality	132,656	7,114,327	--	7,246,983	6,862,173
Contributions from State and Federal governments	23,532,213	--	--	23,532,213	31,671,958
Contributions in aid of construction	29,308,543	--	--	29,308,543	17,880,294
Bond discounts and issuance costs	8,126,919	--	--	8,126,919	(7,907,009)
Bonds issued for advanced refundings of debt	309,351,591	--	--	309,351,591	227,215,000
Cash paid for bond refundings/defeasances	(340,312,964)	--	--	(340,312,964)	(223,103,804)
Proceeds from municipal utility district reserves	18,205,377	--	--	18,205,377	536,767
Cash paid for nuclear fuel inventory	(4,937,020)	--	--	(4,937,020)	(12,803,526)
<b>Net cash used by capital and related financing activities</b>	<b>\$ (466,440,002)</b>	<b>(4,836,730)</b>	<b>--</b>	<b>(471,276,732)</b>	<b>(466,879,937)</b>

(continued)

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

**ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS**  
**COMBINED STATEMENT OF CASH FLOWS**  
Year ended September 30, 1998  
With comparative totals for year ended September 30, 1997

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

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise	Internal Service	Nonexpendable Trust (1)	1998	1997
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investment securities	\$(1,487,708,756)	--	--	(1,487,708,756)	(2,030,169,436)
Proceeds from sale and maturities of investment securities	1,515,008,283	--	--	1,515,008,283	1,994,504,596
Interest on investments	55,581,768	573,806	--	56,155,574	57,511,304
Reverse repurchase agreement income	13,499,115	221,527	--	13,720,642	6,138,914
Unrealized gain on investments	2,153,967	46,225	--	2,200,192	--
Reverse repurchase agreement expense	(13,131,171)	(215,510)	--	(13,346,681)	(5,969,537)
<b>Net cash provided by investing activities</b>	<b>85,403,206</b>	<b>626,048</b>	<b>--</b>	<b>86,029,254</b>	<b>22,015,841</b>
Net increase (decrease) in cash and cash equivalents	29,377,877	(1,100,042)	--	28,277,835	(44,668,353)
Cash and cash equivalents, October 1, 1997 (2)	341,051,905	44,195,602	76,374	385,323,881	429,992,234
<b>Cash and cash equivalents, September 30, 1998 (2)</b>	<b>370,429,782</b>	<b>43,095,560</b>	<b>76,374</b>	<b>413,601,716</b>	<b>385,323,881</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
Operating income	351,363,449	8,720,910	--	360,084,359	285,024,433
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	147,273,030	1,959,285	--	149,232,315	136,100,328
Allowance for uncollectible accounts	(4,525,367)	--	--	(4,525,367)	(374,217)
Amortization	12,788,895	--	--	12,788,895	14,518,979
Change in assets and liabilities:					
(Increase) decrease in working capital advances	75,065	--	--	75,065	(1,589,829)
(Increase) decrease in accounts receivable	(13,481,382)	(120,654)	--	(13,602,036)	1,994,500
(Increase) decrease in receivable from other governments	39,661	--	--	39,661	(45,261)
Decrease in due from other funds	59,437	39,550	--	98,987	59,820
(Increase) decrease in inventory	(6,623,999)	(265,285)	--	(6,889,284)	13,820,629
(Increase) decrease in prepaid expenses and deferred costs	3,708,236	45,658	--	3,753,894	(5,178,325)
Decrease in other regulatory assets	317,067	--	--	317,067	335,305
Increase (decrease) in accounts payable	(20,914,886)	(362,293)	--	(21,277,179)	1,914,810
Increase (decrease) in accrued payroll and compensated absences	1,965,194	(430,391)	--	1,534,803	2,826,711
Increase (decrease) in deferred revenue	(1,608,391)	(1,866,261)	--	(3,474,652)	11,234,604
Decrease in decommissioning assessment payable	--	--	--	--	(214,730)
Decrease in unrecovered fuel revenue	(6,289,042)	--	--	(6,289,042)	(6,514,543)
Increase (decrease) in accrued landfill closure costs	(2,415,863)	--	--	(2,415,863)	888,988
Increase (decrease) in claims payable	--	(3,845,109)	--	(3,845,109)	1,959,460
Increase (decrease) in due to other governments	(1,029,031)	--	--	(1,029,031)	2,078,440
Increase (decrease) in due to other funds	(327,485)	(61,670)	--	(389,155)	32,248
Decrease in advance from other funds	--	(273,037)	--	(273,037)	(40,849)
Increase in other liabilities	11,934,754	33,998	--	11,968,752	7,334,084
Decrease in customer deposits	(789,146)	--	--	(789,146)	(262,087)
<b>Total adjustments</b>	<b>120,156,747</b>	<b>(5,146,209)</b>	<b>--</b>	<b>115,010,538</b>	<b>180,879,065</b>
<b>Net cash provided by operating activities</b>	<b>\$ 471,520,196</b>	<b>3,574,701</b>	<b>--</b>	<b>475,094,897</b>	<b>465,903,498</b>

(continued)

- (1) Nonexpendable trust fund cash and cash equivalents of \$76,374 are reported on the balance sheet with all trust and agency funds' pooled investments and cash of \$6,459,220 at October 1, 1997 and \$7,381,704 at September 30, 1998.
- (2) Cash and cash equivalents includes \$224,817,037 and \$342,111 in enterprise and internal service funds' restricted accounts, respectively at October 1, 1997 and \$278,113,315 and \$340,394 in enterprise and internal service funds' restricted accounts, respectively at September 30, 1998.

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

**ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS  
COMBINED STATEMENT OF CASH FLOWS  
Year ended September 30, 1998  
With comparative totals for year ended September 30, 1997**

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

	<b>Proprietary Fund Types</b>		<b>Fiduciary Fund Type</b>	<b>Totals (Memorandum Only)</b>	
	<b>Enterprise</b>	<b>Internal Service</b>	<b>Nonexpendable Trust (1)</b>	<b>1998</b>	<b>1997</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>					
Increase in deferred assets/expenses	\$ 28,041,177	78,864	--	28,120,041	32,552,208
Unamortized bond discounts/issue costs on advance refundings	(2,746,775)	--	--	(2,746,775)	(17,567,518)
(Increase) decrease in capital appreciation bond interest payable	20,811,869	--	--	20,811,869	(23,110,327)
Fixed assets contributed from other funds	1,723,396	4,098,759	--	5,822,155	2,385,243
Increase in contributed facilities	24,522,078	--	--	24,522,078	8,111,717
Unrealized gain on investments	8,637,970	--	--	8,637,970	--
Amortization of bond discounts, premiums, and issue costs	(6,324,043)	(3,178)	--	(6,327,221)	(6,037,867)
Amortization of deferred loss on refundings	(600,160)	--	--	(600,160)	(600,161)
Loss on disposal of assets	(449,669)	(86,777)	--	(536,446)	(1,966,422)
Costs to be recovered in future years	18,774,460	--	--	18,774,460	25,612,997
Loss on extinguishment of debt	(17,275,264)	--	--	(17,275,264)	(16,132,595)
Due to other funds for fixed assets	(92,477)	--	--	(92,477)	(123,302)

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

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## **1 -- REPORTING ENTITY**

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

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

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

### **Blended Component Units**

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

### **Related Organizations**

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

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

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

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

### **Basis of Presentation**

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



## 2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

### Governmental Funds

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

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

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

**Debt Service Fund --** The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

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

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

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

### Proprietary Funds

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

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

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

The City's enterprise funds are the following:

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

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

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

**Fiduciary Funds**

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

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

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

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

## 2 -- SIGNIFICANT ACCOUNTING POLICIES, continued

### Account Groups

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

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

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

### Basis of Accounting

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

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

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

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

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

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

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

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

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

Revenues for the Airport Fund are recognized as they are billed to customers. Effective November 1, 1993, the Airport Fund began to charge each emplaned passenger a \$3 passenger facility charge, as allowed by the Federal Aviation Administration. Airport Fund 1998 operating revenues included passenger facility charges of \$8,142,343. These funds have been approved by the FAA for use in the construction of the Austin-Bergstrom International Airport.

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

**Rates**

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

**Budget**

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

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

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

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

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

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

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

**Encumbrances**

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

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

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

**Pooled Investments and Cash**

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

**Investments**

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (see Note 6) as of October 1, 1997. GASB Statement No. 31 requires certain investments to be reported at fair value. The fair value is based on quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments at fair value as of September 30, 1998.

**Inventories**

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

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

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

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

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

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

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

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

The City is accelerating the depreciation of two generating stations that will be retired before the end of their estimated useful life. The increase to Electric Fund 1998 depreciation expense for this accelerated depreciation is \$1,003,010.

The City is accelerating the depreciation of buildings and improvements at Robert Mueller Municipal Airport to reflect the scheduled 1999 closure of Mueller Airport and the opening of the Austin-Bergstrom International Airport. The increase to Airport Fund 1998 depreciation expense for this accelerated depreciation is approximately \$10.6 million. In addition, the City has recorded capitalized interest in the Airport Fund of \$10,976,299.

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

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

**General Fixed Assets**

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

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

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

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

**Long-Term Debt**

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

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

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

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

**Compensated Absences**

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

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

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

**Risk Management**

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

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

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

**Pension Plans**

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

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

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

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

**Intergovernmental Revenues, Receivables and Liabilities**

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

**Transactions Between Funds**

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

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

**Comparative Data**

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

**Reclassifications and Restatements**

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



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

**Total Columns on Combined Financial Statements**

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

**Deferred Items**

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

Retail deregulation of electric rates in the future may affect the City's current accounting treatment of its electric utility revenues and expenses. However, City management believes that deregulation and its effects are now uncertain and do not warrant a change in accounting policy.

**Statement of Cash Flows**

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

**Landfill Closure and Postclosure Care Costs**

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

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

In accordance with GASB Statement 20, the City is required to follow all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, including FASB Statement No. 71, unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to follow FASB pronouncements issued subsequent to that date.

**3 -- BUDGET BASIS REPORTING**

**a -- General**

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

3 -- BUDGET BASIS REPORTING, continued

b -- Reconciliation of GAAP Basis and Budget Basis Amounts

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

	<u>General Fund</u>	<u>Special Revenue Funds (1)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	\$ 13,860,404	6,671,983
Adjustment:		
Less: Excess revenues and other sources over expenditures and other uses for nonbudgeted funds - GAAP basis	--	(2,615,066)
Adjusted excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	13,860,404	4,056,917
Other adjustments:		
Increase due to unbudgeted payroll accrual	--	8,889
Increase due to net compensated absences accrual	1,344,709	32,161
Decrease due to outstanding encumbrances established in 1998	(6,549,914)	(3,085,242)
Increase due to payments against prior year encumbrances	5,581,630	1,758,471
Excess revenues and other sources over expenditures and other uses - budget basis	<u>\$ 14,236,829</u>	<u>2,771,196</u>

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

Within the General Fund, the nondepartmental expenditures' line reported expenditures in excess of appropriations of \$835,866. This area represents fund-wide costs not budgeted within individual departments.

The Municipal Court Building Security fund, a budgeted special revenue fund, reported expenditures in excess of appropriations of \$3,335. This fund did not report a deficit fund balance.

Although the Debt Service Fund is prepared on a budget basis, no differences exist between GAAP basis and budget basis fund balance for this fund except for the amount of enterprise-related and certain departmental-related debt payments (\$7,339,397) budgeted as operating transfers.

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

**c -- Budget Amendments**

The original budget of the General Fund was amended several times during 1998. The following table compares original to amended budgets:

	Original Budget	Amendments Increase (Decrease)	Amended Budget
<b>REVENUES</b>			
Taxes	\$ 181,923,127	748,227	182,671,354
Franchise fees	15,068,866	149,286	15,218,152
Fines, forfeitures and penalties	12,829,131	--	12,829,131
Licenses, permits and inspections	13,301,691	--	13,301,691
Charges for services/goods	10,544,443	62,798	10,607,241
Interest and other	5,533,614	5,697,110	11,230,724
Total revenues	239,200,872	6,657,421	245,858,293
<b>EXPENDITURES</b>			
Administration	6,780,604	(65,482)	6,715,122
Urban growth management	8,261,048	(78,893)	8,182,155
Public safety	154,077,318	7,252,659	161,329,977
Public services and utilities	10,289,779	42,260	10,332,039
Public health:			
Physician stipend/Charity care	10,452,003	--	10,452,003
Medical Assistance Program-			
hospital contracted services/patient services	6,827,550	--	6,827,550
Other public health	23,983,498	(378,996)	23,604,502
Public recreation and culture	34,763,240	1,305,089	36,068,329
Social services management	8,118,390	--	8,118,390
Nondepartmental expenditures	9,805,460	(3,350,000)	6,455,460
Total expenditures	273,358,890	4,726,637	278,085,527
<b>TRANSFERS</b>			
Operating transfers in	73,221,264	--	73,221,264
Operating transfers out	(41,141,507)	(4,484,926)	(45,626,433)
Total transfers	32,079,757	(4,484,926)	27,594,831
Deficiency of revenues and other sources over expenditures and other uses	\$ (2,078,261)	(2,554,142)	(4,632,403)

The amended budget is presented in the accompanying financial statements. The General Fund budget includes other requirements, which are presented here in the nondepartmental category. The amended budget for these nondepartmental requirements includes the following: tuition reimbursement (\$85,000), accrued payroll (\$950,500) and expenses for workers' compensation (\$2,419,960) and liability reserve (\$3,000,000).

3 -- BUDGET BASIS REPORTING, continued

There were budget amendments to the following special revenue funds during 1998:

	Original Budget	Amendments Increase (Decrease)	Amended Budget
<b>REVENUES</b>			
Disproportionate Share	\$ 1,810,000	911,465	2,721,465
Planning, Environmental and Conservation Services	6,204,980	187,523	6,392,503
Police Federal Seized Funds	500,000	927,806	1,427,806
Public Improvement District	--	830,225	830,225
<b>EXPENDITURES</b>			
Child Safety Fund	1,417,683	22,395	1,440,078
Energy Conservation Rebates and Incentives	10,905,588	(2,564,000)	8,341,588
Federally Qualified Health Center	13,652,684	1,928,503	15,581,187
Planning, Environmental and Conservation Services	8,111,887	(1,539,823)	6,572,064
Police Federal Seized Funds	565,000	200,000	765,000
Public Improvement District	--	930,225	930,225
<b>OPERATING TRANSFERS IN</b>			
Federally Qualified Health Center	6,302,410	628,060	6,930,470
Neighborhood Housing and Conservation	1,005,924	(392,924)	613,000
Planning, Environmental and Conservation Services	1,906,907	2,606,201	4,513,108
Public Improvement District	--	100,000	100,000
<b>OPERATING TRANSFERS OUT</b>			
Disproportionate Share	1,500,000	628,060	2,128,060
Energy Conservation Rebates and Incentives	--	3,964,000	3,964,000
Neighborhood Housing and Conservation	392,924	(392,924)	--
Planning, Environmental and Conservation Services	--	4,333,547	4,333,547

During fiscal year 1998, the Debt Service Fund had one budget amendment. The amendment increased other revenue and principal retirement by \$545,764.

4 -- DEFICITS IN FUND BALANCE AND RETAINED EARNINGS

At September 30, 1998, the funds below reported deficits in fund balance or fund equity. Management intends to recover these deficits through future operating revenues or transfers. The Central City Entertainment Center deficit will be funded by a loan which has been approved and is expected to be drawn down during 1999.

	Deficit Fund Balance		Deficit Retained Earnings
<b>Special Revenue Funds:</b>		<b>Enterprise Funds:</b>	
Austin Transportation Study	\$ 27,613	Parks and Recreation	\$ 353,300
<b>Capital Projects Funds:</b>		<b>Internal Service Funds:</b>	
Library	90,320	Employee Benefits Fund	4,963,709
Parks/Old Bakery	16,062	Liability Reserve Fund	543,903
Police Facilities	13,785	Radio Communication Fund	139,653
Build Austin	335,709	Capital Projects Management Fund	433,882
Central City Entertainment Center	2,916,551		
Public Works	9,408		
Tanglewood Park	64,197		

**5 -- POOLED INVESTMENTS AND CASH**

The following summarizes the amounts of pooled investments and cash by fund type at September 30, 1998:

	<b>Pooled Investments and Cash</b>	
	<b>Unrestricted</b>	<b>Restricted</b>
General Fund	\$ 44,561,333	--
Special Revenue Funds	38,841,615	--
Capital Projects Funds	114,814,363	--
Enterprise Funds:		--
Electric	23,600,623	87,424,170
Water and Wastewater	31,884,536	77,679,765
Hospital	14,841,879	7,500,000
Solid Waste Services	6,042,915	12,996,502
Airport	272,270	49,042,859
Convention Center	6,610,477	--
Other	9,024,317	20,521,618
Internal Service Funds	42,494,089	340,394
Fiduciary Funds	7,381,704	--
Subtotal pooled investments and cash	<u>340,370,121</u>	<u>255,505,308</u>
Total pooled investments and cash	<u>\$ 595,875,429</u>	

**6 -- INVESTMENTS AND DEPOSITS**

**INVESTMENTS**

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

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

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

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

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as of October 1, 1997. This statement requires that governmental entities should report investments at fair value on the balance sheet, and that all investment income, including changes in the fair value of investments, should be reported as revenue in the operating statement. The change in investment value is reported on the balance sheet in either pooled investments and cash for investment pool participants, or in investments, for those funds which hold their own investments; the revenue is reported on the income statement as unrealized gain on investments. The unrealized gain associated with prior years was not material, and therefore, beginning of the year fund balances were not restated.

The City participates in the Texas Local Government Investment Pool (TexPool), which is an external investment pool. The State Comptroller of Public Accounts maintains oversight responsibility for TexPool. This responsibility includes the ability to influence operations, designation of management, and accountability for fiscal matters. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB Statement No. 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the City's position in TexPool is the same as the value of TexPool shares.

State statutes permit the City to enter into certain reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, the term to maturity of the investments is the same as the term of the reverse repurchase agreement. It is the City's policy to require a margin call at 1% or \$100,000, whichever is less, above the value of the underlying investments sold. The average amount of investments outstanding during the year was \$353 million. The maximum amount outstanding at any time was \$416 million. At year end, the City did not have any reverse repurchase agreements.

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

	Category			Fair Value
	1	2	3	
<b>Investments</b>				
Obligations of the U.S. government and its agencies	\$ 876,746,261	--	--	876,746,261
Commercial paper	39,916,325	--	--	39,916,325
	916,662,586	--	--	916,662,586
<b>Investments held by trustee</b>				
Obligations of the U.S. government and its agencies	47,008,650	--	--	47,008,650
	963,671,236	--	--	963,671,236
<b>Investments not categorized</b>				
Money market mutual funds				26,865
Texas Local Government Investment Pool (TexPool)				285,111,774
Total investments				<u>\$ 1,248,809,875</u>

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

Investments owned by the various funds of the City at September 30, 1998, are as follows:

Description	Yields	Fair Value	Unrealized Gain(Loss)
<b>NON-POOLED INVESTMENTS</b>			
Obligations of the U.S. government and its agencies	4.91% - 14.30%	\$ 415,382,928	8,677,908
Texas Local Government Investment Pool	5.64%	226,659,117	--
Commercial paper	5.53%	9,952,381	(39,938)
Total non-pooled investments		651,994,426	8,637,970
<b>POOLED INVESTMENTS</b>			
Money market mutual funds	5.28%	26,865	--
Obligations of the U.S. government and its agencies	4.67% - 5.77%	508,371,983	3,499,398
Commercial paper	5.39%	29,963,944	(1,544)
Texas Local Government Investment Pool	5.64%	58,452,657	--
Total pooled investments		596,815,449	3,497,854
<b>TOTAL ALL INVESTMENTS</b>		<b>\$ 1,248,809,875</b>	<b>12,135,824</b>

**DEPOSITS**

The September 30, 1998, carrying amount of deposits is as follows:

Cash	
Unrestricted	\$ 152,927
Cash held by trustee	
Unrestricted	234,786
Restricted	25,448,402
Pooled cash	5,863,930
Total deposits	<u>\$ 31,700,045</u>

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

**7 -- PROPERTY TAXES**

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. The adjusted assessed value for the roll as of January 1, 1997, upon which the 1998 levy was based, was \$27,493,058,735.

Taxes are due by January 31 following the October 1 levy date. During the year ended September 30, 1998, 98.80% of the current tax levy (October 1, 1997) was collected. The statutory lien date is January 1.

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

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

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

**7 -- PROPERTY TAXES, continued**

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

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

The tax rate to finance general governmental purposes, other than the payment of principal and interest on general obligation long-term debt, for the year ended September 30, 1998, was \$.3304 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$.6696 per \$100 assessed valuation, and could levy approximately \$184,093,521 in additional taxes from the assessed valuation of \$27,493,058,735 before the legislative limit is reached.

**8 -- FIXED ASSETS**

Components of the City's fixed assets at September 30, 1998, are summarized as follows (in thousands of dollars):

	Electric Fund	Water & Wastewater Fund	Hospital Fund	Solid Waste Services Fund	Airport Fund	Convention Center Fund	Other Enterprise Funds	Internal Service Funds	General Fixed Assets	Total
Land and land rights	\$ 33,179	67,105	759	10,462	58,412	15,245	2,694	485	166,258	354,599
Buildings and improvements	544,687	1,105,622	74,017	491	83,985	80,576	9,152	3,530	174,719	2,076,779
Machinery and equipment	1,785,831	432,268	4	15,742	13,926	3,703	8,099	19,546	73,865	2,352,984
Completed assets not classified	149,757	158,289	7	4,059	1,960	2,788	12,550	20,179	--	349,589
Total plant in service	2,513,454	1,763,284	74,787	30,754	158,283	102,312	32,495	43,740	414,842	5,133,951
Less accumulated depreciation	(895,154)	(459,304)	(27,048)	(20,193)	(79,052)	(18,384)	(6,771)	(21,404)	--	(1,527,310)
Net property, plant and equipment in service	1,618,300	1,303,980	47,739	10,561	79,231	83,928	25,724	22,336	414,842	3,606,641
Construction in progress	59,198	51,965	--	15,657	392,206	10,655	17,361	--	135,609	682,651
Nuclear fuel, net of amortization	19,911	--	--	--	--	--	--	--	--	19,911
Plant held for future use	32,654	--	--	--	--	--	--	--	--	32,654
Total property, plant and equipment	\$ 1,730,063	1,355,945	47,739	26,218	471,437	94,583	43,085	22,336	550,451	4,341,857

The following table summarizes the changes in components of the General Fixed Assets Account Group for the year ended September 30, 1998:

	Land	Buildings	Improvements Other Than Buildings	Machinery and Equipment	Construction in Progress	Total
Balance, September 30, 1997	\$ 159,561,701	128,165,710	29,862,098	65,862,108	115,790,032	499,241,649
Additions	--	--	--	--	45,962,565	45,962,565
Retirements	--	--	--	--	(239,883)	(239,883)
Completed construction	6,696,456	13,601,970	3,089,304	8,003,319	(31,391,049)	--
Transfers from other funds	--	--	--	--	5,486,943	5,486,943
Balance, September 30, 1998	\$ 166,258,157	141,767,680	32,951,402	73,865,427	135,608,608	550,451,274



**8 -- FIXED ASSETS, continued**

The City does not capitalize public domain general fixed assets. This accounting policy affects only the General Fixed Asset Account Group. During 1998, the City did not capitalize completed infrastructure assets amounting to \$17,478,836.

Construction in progress includes various capital projects that are funded primarily by general obligation and revenue bonds. The General Fixed Asset Account Group includes as construction-in-progress certain completed capital projects in service at September 30, 1998, which have not been unitized or capitalized pending classification to the proper fixed asset in-service categories. In all other funds, completed construction unclassified is included in property, plant and equipment.

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

**9 -- RETIREMENT PLANS**

**a -- Description**

The City participates in funding three contributory, defined benefit retirement plans: City of Austin Employees' Retirement and Pension Fund, City of Austin Police Officers' Retirement and Pension Fund, and Fire Fighters' Relief and Retirement Fund of Austin, Texas. An independent board of trustees administers each plan. These plans are City-wide single employer funded plans that cover substantially all full-time employees. The fiscal year of each pension fund ends December 31. The most recently available financial statements of the pension funds are for the year ended December 31, 1997. Membership in the plans at December 31, 1997 is as follows:

	<b>City Employees</b>	<b>Police Officers</b>	<b>Fire Fighters</b>	<b>Total (Memorandum Only)</b>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	2,452	215	299	2,966
Current employees	6,767	1,074	843	8,684
Total	9,219	1,289	1,142	11,650

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

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

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

**9 -- RETIREMENT PLANS, continued**

**b – Funding Policy**

	<b>City of Austin Employees' Retirement and Pension Fund</b>	<b>City of Austin Police Officers' Retirement and Pension Fund</b>	<b>Fire Fighters' Relief and Retirement Fund</b>
Authority establishing contributions obligation	State Legislation	State Legislation	State Legislation
Frequency of contribution	Biweekly	Biweekly	Biweekly
Employee's contribution (percent of earnings)	7.0%	9.0%	13.70% through September 1997 11.70 % thereafter
City's contribution (percent of earnings)	7.0% (1)	18.0%	18.05% through September 1997 20.05% thereafter

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

While the contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan of benefits adopted. The actuary of each plan has certified that the contribution commitment by the participants and the City provide an adequate financing arrangement. Contributions for fiscal year ended September 30, 1998, are as follows (in thousands):

	<b>City Employees</b>	<b>Police Officers</b>	<b>Fire Fighters</b>	<b>Total (Memorandum Only)</b>
City	\$ 15,589	7,766	7,492	30,847
Employees	15,589	3,883	4,436	23,908
Total contributions	<u>\$ 31,178</u>	<u>11,649</u>	<u>11,928</u>	<u>54,755</u>

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

The City's annual pension cost of \$30,847,000 for fiscal year ended September 30, 1998, was equal to the City's required and actual contributions. Three-year trend information is as follows (in thousands):

	<b>City Employees</b>	<b>Police Officers</b>	<b>Fire Fighters</b>	<b>Total (Memorandum Only)</b>
City's Annual Pension Cost (APC):				
1996	\$ 15,390	5,872	5,945	27,207
1997	15,287	6,850	6,270	28,407
1998	15,589	7,766	7,492	30,847
Percentage of APC contributed:				
1996	100%	100%	100%	N/A
1997	100%	100%	100%	N/A
1998	100%	100%	100%	N/A
Net Pension Obligation:				
1996	\$ --	--	--	--
1997	--	--	--	--
1998	--	--	--	--

**9 -- RETIREMENT PLANS, continued**

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

	<b>City Employees</b>	<b>Police Officers</b>	<b>Fire Fighters</b>
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Basis	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation Rate	4.25%	4%	5.5%
Projected Annual Salary Increases	4.375% to 14.75%	6.6% average	7%
Post retirement benefit increase	6% effective January 1, 1997	None	5% effective January 1, 1999 and 5% each January thereafter through 2004
Assumed Rate of Return on Investments	8%	8%	8%
Amortization method	Level percent of projected pay, open	Level percent of projected pay, open	Level percent of projected pay, open
Remaining Amortization Period	0 years	26.3 years	8.3 years

**d – Trend Information (Unaudited)**

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

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

**10 -- RENTAL REVENUE**

Effective October 1, 1995, the City entered into a long-term lease arrangement with the Daughters of Charity Health Services of Austin to operate City-owned Brackenridge Hospital. This lease agreement qualifies as an operating lease for accounting purposes. Hospital Fund 1998 revenues included minimum lease payments of \$1,864,764.

The City has entered into certain lease agreements as lessor for concessions at the Airport. These lease agreements qualify as operating leases for accounting purposes. Airport Fund 1998 revenues included minimum concession guarantees of \$11,045,152.

The following is a schedule by year of minimum future rentals on noncancelable operating leases up to a term of ten years as of September 30, 1998.

<b>Fiscal Year Ended September 30</b>	<b>Hospital Fund</b>	<b>Airport Fund</b>
1999	\$ 1,864,764	10,312,781
2000	1,864,764	6,329,589
2001	1,864,764	6,329,589
2002	1,864,764	6,329,589
2003	1,864,764	6,329,589
Thereafter	41,024,808	26,142,588
<b>Totals</b>	<b>\$ 50,348,628</b>	<b>61,773,725</b>

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

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

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

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

As described in Note 7, State Statute and the City Charter establish a practical limitation of \$1.50 per \$100 of assessed valuation on the debt service tax rate levied to service general obligation debt, including interest. The tax rate to finance the payment of principal and interest on general obligation long-term debt for the year ended September 30, 1998, was \$.2097 per \$100 assessed valuation. At September 30, 1998, allowable taxes related to debt service (assuming the rate of \$1.50 per \$100 assessed valuation) are approximately \$412,395,881, providing potential additional taxes for debt service of \$354,742,936 from the assessed valuation of \$27,493,058,735.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

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

The following table summarizes significant facts about general obligation bonds, certificates of obligation, contractual obligations, and tax notes outstanding at September 30, 1998, including those reported in certain proprietary funds:

	Date Issued	Original Issue	Amount	Aggregate Interest	Interest Rates	Maturity Dates
			Outstanding at	Requirements at	Of Debt	
			September 30, 1998	September 30, 1998	Outstanding at September 30, 1998	
						Of Serial Debt
		\$	\$	\$	%	
Series 1985A	October, 1985	229,048,455	6,746,178 (2)	17,113,822 (1)	8.70 - 9.00	9/1/1999-2000
Series 1989	October, 1989	24,995,000	1,080,000	75,600 (1)	7.00	9/1/1999
Series 1990A&B	January, 1990	122,368,632	32,250,211 (3)	14,054,951 (1)	6.00 - 7.00	9/1/1999-2005
Series 1990C	November, 1990	25,000,000	2,035,000	204,843 (1)	6.55 - 6.65	9/1/1999-2000
Series 1991A	November, 1991	25,000,000	3,685,000	712,675 (1)	5.88 - 8.88	9/1/1999-2002
Series 1991B	November, 1991	2,900,000	295,000	7,965 (4)	5.40	11/1/1998
Assumed MUD Debt	December, 1991	1,995,000	880,000	380,250 (7)	6.02 - 6.40	8/1/1999-2006
Series 1992	May, 1992	114,856,765	79,269,888 (5)	26,456,267 (1)	5.70 - 6.25	9/1/1999-2008
Series 1992	October, 1992	52,490,000	11,000,000	2,562,750 (1)	4.25 - 7.25	9/1/1999-2003
Series 1992	October, 1992	5,405,000	1,225,000	211,975 (1)	5.25 - 5.75	9/1/1999-2003
Series 1992	October, 1992	4,195,000	1,100,000	55,625 (4)	5.00	11/1/1998-1999
Series 1993	February, 1993	71,600,000	64,755,000	26,707,968 (1)	4.75 - 5.75	9/1/1999-2009
Series 1993	October, 1993	25,000,000	22,215,000	9,230,215 (1)	4.13 - 7.00	9/1/1999-2013
Series 1993	October, 1993	6,435,000	5,720,000	2,376,421 (1)	4.13 - 7.00	9/1/1999-2013
Series 1993	October, 1993	8,820,000	970,000	17,945 (4)	3.70	11/1/1998
Series 1993A	October, 1993	70,230,000	65,390,000	18,908,755 (1)	4.00 - 5.00	9/1/1999-2010
Series 1994	October, 1994	33,260,000	12,060,000	3,822,400 (1)	5.20 - 7.00	9/1/1999-2007
Series 1994	October, 1994	3,550,000	1,675,000	558,995 (1)	5.10 - 6.50	9/1/1999-2008
Series 1994	October, 1994	5,025,000	1,655,000	76,285 (4)	4.40 - 4.60	11/1/1998-1999
Series 1995	October, 1995	30,250,000	22,240,000	13,481,285 (1)	4.80 - 7.75	9/1/1999-2013
Series 1995	October, 1995	8,660,000	6,915,000	3,360,740 (1)	4.75 - 6.00	9/1/1999-2013
Series 1995	October, 1995	8,205,000	4,375,000	281,771 (4)	4.10 - 4.25	11/1/1998-2000
Series 1996	October, 1996	30,550,000	13,925,000	8,258,725 (1)	4.40 - 6.00	9/1/1999-2011
Series 1996	October, 1996	11,755,000	9,545,000	1,394,790 (4)	4.30 - 5.10	11/1/1998-2003
Assumed MUD Debt	December, 1996	2,975,000	2,600,000	1,132,250 (7)	8.50 - 8.75	8/1/1999 - 2006
Taxable Series 1997	May, 1997	18,400,000	18,400,000	5,917,638 (1)	6.90 - 7.50	3/1/1999-2004
Series 1997	October, 1997	29,295,000	28,715,000	21,711,082 (1)	5.00 - 5.75	9/1/2000-2017
Series 1997	October, 1997	13,975,000	13,115,000	2,166,525 (4)	4.50	11/1/1998-2004
Series 1997	October, 1997	2,120,000	2,055,000	1,224,423 (1)	4.50 - 7.00	9/1/1999-2017
Series 1998	January, 1998	110,300,000	110,090,000	67,103,923 (1)	3.70 - 5.25	9/1/2003-2016
Assumed MUD Debt	December, 1997	33,680,000	32,180,000	25,327,916 (6)	4.40 - 10.50	11/15/1998-2021

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

(2) Represents capital appreciation bonds.

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

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

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

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

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

In October 1997, the City issued Public Improvement Bonds, Series 1997, in the amount of \$29,295,000. Of the proceeds from the issue, \$7,029,000 will be used for street improvements, \$1,236,000 will be used for drainage and flood control, \$1,719,000 will be used for parks improvements, \$1,000,000 will be used for fire stations, \$1,740,000 will be used for health, safety and welfare renovations, \$341,000 will be used for erosion and flood control, \$2,665,000 will be used for street reconstruction and traffic signals, \$800,000 will be used for parks and recreation facilities, \$1,875,000 will be used for libraries, and \$10,890,000 will be used by various departments for communications equipment.

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

These bonds will be amortized serially on September 1 of each year from 1998 to 2017. Certain of these bonds are callable beginning September 1, 2007. Interest is payable on March 1 and September 1 of each year, commencing March 1, 1998. Total interest requirements for these bonds, at rates ranging from 5.0% to 5.75%, are \$23,238,171.

In October 1997, the City issued Public Property Finance Contractual Obligations, Series 1997, in the amount of \$13,975,000. Of the proceeds from the issue, \$2,000,000 will be used by Information Systems Office for communication equipment, \$270,000 will be used by Law Department for computer upgrade, \$2,045,000 will be used by the Solid Waste Services Department for carts and vehicles, \$805,000 will be used by the Transportation Department for capital equipment, \$755,000 will be used by the Water and Wastewater Department for capital equipment, \$6,800,000 will be used by various departments for radio trunking, and \$1,300,000 will be used for the Year 2000. These contractual obligations will be amortized serially May 1 and November 1 of each year from 1998 to 2004. The contractual obligations are not subject to optional redemption prior to their maturity. Interest is payable on May 1 and November 1 of each year, commencing May 1, 1998. Total interest requirements for these contractual obligations at rates, of 4.5%, aggregate \$2,585,775.

In October 1997, the City issued Certificates of Obligation, Series 1997, in the amount of \$2,120,000. Of the proceeds from the issue, \$1,960,000 will be used by the Police Department for a police substation, and \$160,000 will be used for the purchase of real property located at the southeast corner of Barton Springs and South First Street (Once Texas Center). These certificates of obligation will be amortized serially on September 1 of each year from 1998 to 2017. Certain of these obligations are callable beginning September 1, 2007. Interest is payable on March 1 and September 1 of each year, commencing March 1, 1998. Total interest requirements for these bonds, at rates ranging from 4.5% to 7.0%, aggregate \$1,339,043.

In January 1998, the City issued \$110,300,000 in Public Improvement Refunding Bonds, Series 1998, with a weighted average interest rate of 5.01% to advance refund the following (together hereinafter referred to as the "refunded bonds"):

- \$ 1,145,000 of outstanding Public Improvement Bonds, Series 1989, with a weighted average interest rate of 7.10%.
- \$ 1,060,000 of outstanding Public Improvement Bonds, Series 1990C, with a weighted average interest rate of 6.75%.
- \$ 17,460,000 of outstanding Public Improvement Bonds, Series 1991A, with a weighted average interest rate of 5.95%.
- \$ 37,490,000 of outstanding Public Improvement Bonds, Series 1992, with a weighted average interest rate of 6.05%.
- \$ 3,275,000 of outstanding Certificates of Obligation, Series 1992, with a weighted average interest rate of 6.12%.
- \$ 21,000,000 of outstanding Public Improvement Bonds, Series 1994, with a weighted average interest rate of 5.89%.
- \$ 1,650,000 of outstanding Certificates of Obligation, Series 1994, with a weighted average interest rate of 5.94%.
- \$ 6,560,000 of outstanding Public Improvements Bonds, Series 1995, with a weighted average interest rate of 5.50%.
- \$ 1,465,000 of outstanding Certificates of Obligation, Series 1995, with a weighted average interest rate of 5.50%.
- \$ 16,000,000 of outstanding Public Improvement Bonds, Series 1996, with a weighted average interest rate of 5.75%.

The net proceeds of \$117,020,777 (after issuer contribution of \$3,178,595 and after payment of \$221,390 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the general long-term debt account group.

The City advance refunded the refunded bonds to reduce its total debt service payments in the current period and in future years by approximately \$6.2 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$5.4 million.

In December 1997, the City assumed debt related to the Municipal Utility Districts (MUDs) that were annexed, in the amount of \$33,680,000. \$8,909,336 of the assumed debt, which was issued to purchase infrastructure assets, is recorded in the General Long-Term Debt Account Group. The remaining assumed debt of \$24,770,664, which was issued to purchase water and wastewater facilities, is recorded in the Water and Wastewater Fund. Interest is payable on March 1, May 15, September 1, and November 15 of each year, commencing May 15, 1998. Total interest requirements for this debt at rates ranging from 4.4% to 10.5%, aggregate \$7,130,292.

11 -- GENERAL LONG-TERM DEBT, continued

The following is a summary of general obligation bonds, certificates of obligation, contractual obligation and tax note transactions of the City (including those of certain enterprise funds) for the year ended September 30, 1998 (in thousands of dollars):

	<b>General Obligation Bonds and Other Tax Supported Debt</b>	
	<b>General Long-Term Debt Account Group</b>	<b>Proprietary Funds</b>
<b>Balance payable--September 30, 1997</b>	\$ 482,606	39,488
Refunding activity:		
Refunding debt issued	103,706	6,594
Outstanding debt defeased by refunding	(100,689)	(6,416)
Balance payable subsequent to refunding	485,623	39,666
Debt issued:		
Drainage and flood control improvements	1,236	--
Parks and recreation improvements	1,719	--
Street improvements	7,029	--
Police Department construction	1,960	--
Fire Department construction	1,000	--
One Texas Center purchase	160	--
Erosion and flood control	341	--
Transportation Department for equipment	--	805
Health Department safety and welfare renovations	1,740	--
Street reconstruction and traffic signals	2,665	--
Parks and recreation facilities	800	--
Library improvements	1,875	--
Law Department computer upgrade	--	270
Year 2000	1,300	--
Radio trunking for various departments	2,620	4,180
Solid Waste Department for equipment	--	2,045
Information Systems Office equipment	--	2,000
Communication equipment for various departments	10,890	--
Water and Wastewater Department equipment	--	755
Debt issued during the year	35,335	10,055
Debt retired during the year	(22,570)	(6,008)
Assumed MUD debt due to annexation	8,909	--
<b>Balance payable--September 30, 1998</b>	<b>\$ 507,297</b>	<b>43,713</b>

General obligation bonds authorized and unissued amount to \$65,355,000 at September 30, 1998. Bond ratings at September 30, 1998, were Aa2 (Moody's Investor Service, Inc.) and AA (Standard & Poor's and Fitch).

b -- Other Long-Term Debt

In addition to general obligation bonds, certificates of obligation, contractual obligations, and tax notes, the General Long-Term Debt Account Group includes all liabilities of the City (other than those reported in the proprietary funds) which are not due in the current period. Compensated absences liability was \$33,079,299 in 1997 and increased \$9,578,886 to a balance of \$42,658,185 in 1998.

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

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

The City's Electric Fund and Water and Wastewater Fund comprise the "Combined Utility Systems," which issue Combined Utility Systems revenue bonds to fund Electric Fund and Water and Wastewater Fund capital projects. Principal and interest on these bonds are payable solely from the combined net revenues of the Electric Fund and Water and Wastewater Fund. The following table summarizes Combined Utility Systems revenue bonds and other long-term financing transactions for the year ended September 30, 1998 (in thousands of dollars):

<b>Description</b> <b>(Net of discount and inclusive of premium)</b>	<b>Subordinate</b> <b>Lien Bonds</b>	<b>Prior Lien</b> <b>Bonds</b>	<b>Total</b>
Balance payable, October 1, 1997	\$ 174,359	2,228,012	2,402,371
Debt issued	--	313,941	313,941
Debt repaid, defeased, or refunded	(39,543)	(322,815)	(362,358)
Amortization of bond discount and premium	164	1,971	2,135
Balance payable, September 30, 1998	<u>\$ 134,980</u>	<u>2,221,109</u>	<u>2,356,089</u>

The total Combined Utility Systems revenue bond obligations at September 30, 1998, consist of \$2,245,759,419 prior lien bonds and \$135,200,000 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$1,814,473,617 at September 30, 1998. Revenue bonds authorized and unissued amount to \$1,160,002,660 at that date. At September 30, 1998, Moody's Investors Service rated the prior lien and subordinate lien bonds A2, while Fitch rated them A. Standard and Poor's rated the prior lien A and the subordinate lien A-.

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

The City is required by bond indentures to pledge the net revenues of the Combined Utility Systems for debt service, and is required to maintain debt service funds and bond reserve funds for all outstanding revenue bonds. The debt service funds, with assets of \$257,669,331 including accrued interest at September 30, 1998, are restricted within the utility systems and require that the net revenues of the systems, after operating and maintenance expenses are deducted, be irrevocably pledged by providing equal monthly installments that will accumulate to the semiannual principal and interest requirements as they become due.

The bond reserve fund for revenue bond retirement, with assets of \$168,677,057 of investments at fair value at September 30, 1998, is also restricted within the utility systems. The City is required to maintain a combined reserve fund for the benefit of the holders of prior lien bonds and subordinate lien bonds, which must contain cash and investments of not less than \$85,000,000 and which shall be increased upon the issuance of any additional bonds to the greater of such amount or the average annual principal and interest requirements on all prior lien bonds and subordinate lien bonds. Additional amounts required to be deposited in the reserve fund must be funded from bond proceeds or accumulated in the reserve fund in equal monthly installments within 60 months from the date of delivery of the additional bonds.

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

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

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



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

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

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

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

In August 1998, the City issued \$303,020,000 of Combined Utility Systems Revenue Refunding Bonds to refund \$252,830,502 of previously issued Combined Utility Systems Revenue Bonds. The refunding of the Refunded Bonds will accomplish a restructuring of a portion of the debt attributable to the Electric, Water and Wastewater Systems in order to more closely match debt service with the service life of the assets. The refunding resulted in a decrease in cash flow requirements to service the debt of \$24,368,375. An economic gain of \$19,173,344 was recognized on this transaction. An accounting loss of \$15,966,880 which will be deferred and amortized in accordance with Statement of Financial Accounting Standards No. 71, was recognized on the refunding. The following bonds were refunded in this transaction (in thousands of dollars):

<u>Series</u>	<u>Amount</u>
	\$
1988B Refunding	252,830

In May 1998, the City defeased \$930,000 of Combined Utility Systems revenue bonds, with a \$994,509 cash payment. \$950,634 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligation for the defeased debt.

<u>Series</u>	<u>Amount</u>
	\$
1986 Refunding	20,000
1988B Refunding	485,000
1993 Refunding	60,000
1993A Refunding	305,000
1996A Refunding	30,000
1997 Refunding	30,000

In September 1998, the City defeased \$16,910,000 of Combined Utility Systems revenue bonds, with a \$20,004,945 cash payment. \$19,999,695 was placed in an irrevocable escrow account and used to purchase U.S. government obligations to provide for all future debt service payments on the defeased bonds. The City is legally released from the obligation for the defeased debt. The following bonds were defeased in September 1998 (in thousands of dollars):

<u>Series</u>	<u>Amount</u>
	\$
1982 Refunding	10,155
1992A Refunding	3,165
1993A Refunding	3,590

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

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

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 1998 (in thousands of dollars):

<b>Series</b>	<b>Bonds Dated</b>	<b>Original Amount Issued</b>	<b>Outstanding at September 30, 1998</b>
		<b>\$</b>	<b>\$</b>
1982 Refunding	March 1982	598,000	127,135
1985	March 1985	225,000	7,120
1985A	November 1985	162,000	4,465
1986A	April 1986	325,000	9,740
1986C	November 1986	137,915	7,755
1986 Refunding	March 1986	545,145	36,730
1987	May 1987	65,000	3,815
1988AB Refunding	October 1988	369,901	33,555
1989	July 1989	65,800	4,800
1990	August 1990	6,395	4,895
1990AB Refunding	February 1990	236,009	45,656
1991A Refunding	June 1991	57,080	38,645
1992 Refunding	March 1992	265,806	248,991
1992A Refunding	May 1992	351,706	331,361
1993 Refunding	February 1993	203,166	178,996
1993A Refunding	June 1993	263,410	222,456
1994	May 1994	3,500	3,170
1994 Refunding	October 1994	142,559	142,559
1995 Refunding	June 1995	151,770	151,270
1996AB Refunding	September 1996	249,235	249,205
1997 Refunding	August 1997	227,215	225,620
1998 Refunding	August 1998	180,000	180,000
1998A Refunding	August 1998	123,020	123,020
			<u><u>\$ 2,380,959</u></u>

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

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

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

At September 30, 1998, the Electric Fund had outstanding commercial paper notes of \$158,798,023 (net of discount of \$570,977), and the Water and Wastewater Fund had \$135,614,000 of commercial paper notes outstanding. Interest rates on the notes range from 1.75% to 4.2%, and subsequent issues cannot exceed the maximum rate of 15%. The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.

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

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

Refunds payable on construction contracts of approximately \$2,222,064 at September 30, 1998, excluding accrued interest, represent contractual obligations of the Water and Wastewater Fund to refund a percentage of certain construction costs incurred by developers. The contracts vary as to terms and conditions. Most of the contracts provide for the City to pay interest at 3% per annum on the unpaid balance. Generally, the Water and Wastewater Fund has agreed to pay annually to the developers a sum equal to 75% of the amount of revenues realized (based on rates in existence at the contract date) from sales and service relating to the water and wastewater facilities constructed by these developers. Such payments are made in March of each year based upon the revenues for the previous calendar year; however, the total number of payments is limited, ranging primarily from 20 to 25 years, at which time the unpaid principal balance, if any, reverts to the Water and Wastewater Fund as a contribution in aid of construction.

**g -- Airport -- General**

The City's Airport Fund issues Airport System revenue bonds to fund Airport Fund capital projects. Principal and interest on these bonds are payable solely from the net revenues of the Airport Fund. The following table summarizes Airport System revenue bonds for the year ended September 30, 1998 (in thousands of dollars):

<b>Description</b> <b>(Net of discount and loss on refunding)</b>	<b>Prior Lien</b> <b>Bonds</b>
Balance payable, October 1, 1997	\$ 382,184
Amortization of bond discount and loss on refunding	614
Balance payable, September 30, 1998	<u>\$ 382,798</u>

The total Airport System obligations for prior lien bonds is \$394,245,000 at September 30, 1998. Aggregate interest requirements for all prior lien bonds are \$438,274,756 at September 30, 1998. Revenue bonds authorized and unissued amount to \$735,795,000 at that date.

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

The City is required by bond indentures to pledge the net revenues of the Airport System for debt service, and is required to maintain a debt service fund and bond reserve fund for all outstanding revenue bonds. The debt service fund, with assets of \$736,644 including accrued interest at September 30, 1998, is restricted within the Airport System and requires that the net revenues of the airport, after operating and maintenance expenses are deducted, be irrevocably pledged by providing equal monthly installments that will accumulate to the semiannual principal and interest requirements as they become due.

The City is also required to maintain a reserve fund for the benefit of the holders of prior lien bonds, which must contain cash and investments equal to the arithmetic average of the debt service requirements scheduled to occur in the then current and future fiscal years for all prior lien bonds then outstanding. However, the bond ordinance also allows for the use of a debt service reserve fund surety bond in lieu of the cash deposit. In January 1998, the assets of the bond reserve fund, a restricted fund, were transferred to a new airport construction fund, and a surety bond was purchased. The assets transferred included \$30,341,433 of investments. The total benefit available from the surety bond in the event a draw is necessary is \$30,429,177. The City is in compliance with all significant limitations and restrictions contained in the revenue bond indentures.

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

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

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

**j -- Airport Debt -- Bonds Issued and Outstanding**

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 1998 (in thousands of dollars):

<b>Series</b>	<b>Bonds Dated</b>	<b>Original Amount Issued</b>	<b>Outstanding at September 30, 1998</b>
		\$	\$
1989	September 1989	30,000	1,000
1995A	August 1995	362,205	362,205
1995B Refunding	August 1995	31,040	31,040
			<u>\$ 394,245</u>

**k -- Airport Debt -- Variable Rate Revenue Notes**

The City is authorized to issue Airport System variable rate revenue notes, pursuant to Ordinance No. 950817B, as amended and restated by Ordinance 980205A adopted by the City Council on February 5, 1998. The City issued \$28,000,000 in notes on February 24, 1998. Proceeds from the notes are used for issuance costs for the notes, capital project costs for establishing, improving, enlarging, extending and repairing the Airport System or any project to become part of the Airport System, and capitalized interest on the Series A Notes through the construction period. The notes are in denominations of \$100,000 or more and mature on November 15, 2017. The Series A notes are secured by a lien on net revenues of the Airport System that is junior and subordinate to the lien on net revenues securing the prior lien bonds and by a direct-pay letter of credit issued by Morgan Guaranty Trust Company of New York.

At September 30, 1998, the Airport System had outstanding variable rate revenue notes of \$28,000,000. The debt service fund required by the bond ordinance held assets of \$444,279 including accrued interest at September 30, 1998 and was restricted within the Airport System. During fiscal year 1998, interest rates on the notes ranged from 2.9% to 6.0%, adjusted weekly, and subsequent rate changes cannot exceed the maximum rate of 15%. Principal and interest on the notes are payable from the net revenues of the Airport System.

**l -- Convention Center -- General**

The City's Convention Center Fund issues Convention Center revenue bonds and Hotel Occupancy Tax revenue bonds to fund Convention Center Fund capital projects. Principal and interest on these bonds are payable solely from the gross revenues of the Convention Center Fund and the pledged hotel occupancy tax revenues. The following table summarizes Convention Center System revenue bonds for the year ended September 30, 1998 (in thousands of dollars):

<b>Description (Net of discount and loss on refunding)</b>	<b>Subordinate Lien Bonds</b>	<b>Prior Lien Bonds</b>	<b>Total</b>
Balance payable, October 1, 1997	\$ 5,611	65,883	71,494
Principal payment, November 15, 1997	--	(1,885)	(1,885)
Amortization of bond discount and loss on refunding	71	621	692
Balance payable, September 30, 1998	<u>\$ 5,682</u>	<u>64,619</u>	<u>70,301</u>

The total Convention Center System obligations at September 30, 1998, consist of \$74,070,000 prior lien bonds and \$6,170,000 subordinate lien bonds. Aggregate interest requirements for all prior lien and subordinate lien bonds are \$50,320,738 at September 30, 1998. Revenue bonds authorized and unissued amount to \$135,760,000 at that date.

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

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

The City is required by bond indentures to pledge the gross revenues of the Convention Center and the pledged hotel occupancy tax revenues for debt service, and is required to maintain a debt service fund and bond reserve fund for all outstanding revenue bonds. The Series 1993A debt service fund, with assets of \$2,381,895 including accrued interest at September 30, 1998, is restricted within the Convention Center and requires that the pledged hotel occupancy revenues of the Convention Center be irrevocably pledged by providing quarterly installments that will accumulate to the semiannual principal and interest requirements as they become due.

The Series 1993B debt service fund, with assets of \$92,550 including accrued interest at September 30, 1998, is restricted within the Convention Center and requires that the gross revenues of the Convention Center and the excess pledged hotel occupancy revenues of the Convention Center be irrevocably pledged by providing quarterly installments that will accumulate to the semiannual principal and interest requirements as they become due.

The Series 1993A bond reserve fund for revenue bond retirement, with assets of \$5,972,344 at September 30, 1998, is also restricted within the Convention Center. The City is required to maintain a reserve fund for the benefit of the holders of prior lien bonds, which must contain cash and investments equal to the lesser of 10% of the principal amount or the maximum annual debt service requirements scheduled to occur in the then current and each future fiscal year for all bonds then outstanding. The Series 1993B bond reserve fund for revenue bond retirement, with assets of \$986,454 at September 30, 1998, is also restricted within the Convention Center. The City is required to maintain a reserve fund for the benefit of the holders of subordinate lien bonds, which must contain cash and investments equal to the arithmetic average of the debt service requirements scheduled to occur in the then current and each future fiscal year for all bonds then outstanding. The City is in compliance with all significant limitations and restrictions contained in the revenue bond indentures.

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

The following schedule shows all original and refunding revenue bonds outstanding at September 30, 1998 (in thousands of dollars):

<b>Series</b>	<b>Bonds Dated</b>	<b>Original Amount Issued</b>	<b>Outstanding at September 30, 1998</b>
		\$	\$
1993A	December 1993	75,955	74,070
1993B	December 1993	6,170	6,170
			<u>\$ 80,240</u>

**o -- Other Debt**

The Drainage Fund has revenue bonds authorized and unissued amounting to \$10,000,000 at September 30, 1998.

**13 -- CONDUIT DEBT**

**a -- Austin Housing Finance Corporation**

From time to time, the City has issued housing revenue bonds through the Austin Housing Finance Corporation (AHFC) to provide financial assistance to other entities for the acquisition and construction of housing facilities for low and moderate-income Austin residents. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. As of September 30, 1998, ten series of AHFC housing finance bonds had been issued. The aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled \$203.8 million.

**13 -- CONDUIT DEBT, continued**

In fiscal year 1998, no AHFC bonds were issued. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**b -- Austin Industrial Development Corporation**

From time to time, the City has issued industrial revenue bonds through the Austin Industrial Development Corporation (AIDC) to provide financial assistance to other entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. As of September 30, 1998, 24 series of AIDC industrial revenue bonds had been issued. The aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled \$106.4 million.

No AIDC bonds were issued in fiscal year 1998. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

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

To provide for the construction of certain facilities at the Austin-Bergstrom International Airport (ABIA), the City has issued industrial revenue bonds through the ABIA Development Corporation. The bonds are special limited obligations of the City, payable solely from and secured by a pledge of rentals to be received from lease agreements between the City and certain entities operating at the Airport. As of September 30, 1998, two series of industrial revenue bonds had been issued. The aggregate principal amount payable of these bonds could not be determined; however, their original issue amounts totaled \$19.2 million.

No ABIA bonds were issued in fiscal year 1998. The bonds do not constitute a debt or pledge of the Airport System revenues nor of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements.

**d -- Rental Car Facility Trust Indenture**

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

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

**14 -- DEBT SERVICE REQUIREMENTS**

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

Fiscal Year Ended September 30	General Obligation Bonds			Public Property Finance Contractual Obligations			Certificates of Obligation		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1999	\$ 19,397	39,377	58,774	8,075	1,296	9,371	975	919	1,894
2000	21,696	36,700	58,396	6,180	961	7,141	1,025	858	1,883
2001	34,792	23,898	58,690	4,555	706	5,261	1,090	798	1,888
2002	37,654	22,228	59,882	3,825	519	4,344	1,130	739	1,869
2003	36,904	20,096	57,000	4,035	341	4,376	1,210	678	1,888
Thereafter	333,522	94,952	428,474	4,385	178	4,563	12,160	3,742	15,902
	<u>483,965</u>	<u>237,251</u>	<u>721,216</u>	<u>31,055</u>	<u>4,001</u>	<u>35,056</u>	<u>17,590</u>	<u>7,734</u>	<u>25,324</u>

Fiscal Year Ended September 30	Tax Notes			Total		
	Principal	Interest	Total	Principal	Interest	Total
1999	700	1,266	1,966	29,147	42,858	72,005
2000	1,000	1,202	2,202	29,901	39,721	69,622
2001	1,300	1,117	2,417	41,737	26,519	68,256
2002	1,500	1,017	2,517	44,109	24,503	68,612
2003	1,900	900	2,800	44,049	22,015	66,064
Thereafter	12,000	417	12,417	362,067	99,289	461,356
	<u>18,400</u>	<u>5,919</u>	<u>24,319</u>	<u>551,010</u>	<u>254,905</u>	<u>805,915</u>

	Less: Amounts reported in Enterprise Funds	(36,555)	(14,040)	(50,595)
	Amounts reported in Internal Service Funds	(7,158)	(1,511)	(8,669)
Total requirements reported in other funds		(43,713)	(15,551)	(59,264)
General Long-Term Debt Account Group requirements at September 30, 1998		<u>\$ 507,297</u>	<u>239,354</u>	<u>746,651</u>

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

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

The following summarizes the proprietary funds debt service requirements at September 30, 1998 (in thousands):

Fiscal Year Ended September 30	Commercial Paper Notes (1)			Revenue Notes		
	Principal	Interest	Total	Principal	Interest	Total
1999	\$ 294,983	1,256	296,239	28,000	--	28,000
2000	--	--	--	--	--	--
2001	--	--	--	--	--	--
2002	--	--	--	--	--	--
2003	--	--	--	--	--	--
Thereafter	--	--	--	--	--	--
	<u>294,983</u>	<u>1,256</u>	<u>296,239</u>	<u>28,000</u>	<u>--</u>	<u>28,000</u>
Less: Unamortized bond discount	(571)	--	(571)			
Unamortized loss on bond refundings	--	--	--			
Add: Unamortized bond premium	--	--	--			
Net debt service requirements	<u>294,412</u>	<u>1,256</u>	<u>295,668</u>			

Fiscal Year Ended September 30	General Obligation Bonds and Other Tax Supported Debt (2)			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
1999	8,519	4,130	12,649	101,809	161,733	263,542
2000	6,621	3,702	10,323	99,865	165,344	265,209
2001	5,628	3,501	9,129	104,562	151,030	255,592
2002	4,719	3,436	8,155	114,487	156,616	271,103
2003	4,508	3,230	7,738	98,621	147,635	246,256
Thereafter	41,740	17,200	58,940	2,336,100	1,580,093	3,916,193
	<u>71,735</u>	<u>35,199</u>	<u>106,934</u>	<u>2,855,444</u>	<u>2,362,451</u>	<u>5,217,895</u>
Less: Unamortized bond discount	(45)	--	(45)	(65,754)	--	(65,754)
Unamortized loss on bond refundings	(419)	--	(419)	(9,595)	--	(9,595)
Add: Unamortized bond premium	173	--	173	29,093	--	29,093
Net debt service requirements	<u>\$ 71,444</u>	<u>35,199</u>	<u>106,643</u>	<u>2,809,188</u>	<u>2,362,451</u>	<u>5,171,639</u>

(continued)

- (1) The City intends to refinance maturing commercial paper notes by issuing additional commercial paper notes or by issuing long-term debt.
- (2) Includes assumed tax and revenue bond principal of \$27,150,560 and interest of \$19,995,346, Solid Waste Services revenue certificates of obligation of \$750,000 and interest of \$52,500 and \$120,000 of Water and Wastewater notes payable.



**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

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

Fiscal Year Ended September 30	Water Improvement District Bonds			Municipal Utility District Contracts		
	Principal	Interest	Total	Principal	Interest	Total
1999	\$ 332	71	403	5,695	6,529	12,224
2000	307	54	361	6,245	6,182	12,427
2001	366	37	403	6,930	5,791	12,721
2002	353	19	372	6,730	5,352	12,082
2003	25	3	28	7,540	4,919	12,459
Thereafter	25	1	26	74,315	18,310	92,625
	<u>1,408</u>	<u>185</u>	<u>1,593</u>	<u>107,455</u>	<u>47,083</u>	<u>154,538</u>
Less: Unamortized bond discount				(400)	--	(400)
Unamortized loss on bond refundings				--	--	--
Add: Unamortized bond premium				--	--	--
Net debt service requirements				<u>107,055</u>	<u>47,083</u>	<u>154,138</u>

Fiscal Year Ended September 30	Total Debt Service Requirements		
	Principal	Interest	Total
1999	439,338	173,719	613,057
2000	113,038	175,282	288,320
2001	117,486	160,359	277,845
2002	126,289	165,423	291,712
2003	110,694	155,787	266,481
Thereafter	<u>2,452,180</u>	<u>1,615,604</u>	<u>4,067,784</u>
	<u>3,359,025</u>	<u>2,446,174</u>	<u>5,805,199</u>
Less: Unamortized bond discount	(66,770)	--	(66,770)
Unamortized loss on bond refundings	(10,014)	--	(10,014)
Add: Unamortized bond premium	29,266	--	29,266
Net debt service requirements	<u>\$ 3,311,507</u>	<u>2,446,174</u>	<u>5,757,681</u>

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

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

The following summarizes the proprietary funds debt service requirements at September 30, 1998 by fund (in thousands):

Fiscal Year Ended September 30	Electric (1)			Water and Wastewater (2)		
	Principal	Interest	Total	Principal	Interest	Total
1999	\$ 242,941	94,146	337,087	161,483	49,678	211,161
2000	79,492	96,586	176,078	27,370	49,161	76,531
2001	84,432	85,077	169,509	27,079	46,244	73,323
2002	84,871	89,328	174,199	28,263	47,533	75,796
2003	67,288	83,478	150,766	29,632	44,455	74,087
Thereafter	1,225,046	660,532	1,885,578	763,238	539,105	1,302,343
	1,784,070	1,109,147	2,893,217	1,037,065	776,176	1,813,241
Less: Unamortized bond discount	(32,765)	--	(32,765)	(22,167)	--	(22,167)
Unamortized loss on bond refundings	--	--	--	--	--	--
Add: Unamortized bond premium	21,988	--	21,988	7,041	--	7,041
	1,773,293	1,109,147	2,882,440	1,021,939	776,176	1,798,115

Fiscal Year Ended September 30	Solid Waste Services			Airport		
	Principal	Interest	Total	Principal	Interest	Total
1999	3,009	977	3,986	28,086	24,160	52,246
2000	1,667	820	2,487	74	24,146	24,220
2001	1,290	690	1,980	196	23,997	24,193
2002	1,036	629	1,665	7,742	23,795	31,537
2003	1,046	574	1,620	8,095	23,360	31,455
Thereafter	10,374	3,305	13,679	379,131	378,868	757,999
	18,422	6,995	25,417	423,324	498,326	921,650
Less: Unamortized bond discount	(24)	--	(24)	(9,614)	--	(9,614)
Unamortized loss on bond refundings	(265)	--	(265)	(1,845)	--	(1,845)
Add: Unamortized bond premium	148	--	148	--	--	--
	\$ 18,281	6,995	25,276	411,865	498,326	910,191

(continued)

(1) Included in the debt service requirements of Electric is \$159,369,000 principal and \$575,906 interest for commercial paper notes.

(2) Included in the debt service requirements of Water and Wastewater is \$135,614,000 principal and \$679,917 interest for commercial paper notes.

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

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

Fiscal Year Ended September 30	Convention Center			Drainage		
	Principal	Interest	Total	Principal	Interest	Total
1999	\$ 1,974	3,993	5,967	86	86	172
2000	2,590	3,895	6,485	95	79	174
2001	2,946	3,767	6,713	105	71	176
2002	3,087	3,622	6,709	114	62	176
2003	3,248	3,467	6,715	123	53	176
Thereafter	66,678	31,730	98,408	529	121	650
	80,523	50,474	130,997	1,052	472	1,524
Less: Unamortized bond discount	(2,189)	--	(2,189)	--	--	--
Unamortized loss on bond refundings	(7,750)	--	(7,750)	--	--	--
Add: Unamortized bond premium	--	--	--	--	--	--
	70,584	50,474	121,058	1,052	472	1,524

Fiscal Year Ended September 30	Transportation			Golf		
	Principal	Interest	Total	Principal	Interest	Total
1999	102	33	135	309	327	636
2000	106	28	134	322	307	629
2001	111	23	134	344	289	633
2002	117	18	135	352	273	625
2003	123	13	136	387	256	643
Thereafter	196	9	205	4,943	1,499	6,442
	755	124	879	6,657	2,951	9,608
Less: Unamortized bond discount	--	--	--	(8)	--	(8)
Unamortized loss on bond refundings	--	--	--	(76)	--	(76)
Add: Unamortized bond premium	--	--	--	64	--	64
	\$ 755	124	879	6,637	2,951	9,588

(continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

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

Fiscal Year Ended September 30	Fleet Maintenance			Support Services		
	Principal	Interest	Total	Principal	Interest	Total
1999	\$ 287	52	339	1,062	268	1,330
2000	220	38	258	1,101	221	1,322
2001	83	30	113	899	172	1,071
2002	24	27	51	683	136	819
2003	26	26	52	727	104	831
Thereafter	466	153	619	1,579	282	1,861
	1,106	326	1,432	6,051	1,183	7,234
Less: Unamortized bond discount	--	--	--	(3)	--	(3)
Unamortized loss on bond refundings	(17)	--	(17)	(61)	--	(61)
Add: Unamortized bond premium	4	--	4	21	--	21
	1,093	326	1,419	6,008	1,183	7,191

Fiscal Year Ended September 30	Total		
	Principal	Interest	Total
1999	439,339	173,720	613,059
2000	113,037	175,281	288,318
2001	117,485	160,360	277,845
2002	126,289	165,423	291,712
2003	110,695	155,786	266,481
Thereafter	2,452,180	1,615,604	4,067,784
	3,359,025	2,446,174	5,805,199
Less: Unamortized bond discount	(66,770)	--	(66,770)
Unamortized loss on bond refundings	(10,014)	--	(10,014)
Add: Unamortized bond premium	29,266	--	29,266
	\$ 3,311,507	2,446,174	5,757,681

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

**15 -- INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables at September 30, 1998, are as follows:

	Current		Long-Term	
	Due From Other Funds	Due To Other Funds	Advance To Other Funds	Advance From Other Funds
<b>RECEIVABLES:</b>				
<b>Special Revenue Funds</b>				
Receivable from Special Revenue Funds	\$ 14,855,721	--	--	--
<b>Debt Service fund</b>				
Receivable from General Fund	112,827	--	--	--
Receivable from Water and Wastewater Fund	444,049	--	--	--
<b>Capital Projects Funds</b>				
Receivable from Capital Projects Funds	4,328,300	--	--	--
Receivable from Trust and Agency Funds	38,315	--	--	--
<b>Enterprise Funds</b>				
Electric Fund (Restricted):				
Receivable from Solid Waste Services Fund	12,385	--	24,770	--
Receivable from Airport Fund	1,455	--	2,910	--
Receivable from Drainage Fund	3,045	--	6,090	--
Internal Service Funds:				
Receivable from Fleet Maintenance Fund	13,875	--	27,750	--
Receivable from Support Services Fund	124,932	--	249,866	--
Water and Wastewater Fund (Restricted):				
Receivable from Solid Waste Services Fund	10,225	--	20,450	--
Receivable from Airport Fund	1,201	--	2,403	--
Receivable from Drainage Fund	2,514	--	5,028	--
Internal Service Funds:				
Receivable from Fleet Maintenance Fund	11,455	--	22,911	--
Receivable from Support Services Fund	203,337	--	675,393	--
Airport Fund:				
Internal Service Funds:				
Receivable from Support Services Fund	135,121	--	19,101	--
Convention Center Fund:				
Receivable from restricted account	1,186,132	--	--	--
Drainage Fund:				
Receivable from Debt Service Fund	452,832	--	--	--
<b>Internal Service Funds</b>				
Fleet Maintenance Fund:				
Receivable from Solid Waste Services Fund	98,940	--	--	--
Internal Service Funds:				
Receivable from Radio Communication Fund	\$ 240,122	--	--	--

(continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

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

	Current		Long-Term	
	Due From Other Funds	Due To Other Funds	Advance To Other Funds	Advance From Other Funds
<b>PAYABLES:</b>				
<b>General Fund</b>				
Payable to Debt Service Funds	--	112,827	--	--
<b>Special Revenue Funds</b>				
Payable to Special Revenue Funds	--	14,855,721	--	--
<b>Debt Service Fund</b>				
Payable to Drainage Fund	--	452,832	--	--
<b>Capital Projects Funds</b>				
Payable to Capital Projects Funds	--	4,328,300	--	--
<b>Enterprise Funds</b>				
Water and Wastewater Fund:				
Payable to Debt Service Fund	--	444,049	--	--
Solid Waste Services Fund:				
Payable to Electric Fund	--	12,385	--	24,770
Payable to Water and Wastewater Fund	--	10,225	--	20,450
Internal Service Funds:				
Payable to Fleet Maintenance Fund	--	98,940	--	--
Airport Fund:				
Payable to Electric Fund	--	1,455	--	2,910
Payable to Water and Wastewater Fund	--	1,201	--	2,403
Convention Center Fund:				
Payable to operating account	--	1,186,132	--	--
Drainage Fund:				
Payable to Electric Fund	--	3,045	--	6,090
Payable to Water and Wastewater Fund	--	2,514	--	5,028
<b>Internal Service Funds</b>				
Fleet Maintenance Fund:				
Payable to Electric Fund	--	13,875	--	27,750
Payable to Water and Wastewater Fund	--	11,455	--	22,911
Support Services Fund:				
Payable to Electric Fund	--	124,932	--	249,866
Payable to Water and Wastewater Fund	--	203,337	--	675,393
Payable to Airport Fund	--	135,121	--	19,101
Information Systems Fund:				
Payable to Electric Fund	--	--	--	--
Payable to Water and Wastewater Fund	--	--	--	--
Radio Communication Fund:				
Internal Service Funds:				
Payable to Fleet Maintenance Fund	--	240,122	--	--
<b>Trust and Agency Funds</b>				
Agency Funds:				
Payable to Capital Projects Fund	--	38,315	--	--
	<u>\$ 22,276,783</u>	<u>22,276,783</u>	<u>1,056,672</u>	<u>1,056,672</u>

**16 -- INTERFUND TRANSFERS**

Operating transfers between funds during the year were as follows:

Operating Transfers In		Operating Transfers Out	Amount
<b>General Fund</b>	Enterprise Funds:	Electric Fund	\$ 57,409,800
		Water and Wastewater Fund	15,311,464
			<u>72,721,264</u>
<b>Special Revenue Funds - Other:</b>			
Balcones Canyonlands Conservation Fund	General Fund		88,000
	Enterprise Funds:	Drainage Fund	305,702
Environmental Remediation Fund	Enterprise Funds:	Water and Wastewater Fund	75,000
		Solid Waste Fund	75,000
		Drainage Fund	75,000
	Internal Service Funds:	Fleet Maintenance Fund	630,000
Fee Waiver Fund	General Fund		7,000
Federally Qualified Health Center Fund	Special Revenue Funds:	Disproportionate Share Fund	628,060
	Enterprise Funds:	Hospital Operating Fund	6,302,410
Neighborhood Housing and Conservation Fund	General Fund		613,000
PARD-Cultural Projects Fund	Special Revenue Funds:	Hotel-Motel Occupancy Tax Fund	2,686,019
Planning, Environmental & Conservation Fund	General Fund		1,980,707
	Special Revenue Funds:	Energy Conservation Rebates & Incentives Fund	2,410,000
	Enterprise Funds:	Performance Contracting Fund	122,401
Public Improvement District	Enterprise Funds:	Water and Wastewater Fund	50,000
		Convention Center Fund	50,000
Strategic Planning Investment Fund	General Fund		950,000
Telecommunity Partnership Fund	General Fund		200,000
Tourism and Promotion Fund	General Fund		125,382
	Special Revenue Funds:	Hotel-Motel Occupancy Tax Fund	4,028,006
Voluntary Utility Assistance Fund	General Fund		<u>160,000</u>
			<u>21,561,687</u>
<b>Debt Service Fund</b>	Special Revenue Funds:	Balcones Canyonlands Conservation Plan Fund	26,064
		Federally Qualified Health Center Fund	103,288
		One Texas Center Fund	1,291,975
	Capital Project Funds:	Interest Income Fund	840,000
			<u>\$ 2,261,327</u>

16 -- INTERFUND TRANSFERS, continued

Operating Transfers In		Operating Transfers Out	Amount
Capital Projects Funds	General Fund		\$ 4,884,273
	Special Revenue Funds:	Disproportionate Share Fund	1,500,000
		Energy Conservation Rebates & Incentives Fund	154,000
		Environmental Remediation Fund	630,000
		Police Federal Seized Money Fund	103,190
		Subdivision Participation Fund	199,988
	Capital Project Funds:	Funds Authorized Prior to 1981	404,090
		Funds Authorized 1981	359,299
		Funds Authorized 1982	766,157
		Funds Authorized 1984	1,447,245
		Funds Authorized 1985	549,328
		Other Funds	1,893,590
		Interest Income Fund	7,003,000
	Enterprise Funds:	Drainage Fund	200,000
			<u>20,094,160</u>
<b>Enterprise Funds:</b>			
Solid Waste Fund	General Fund		235,000
Convention Center Fund	Special Revenue Funds:	Hotel-Motel Occupancy Tax Fund	12,106,573
Drainage Fund	General Fund		193,504
Construction Performance Contracting Fund	Special Revenue Funds:	Energy Conservation Rebates & Incentives Fund	1,400,000
		Planning, Environmental & Conservation Services Fund	4,333,547
			<u>18,268,624</u>
<b>Trust and Agency Funds - Expendable Trusts:</b>			
First Step-A Community Fund	General Fund		410,000
			<u>410,000</u>
<b>Total Operating Transfers</b>			<u><u>\$ 135,317,062</u></u>



**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

**17 -- SEGMENT INFORMATION**

**a -- Enterprise Fund Activities**

The City maintains eleven enterprise funds, which provide electric, water and wastewater, health care, solid waste services, airport, convention, drainage, transportation services, performance contracting, golf, and parks and recreation activities. Segment information for the year ended September 30, 1998, is as follows (in thousands of dollars):

	Electric Fund	Water & Wastewater Fund	Hospital Fund	Solid Waste Services Fund	Airport Fund	Convention Center Fund	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	\$ 668,371	201,792	11,171	33,088	42,995	8,003	40,009	1,005,429
Depreciation and amortization expense	77,803	44,205	2,177	2,882	16,711	2,651	1,930	148,359
Operating income (loss)	258,120	76,992	8,096	8,826	3,508	(4,883)	704	351,363
Operating transfers in	--	--	--	235	--	12,107	5,927	18,269
Operating transfers out	(57,410)	(15,436)	(6,302)	(75)	--	(50)	(704)	(79,977)
Net income (loss)	108,662	29,906	3,104	8,819	4,829	3,681	6,960	165,961
Current assets	164,272	49,890	15,367	8,539	1,944	7,878	12,181	260,071
Current liabilities	37,248	18,446	1,489	4,367	1,684	482	3,182	66,898
Net working capital surplus	127,024	31,444	13,878	4,172	260	7,396	8,999	193,173
Property, plant and equipment:								
Additions	76,550	130,363	--	5,607	171,084	11,814	14,008	409,426
Retirements	(12,825)	(3,618)	--	(528)	(140)	(76)	(155)	(17,342)
Transfers from (to) other funds	1,723	--	--	--	--	--	--	1,723
Net property, plant and equipment	1,730,063	1,355,945	47,739	26,218	470,652	94,583	43,082	3,768,282
Total assets	2,771,298	1,777,823	70,606	47,937	696,004	122,870	76,372	5,562,910
Bond, restricted, and other long-term liabilities	1,975,153	1,100,891	161	22,894	450,582	83,371	9,456	3,642,508
Current capital contributions	2,256	33,483	--	29	14,669	400	10,000	60,837
Total equity	758,897	658,487	68,957	20,675	243,739	39,017	63,733	1,853,505

**17 -- SEGMENT INFORMATION, continued**

**b -- Proprietary Fund Contributed Capital**

The following table summarizes activity in contributed capital for the year ended September 30, 1998:

	Balance September 30, 1997	Contribution Type				Depreciation Taken	Balance September 30, 1998
		(To) From Municipality	From Donors	From Other Governments	In Aid of Construction		
<b>Enterprise Funds:</b>							
Electric Fund	\$ 65,024,270	607,173	--	--	1,648,852	(3,123,942)	64,156,353
Water and Wastewater Fund	287,253,609	--	--	--	33,482,731	(11,469,201)	309,267,139
Hospital Fund	12,615,015	--	--	--	--	--	12,615,015
Solid Waste Services Fund	1,338,580	29,099	--	--	--	--	1,367,679
Airport Fund	109,050,364	1,843	--	9,927,885	4,739,229	(6,923,598)	116,795,723
Convention Center Fund	21,400,245	--	400,000	--	--	(65,494)	21,734,751
Drainage Fund	13,183,922	9,011,050	--	--	1,008,175	--	23,203,147
Transportation Fund	331,206	--	--	--	--	--	331,206
Golf Fund	886,879	(19,100)	--	--	--	--	867,779
Parks and Recreation Fund	1,069,976	--	--	--	--	--	1,069,976
<b>Internal Service Funds:</b>							
Fleet Maintenance Fund	12,088,360	1,403,893	--	--	--	--	13,492,253
Support Services Fund	4,195,519	(3,117,267)	--	--	--	--	1,078,252
Utility Customer Service Fund	600,772	(600,772)	--	--	--	--	--
Employee Benefits Fund	9,244,036	--	--	--	--	--	9,244,036
Workers' Compensation Fund	2,443,283	--	--	--	--	--	2,443,283
Radio Communication Fund	56,255	--	--	--	--	--	56,255
Infrastructure Support Services Fund	343,005	--	--	--	--	--	343,005
Capital Projects Management Fund	28,300	--	--	--	--	--	28,300
Total	\$ 541,153,596	7,315,919	400,000	9,927,885	40,878,987	(21,582,235)	578,094,152

**18 -- JOINT OPERATIONS**

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

**a -- Fayette Power Project**

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

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

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**September 30, 1998**

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

**18 -- JOINT OPERATIONS, continued**

The following is a summary of financial information taken from the Project's audited financial statements, dated June 30, 1998, and 1997, the Project's fiscal year end (in thousands of dollars). These statements include Unit III, which is 100% owned by LCRA. These statements were not examined by the City's auditors.

	June 30, 1998			June 30, 1997		
	Total	COA	LCRA	Total	COA	LCRA
Assets	\$ 65,208	29,996	35,212	81,196	33,996	47,200
Liabilities	11,394	4,265	7,129	9,093	3,364	5,729
Equity	53,814	25,731	28,083	72,103	30,632	41,471
Revenues	2,580	620	1,960	3,623	438	3,185
Expenses	130,950	40,381	90,569	156,391	53,467	102,924
Net expenses incurred	\$ 128,370	39,761	88,609	152,768	53,029	99,739

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

**b -- South Texas Project**

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

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

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

The following is a summary of financial information taken from the South Texas Project's audited financial statements dated September 30, 1997 (in thousands of dollars). These statements were not examined by the City's auditors.

	HL&P	San Antonio	Central	Austin	Total
Operations	\$ 81,494	74,086	66,677	42,335	264,592
Nuclear fuel	25,566	23,242	20,918	13,281	83,007
Nuclear fuel disposal fee	6,088	5,465	4,816	3,113	19,482
Nuclear fuel disposal assessment fee	597	542	488	310	1,937
Vendor credits	(4,653)	(4,230)	(3,807)	(2,417)	(15,107)
Total 1997 funding	\$ 109,092	99,105	89,092	56,622	353,911

Financial reports that include financial statements and supplementary information for the STP are publicly available at the STP Nuclear Operating Company, P. O. Box 289, Wadsworth, TX 77483. Their telephone number is (512) 972-7067.

**18 -- JOINT OPERATIONS, continued**

**c -- South Texas Project Decommissioning**

The South Texas Project (STP) is subject to regulation by the Nuclear Regulatory Commission (NRC). The NRC requires that each holder of a nuclear plant operating license submit information to the NRC indicating the minimum amount of funds that will be required to decommission the plant while demonstrating reasonable assurance that sufficient funds are being accumulated to provide the minimum amount at the time the plant is decommissioned. This minimum amount must be adjusted annually in accordance with an adjustment factor as required by the NRC. At September 30, 1998 and 1997, the City had funded its share of the estimated decommissioning liability as follows:

	<u>1998</u>	<u>1997</u>
Estimated cost to decommission STP	\$181,205,588	\$172,298,906
Restricted decommissioning fund assets	49,332,878	39,110,328

The City of Austin and other STP participants have provided the required information to the NRC, and the City of Austin has established an external irrevocable trust for decommissioning and has been collecting through its rates since 1989 sufficient amounts to provide for its share of the estimated decommissioning costs. For fiscal years 1998 and 1997, the City collected \$4,958,221 in each year for decommissioning expenses.

**d -- Municipal Utility Districts**

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

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

**e -- Brushy Creek**

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

**f -- Rivercrest Water Supply Corporation**

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

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

**19 -- ANNEXED DISTRICTS**

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

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

During fiscal year 1998, the City annexed ten utility districts which included Northwest Travis County MUD No. 1, Northwest Travis County MUD No. 2, Southland Oaks MUD, Tanglewood Forest MUD, Village at Western Oaks MUD, Davenport MUD, and Circle C MUDs No. 1, 2, 3, and 4. Contributions of net assets or liabilities were recorded to the following funds and account groups (in thousands of dollars):

	<b>Assets</b>	<b>Liabilities</b>
General Fund	\$ 5,441	\$ --
Capital Project Funds	810	--
Water and Wastewater Fund	30,180	24,771
Drainage Fund	6,586	--
General Long-Term Debt Account Group	--	8,909

**20 -- LITIGATION**

**a -- Water and Wastewater Litigation**

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

**b -- Other Litigation**

A number of claims against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management are of the opinion that the settlement of these claims and pending litigation will not have a material effect on the City's financial statements. The City has accrued liabilities in the Liability Reserve Fund for claims payable at September 30, 1998. These liabilities include amounts for lawsuits settled subsequent to year end.

**21 -- COMMITMENTS AND CONTINGENCIES**

**a -- Certificates of Participation**

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

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

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

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

The following table presents information regarding these certificates:

	<b>Electric Fund Office Project (1)</b>	<b>Water and Wastewater Fund Office Project (1)</b>
Date issued	February 1987	August 1987
Amount issued	23,060,000	14,000,000
Interest rates	4.00% - 7.00%	5.25% - 8.00%
Interest payable on	March 15 and September 15	May 15 and November 15
Maturity dates	September 15 1988 - 2007	November 15 1989 - 2007
Present value of lease payments	13,815,000	9,625,000
Reserve fund (2)	2,000,000	1,250,000

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

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

**b -- Federal Financial Assistance Programs**

The City participates in a number of federal financial assistance programs. Although the City grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984 and Amendments of 1996 through September 30, 1998, these programs are subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**c -- Arbitrage Rebate Payable**

The City's financial advisor has determined that the City may have earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable Federal regulations, which may have to be rebated to the Federal government. Estimated amounts payable at September 30, 1998, as arbitrage rebates are \$163,100 for the enterprise funds and \$993,500 for the capital projects funds which are recorded as liabilities of these funds.

## 21 -- COMMITMENTS AND CONTINGENCIES, continued

### d -- Capital Improvement Plan

As required by the City Charter, the City has a *Five Year Capital Improvement Plan* that is an anticipated spending plan for projects in the upcoming year (a *Capital Budget*) as well as for future years. The City's 1999 Capital Budget includes new appropriations of \$163,310,500 for the City's enterprise funds and \$41,764,802 for general government projects and appropriation reductions of \$9,795,000 for the enterprise funds and \$6,242,992 for general government projects. The City has substantial contractual commitments relating to its capital improvement plan.

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

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

### f -- Landfill Closure and Postclosure Liability

State and federal regulations require the City to place a final cover on the City of Austin landfill site (located on FM812) when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports in the Solid Waste Services Fund a portion of these closure and postclosure care costs as an operating expense in each period, based on landfill capacity used as of each balance sheet date. The \$6,224,517 reported as accrued landfill closure and postclosure costs at September 30, 1998, represents the cumulative amount reported to date based on the use of 74.46 percent of the estimated capacity of the landfill. The Solid Waste Services Fund will recognize the remaining estimated cost of closure and postclosure care of \$2,134,944 as the remaining estimated capacity is filled over the next thirteen years. The total estimated costs of \$8,359,461 include costs of closure in 2010 of \$2,167,536 and postclosure costs over the subsequent thirty years of \$6,191,925. These amounts are based on what it would cost to perform all closure and postclosure care in 1998. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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

### g -- Risk-Related Contingencies

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

<u>Fund name</u>	<u>Description</u>
Employee Benefits	Approximately 25% of City employees use one of two HMOs; approximately 75% use the City's program, which is self-insured. In addition, retirees may choose from two HMOs or a PPO. Premiums are charged to other City funds through a charge per employee per pay period.
Liability Reserve	Self-insured. Includes losses and claims related to liability for bodily injury, property damage, professional liability, and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. Premiums are charged to other City funds each year based on historical costs.
Workers' Compensation	Self-insured. Premiums are charged to other City funds each year based on historical costs.

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

The City purchases excess loss insurance for the Employee Benefits Fund. This stop loss insurance covers individual claims that exceed \$150,000 per calendar year, up to a maximum of \$1 million. During fiscal year 1998, one claim exceeded the stop loss limit of \$150,000; no claims exceeded the limit in the prior two years. City coverage is limited to \$1 million in lifetime benefits. The City does not subscribe to workers' compensation insurance.

The City purchases commercial insurance for coverage for property loss or damage, commercial crime, fidelity bond, and airport operations. The City also purchases a broad range of insurance coverage through the Rolling Owner Controlled Insurance Program (ROCIP). The program provides auto and commercial general liability coverage for the City and for contractors working at selected capital improvement sites; it also provides workers' compensation, employers' liability, and excess liability for contractors at these sites. The City purchases medical malpractice insurance coverage for physicians in the City's Health and Human Services Department clinics. The City also purchases excess liability coverage for the Electric Fund. The City does not participate in a risk pool. There are no significant reductions in insurance coverage in fiscal year 1998.

Liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities for the Employee Benefits Fund are calculated considering recent claim settlement trends; liabilities for the Liability Reserve Fund and Workers' Compensation Fund are calculated based on outstanding claims. The amount to be paid out ultimately may be more or less than the amount accrued at September 30, 1998. The possible range of loss is \$19.7 - \$31.5 million. The City contributes amounts to an internal service fund based on an estimate of the cost of claims expected to be incurred each year.

Changes in the balances of claims liability are as follows:

	<b>Employee Benefits</b>	<b>Liability Reserve</b>	<b>Workers' Compensation</b>
September 30, 1996 liability balances	\$2,829,000	13,574,676	5,183,000
Claims and changes in estimates	2,481,000	4,234,360	2,605,292
Claims payments	2,407,000	2,348,900	2,605,292
September 30, 1997 liability balances	2,903,000	15,460,136	5,183,000
Claims and changes in estimates	1,778,000	793,878	1,269,228
Claims payments	2,143,000	2,980,987	2,562,228
September 30, 1998 liability balances	\$2,538,000	13,273,027	3,890,000

The Liability Reserve Fund claims liability balance at fiscal year end includes liabilities of \$5,305,000 discounted at 5.06% in 1998 and \$5,672,000 discounted at 5.47% in 1997.

**h -- Nuclear Fuel**

As more fully described in Note 18, the City is a 16% partner in the ownership of the South Texas Project (STP). As of September 30, 1997, the STP has commitments to purchase raw uranium with an approximate value of \$24,619,000, conversion services of approximately \$926,000 and fabrication services of approximately \$11,163,000. These purchase commitments are the result of delivery notices issued to the service providers. These amounts represent services that will be needed for future refuelings in 1998 and 1999.

**i -- Developer Reimbursement Claims**

The City is in the process of reviewing claims made by the developers of the MUDs annexed in December 1997 (see Note 19). These claims are for reimbursement of costs incurred to construct water and wastewater facilities and related infrastructure, and are subject to verification from the engineering and accounting consultants performing the technical reviews. The City estimates the actual liability for developer reimbursement claims is between \$0 and \$38 million. As of September 30, 1998, no such claims have been accrued, since legal counsel has not determined any amount to be probable.



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

**j -- Environmental Remediation Contingencies**

The Electric Fund may incur potential costs related to environmental remediation of certain sites, and has recorded a liability of \$2,027,000 in 1998. Additional potential liabilities for remediation range from \$0 to \$5 million. This amount includes the cost of penalties associated with an Environmental Protection Agency (EPA) PCB inspection and estimated costs for the remediation of the contaminated sites. The Electric Fund may also incur other costs associated with the Seaholm Power Plant revitalization and remediation; the estimated potential additional costs for remediation range from \$329,000 to \$5.5 million. The Electric Fund anticipates incurring these costs between 1999 and 2001.

In addition, the Water and Wastewater Utility is currently involved in negotiations with the EPA concerning an Administrative Order due to wastewater overflows. The EPA has identified wastewater overflow issues that will require Utility resolution, including potential additional capital investment in the repair and/or rehabilitation of infrastructure. The outcome of these settlement negotiations and their impact on the Utility cannot be reasonably estimated at this time. An unfavorable outcome may also result in the payment of fines and penalties as determined by the EPA.

**k -- Other Commitments and Contingencies**

The City is committed under various leases for building and office space, tracts of land and rights of way, and various equipment. These leases are considered for accounting purposes to be operating leases. Lease expense for the year ended September 30, 1998, amounted to \$11,153,374. The City expects these leases to be replaced in the ordinary course of business with similar leases. Future minimum lease payments for these leases should be approximately the same amount.

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

The following summarizes assets recorded at September 30, 1998, under capital lease obligations:

	<b>Electric Fund</b>	<b>Water &amp; Wastewater Fund</b>	<b>Total</b>
<b>Assets</b>			
Machinery and equipment	\$ 235,940	--	235,940
Building	20,198,960	12,750,000	32,948,960
Total assets	20,434,900	12,750,000	33,184,900
Accumulated depreciation	6,055,707	2,677,500	8,733,207
Net assets	\$ 14,379,193	10,072,500	24,451,693

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

The following is an analysis of the future minimum lease payments under these capital leases and Certificates of Participation and the present value of the net minimum lease payments, as of September 30, 1998:

<b>Fiscal Year Ended September 30</b>	<b>Electric Fund</b>	<b>Water and Wastewater Fund</b>	<b>Total</b>
1999	\$ 2,128,652	1,402,263	3,530,915
2000	2,117,715	1,400,606	3,518,321
2001	2,119,635	1,393,775	3,513,410
2002	2,119,535	1,406,194	3,525,729
2003	2,116,900	1,387,931	3,504,831
Later years	8,455,000	6,905,004	15,360,004
Total minimum lease payments	19,057,437	13,895,773	32,953,210
Less:			
Amount representing interest	5,233,519	4,270,773	9,504,292
Present value of net minimum lease payments	13,823,918	9,625,000	23,448,918
Current portion	1,173,918	675,000	1,848,918
Long-term portion	\$ 12,650,000	8,950,000	21,600,000

The City guarantees certain energy improvement loans made by a bank. The maximum contingent liability of the RMD Loan Fund, a special revenue fund, is \$6.5 million, which City management does not anticipate having to fulfill.

The City has entered into an agreement with the Federal Aviation Administration for the disposition of Robert Mueller Municipal Airport, including a provision for continued use of the City golf course and the associated land which was acquired with Federal airport grant assistance. A percent of the appraised market value at the date of the closure of Mueller Airport will be payable over 5 years from City funds to an account to be used for future work at Austin-Bergstrom International Airport (ABIA). As of September 30, 1998, the City has not completed an appraisal of the property.

In conjunction with the opening of Austin-Bergstrom International Airport (ABIA), the City has committed to stop sending household garbage to the City's landfill site near ABIA 60 days prior to ABIA's opening date. This action complies with the Environmental Protection Agency requirements. The landfill site will continue to accept non-bird attracting waste. The FAA has agreed to this approach. With the closing of the City landfill for household garbage, the City will enter into long-term contracts for landfill services.

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

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

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

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

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

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

<u>Years of Service</u>	<u>Retiree only</u>	<u>Dependent only</u>
Less than 5 years	12% - 20%	8% - 9%
5 to 10 years	18% - 30%	12% - 14%
10 to 15 years	24% - 40%	16% - 18%
15 to 20 years	36% - 60%	24% - 27%
20 to 25 years	48% - 80%	32% - 36%
Greater than 25 years	60% - 100%	40% - 45%

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

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Benefits Fund. Medical and dental premiums and claims and life insurance premiums are reported in the Employee Benefits Fund. The cost of providing these benefits for 1,769 retirees and 8,699 active employees in 1998 and 1,648 retirees and 8,747 active employees in 1997 is not separable and cannot be reasonably estimated. Total payments to the Employee Benefits Fund for retirees and active employees were \$24,600,422 in 1998 and \$25,034,113 in 1997.

As more fully described in Note 18, the City is a participant in the South Texas Project Nuclear Operating Company (OPCO) and as such is liable for certain post-employment benefits for OPCO employees. At September 30, 1998, the City's portion of this obligation, \$2,761,341, is not reflected in the financial statements of the Electric Fund.

**23 -- SUBSEQUENT EVENTS**

**a -- General Obligation Bonds Issuance**

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

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

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

**23 -- SUBSEQUENT EVENTS, continued**

**c -- Certificates of Obligation Issuance**

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

**d -- Annexation**

In December 1998, the City Council approved an annexation plan and adopted ordinances that will result in an increase of more than \$68,691,066 in assessed valuation to the City's tax rolls. These actions included eleven full purpose annexations and five limited purpose annexations that brought 2,483 acres and 2,124 new residents into the City limits, including three municipal utility districts (MUDs). Effective December 31, 1998, in accordance with State law, the City assumed all of the assets and liabilities of the three MUDs, including property taxes levied by the MUDs in fiscal year 1999, and began providing City services to all of the newly annexed areas. The City began receiving sales tax and franchise fee revenues from these areas upon annexation. The City will collect its first property tax revenues from these areas in fiscal year 2000.

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

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

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

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

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

**f -- Conduit Debt**

In October 1998, the ABIA (Austin-Bergstrom International Airport) Development Corporation issued \$8.5 million of tax exempt debt and \$300,000 of taxable debt. The bonds do not constitute a debt or pledge of the Airport System revenues nor the faith and credit of the City and accordingly will not be reported in the City's financial statements.

## **APPENDIX C**

### **Forms of Bond Counsel's Opinions**

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## [FORM OF OPINION OF BOND COUNSEL]

[Closing Date]

WE HAVE REPRESENTED the City of Austin, Texas (the "City"), as its bond counsel in connection with an issue of certificates of obligation (the "Certificates") described as follows:

CITY OF AUSTIN, TEXAS, CERTIFICATES OF OBLIGATION, SERIES 1999, dated September 1, 1999, in the total authorized amount of \$5,590,000.

The Certificates mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Certificate Ordinance").

WE HAVE REPRESENTED the City as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion of interest on the Certificates from gross income of the owners thereof for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates (the "Official Statement") has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates which contains certified copies of certain proceedings of the City, customary certificates of officers, agents and representatives of the City and other public officials, and other certified showings relating to the authorization and issuance of the Certificates. We have also examined executed Certificate No. 1.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that, therefore, the Certificates constitute valid and legally binding obligations of the City, and that taxable property within the City is subject to the levy of ad valorem taxes, within the limits prescribed by law, to pay the Certificates and the interest thereon.

IT IS OUR FURTHER OPINION that the revenues of the City's solid waste disposal system (the "System"), in an amount not to exceed \$1,000, available after deduction of the reasonable expenses of the System and the payment of all debt service, reserve and other requirements of all of the City's revenue bonds and other obligations, now outstanding or hereafter issued, that are payable, in whole or in part, from a pledge of all or part of the net revenues of the System are pledged to the payment of the principal of and interest on the Certificates, all as set forth in the Certificate Ordinance, to which reference is made for all particulars.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of federal bankruptcy law and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS ALSO OUR OPINION that:

- (1) Interest on the Certificates is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Certificates are not "private activity bonds" within the meaning of the Code, and interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Certificates will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax and its Superfund "environmental tax" liability.

In providing such opinions, we have relied on representations of the City, the initial purchasers of the Certificates and the City's financial advisor with respect to matters solely within their respective knowledge, which we have not independently verified, and have assumed continuing compliance with the covenants in the Certificate Ordinance pertaining to those sections of the Code which affect the exclusion from gross income of the owners thereof of interest on the Certificates for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing described provisions of the Certificate Ordinance, interest on the Certificates could become includable in gross income of the owners thereof from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Certificates.

Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Certificates).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

# Vinson & Elkins

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[Form of Opinion of Bond Counsel]

[Closing Date]

WE HAVE REPRESENTED the City of Austin, Texas (the "City"), as its bond counsel in connection with an issue of public property finance contractual obligations (the "Contractual Obligations") described as follows:

CITY OF AUSTIN, TEXAS, PUBLIC PROPERTY FINANCE CONTRACTUAL OBLIGATIONS, SERIES 1999, dated September 1, 1999, in the total authorized amount of \$10,335,000.

The Contractual Obligations mature, bear interest and may be transferred and exchanged as set out in the Contractual Obligations and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Contractual Obligation Ordinance").

WE HAVE REPRESENTED the City as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Contractual Obligations under the Constitution and laws of the State of Texas, and with respect to the exclusion of interest on the Contractual Obligations from gross income of the owners thereof for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Contractual Obligations. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Contractual Obligations (the "Official Statement") has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Contractual Obligations which contains certified copies of certain proceedings of the City, customary certificates of officers, agents and representatives of the City and other public officials, and other certified showings relating to the authorization and issuance of the Contractual Obligations. We have also examined executed Contractual Obligation No. 1.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the transcript of certified proceedings evidences complete legal authority for the issuance of the Contractual Obligations in full compliance with the Constitution and laws of the State of Texas presently effective and that, therefore, the Contractual Obligations constitute valid and legally binding obligations of the City, and that taxable property within the City is subject to the levy of ad valorem taxes, within the limits prescribed by law, to pay the Contractual Obligations and the interest thereon.

THE RIGHTS OF THE OWNERS of the Contractual Obligations are subject to the applicable provisions of federal bankruptcy law and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial



discretion.

IT IS ALSO OUR OPINION that:

- (1) Interest on the Contractual Obligations is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Contractual Obligations are not “private activity bonds” within the meaning of the Code, and interest on the Contractual Obligations is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Contractual Obligations will be included in the “adjusted current earnings” of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax and its Superfund “environmental tax” liability.

In providing such opinions, we have relied on representations of the City, the initial purchasers of the Contractual Obligations and the City’s financial advisor with respect to matters solely within their respective knowledge, which we have not independently verified, and have assumed continuing compliance with the covenants in the Contractual Obligation Ordinance pertaining to those sections of the Code which affect the exclusion from gross income of the owners thereof of interest on the Contractual Obligations for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing described provisions of the Contractual Obligation Ordinance, interest on the Contractual Obligations could become includable in gross income of the owners thereof from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Contractual Obligations.

Owners of the Contractual Obligations should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Contractual Obligations).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

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[Form of Opinion of Bond Counsel]

[Closing Date]

WE HAVE REPRESENTED the City of Austin, Texas (the "City"), as its bond counsel in connection with an issue of public improvement bonds (the "Bonds") described as follows:

CITY OF AUSTIN, TEXAS, PUBLIC IMPROVEMENT BONDS, SERIES 1999, dated September 1, 1999, in the total authorized amount of \$51,100,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Bond Ordinance").

WE HAVE REPRESENTED the City as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds (the "Official Statement") has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds which contains certified copies of certain proceedings of the City, customary certificates of officers, agents and representatives of the City and other public officials, and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. 1.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and that, therefore, the Bonds constitute valid and legally binding obligations of the City, and that taxable property within the City is subject to the levy of ad valorem taxes, within the limits prescribed by law, to pay the Bonds and the interest thereon.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of federal bankruptcy law and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS ALSO OUR OPINION that:

- (1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Bonds are not “private activity bonds” within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the “adjusted current earnings” of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax and its Superfund “environmental tax” liability.

In providing such opinions, we have relied on representations of the City, the initial purchasers of the Bonds and the City’s financial advisor with respect to matters solely within their respective knowledge, which we have not independently verified, and have assumed continuing compliance with the covenants in the Bond Ordinance pertaining to those sections of the Code which affect the exclusion from gross income of the owners thereof of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing described provisions of the Bond Ordinance, interest on the Bonds could become includable in gross income of the owners thereof from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.