

PRELIMINARY OFFICIAL STATEMENT
Dated June __, 2013

Ratings: Moody's: "Aa2"
Standard & Poor's: "AA"
Fitch: "AA-"

(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

Delivery of the Series 2013A Bonds (as defined below) is subject to the receipt of the opinion of McCall, Parkhurst & Horton, L.L.P., Bond Counsel, to the effect that, assuming continuing compliance by the City (as defined below) with certain covenants contained in the Twenty-Second Supplement described herein, interest on the Series 2013A Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "TAX MATTERS – TAX-EXEMPT BONDS" herein, including the alternative minimum tax on corporations. Interest on the Series 2013B Bonds (as defined below) will be included in gross income for federal income tax purposes. See "TAX MATTERS – TAX-ABLE BONDS" herein.

\$412,920,000*
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Water and Wastewater System Revenue Refunding
Bonds, Series 2013A

\$178,170,000*
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Water and Wastewater System Revenue Refunding
Bonds, Taxable Series 2013B

Dated Date: Date of Delivery

Due: As shown on pages ii and iii

The bonds offered in this document are the \$412,920,000* City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2013A (the "Series 2013A Bonds") and the \$178,170,000* City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2013B (the "Series 2013B Bonds"). The Series 2013A Bonds and the Series 2013B Bonds are collectively referred to as the "Bonds". The Bonds represent the twenty-second and twenty-third encumbrances to be issued or incurred as "Parity Water/Wastewater Obligations" pursuant to an ordinance (the "Master Ordinance") adopted by the City Council of the City of Austin, Texas (the "City"), on June 8, 2000, and are authorized and being issued in accordance with two supplemental ordinances adopted by the City Council of the City on June 20, 2013 (the "Twenty-Second Supplement" pertaining to the Series 2013A Bonds and the "Twenty-Third Supplement" pertaining to the Series 2013B Bonds). The Master Ordinance, Twenty-Second Supplement and Twenty-Third Supplement are collectively referred to herein as the "Bond Ordinance." The Master Ordinance contains the terms for the issuance of Parity Water/Wastewater Obligations and the covenants and security provisions related thereto. The City also has outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, which are secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System. The City must comply with the covenants and security provisions related to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while such obligations remain outstanding. The Master Ordinance prohibits the issuance of additional revenue obligations secured by joint and several pledges of the net revenues of both the Water and Wastewater System and Electric Utility System such as Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations having a combined pledge of Electric Utility System and Water and Wastewater System net revenues may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from and, together with the Previously Issued Parity Water/Wastewater Obligations and Outstanding Prior Subordinate Lien Obligations, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Water and Wastewater System (subject to the prior claim and lien on the Net Revenues of the Water and Wastewater System to the payment and security of the Outstanding Prior First Lien Obligations), as provided in the Master Ordinance, the Twenty-Second Supplement, and the Twenty-Third Supplement. Additionally, the Bonds and Previously Issued Parity Water/Wastewater Obligations referenced above are equally and ratably secured by a parity lien on the funds, if any, deposited to the credit of the Debt Service Fund (excluding any funds on deposit in the BAB Subsidy Subaccount, which was established for the exclusive benefit of the owners of the City's Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)). The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the Water/Wastewater System, except with respect to the Net Revenues. **Neither the taxing power of the City nor the State of Texas (the "State") is pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" herein.

Maturity Schedules on Pages ii and iii

The Bonds are issuable only in fully registered form in the denomination of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds shall accrue from the dated date of the Bonds and shall be payable on November 15, 2013 and each May 15 and November 15 thereafter until maturity or prior redemption. Interest to be paid on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act initially as securities depository of the Bonds, and individual purchases of the Bonds will be made in book-entry form only. See "DESCRIPTION OF THE BONDS" herein.

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of Texas and McCall, Parkhurst & Horton L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State. The opinions of Bond Counsel will be printed on or attached to the Bonds. (See APPENDIX E - "Form of Bond Counsel's Opinions"). Certain legal matters will be passed on for the Underwriters by their co-counsel, Bracewell & Giuliani LLP and Darrick W. Eugene, PC.

The Bonds are expected to be available for delivery on or about July __, 2013.

J.P. Morgan
BofA Merrill Lynch
Jefferies
Southwest Securities

George K. Baum & Co.
Stifel Nicolaus & Co.

Ramirez & Co., Inc.
Mesirow Financial
HUTCHISONSHOCKEYERLEY&CO.
Siebert Brandford Shank & Co., L.L.C.

\$412,920,000* Water and Wastewater System Revenue Refunding Bonds, Series 2013A

MATURITY SCHEDULE*

Base CUSIP No. 052476 (1)

Serial Maturities

<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
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\$ _____ * _____ % Series 2013A Term Bond due November 15, 20__, Initial Yield _____ %, CUSIP 052476__

\$ _____ * _____ % Series 2013A Term Bond due November 15, 20__, Initial Yield _____ %, CUSIP 052476__

(Interest to accrue from Date of Delivery)

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- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. None of the City, the Financial Advisor, or the Underwriters take any responsibility for the accuracy of such numbers.

Optional Redemption of the Series 2013A Bonds

The City reserves the right, at its option, to redeem Series 2013A Bonds maturing on or after November 15, 20__, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof on November 15, 20__, or any date thereafter, at the redemption price of par, plus accrued interest to the date of redemption. See "DESCRIPTION OF THE BONDS—Optional Redemption of the Series 2013A Bonds" herein.

Mandatory Sinking Fund Redemption of the Series 2013A Bonds

The Series 2013A Bonds having stated maturities of November 15, 20__ and November 15, 20__, respectively, are subject to mandatory redemption prior to maturity in part, in the manner described herein under the subcaption "DESCRIPTION OF THE BONDS - Mandatory Sinking Fund Redemption of the Series 2013A Bonds."

\$178,170,000* Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2013B

MATURITY SCHEDULE*

Base CUSIP No. 052476 (1)

Serial Maturities

<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
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\$ _____ * _____ % Series 2013B Term Bond due November 15, 20__, Initial Yield _____ %, CUSIP 052476__

\$ _____ * _____ % Series 2013B Term Bond due November 15, 20__, Initial Yield _____ %, CUSIP 052476__

(Interest to accrue from Date of Delivery)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. None of the City, the Financial Advisor, or the Underwriters take any responsibility for the accuracy of such numbers.

Optional Redemption of the Series 2013B Bonds

The City reserves the right, at its option, to redeem Series 2013B Bonds maturing on or after November 15, 20__, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof on November 15, 20__, or any date thereafter, at the redemption price of par, plus accrued interest to the date of redemption. See "DESCRIPTION OF THE BONDS—Optional Redemption of the Series 2013B Bonds" herein.

Mandatory Sinking Fund Redemption of the Series 2013B Bonds

The Series 2013B Bonds having stated maturities of November 15, 20__ and November 15, 20__, respectively, are subject to mandatory redemption prior to maturity in part, in the manner described herein under the subcaption "DESCRIPTION OF THE BONDS - Mandatory Sinking Fund Redemption of the Series 2013B Bonds."

For purposes of compliance with Rule 15c2-12 of the U.S. Securities and Exchange Commission (the “Rule”), this document constitutes an Official Statement of the City with respect to the Bonds that has been deemed “final” by the City as of its date except for the omission of no more than the information permitted by the Rule.

No dealer, salesman or any other person has been authorized by the City or by the Underwriters to give information or to make any representations, other than the information and representations contained herein, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, any of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as, or construed as a promise or representation by, the Underwriters. The information and expressions of opinion contained 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. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

The price and other terms representing the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering and sale of the Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in open markets. Such stabilizing, if commenced, may be discontinued at any time.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE “SEC”) AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

None of the City, the Financial Advisor to the City, or the Underwriters make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company, or its book-entry-only system, as such information has been furnished by The Depository Trust Company. This Official Statement contains “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.** See “OTHER RELEVANT INFORMATION – Forward-Looking Statements.”

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CITY OF AUSTIN

Elected Officials (1)

	<u>Term Expires June 15</u>
Lee Leffingwell	Mayor 2015
Chris Riley	Councilmember Place 1 2014
Mike Martinez	Councilmember Place 2 2015
Kathryne B. Tovo	Councilmember Place 3 2014
Laura Morrison	Councilmember Place 4 2014
William Spelman	Councilmember Place 5 2015
Sheryl Cole, Mayor Pro Tem	Councilmember Place 6 2015

(1) As a result of an amendment to the Austin City Charter approved at an election held November 2012, all current terms of the City Council will expire November 2014. In November 2014, the configuration of the City Council will change to an eleven member council, with the Mayor to be elected at large and the remainder of the council to be elected from ten single member districts. See APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY - Governance”.

Appointed Officials

Marc A. Ott.....	City Manager
Mike McDonald.....	Deputy City Manager
Robert Goode.....	Assistant City Manager
Sue Edwards.....	Assistant City Manager
Bert Lumbreras.....	Assistant City Manager
Anthony Snipes.....	Assistant City Manager
Elaine Hart, CPA.....	Chief Financial Officer
Greg Canally.....	Deputy Chief Financial Officer
Ed Van Eenoo.....	Deputy Chief Financial Officer
Karen Kennard.....	City Attorney
Jannette S. Goodall.....	City Clerk

BOND COUNSEL

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

SECURITIES COUNSEL FOR THE CITY

Fulbright & Jaworski L.L.P.
Austin and Dallas, Texas

FINANCIAL ADVISOR

Public Financial Management, Inc.
Austin, Texas

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Austin, Texas

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SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

The selected financial information below presents selected historical information related to the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the fiscal years ended September 30, 2009 through 2012 is derived from the City's audited financial statements. This information should be read in conjunction with the information included in APPENDIX B – "AUDITED FINANCIAL STATEMENTS".

Operating Summary

	12 Months Ended 3-31-13 (2)	(000's) Fiscal Year Ended September 30 (3)			
		<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Combined Gross Revenues	\$1,695,057	\$1,633,140	\$1,707,190	\$1,518,352	\$1,573,459
Combined Maintenance and Operating Expenses	<u>1,108,326</u>	<u>1,054,566</u>	<u>1,071,056</u>	<u>1,026,312</u>	<u>1,041,685</u>
Combined Net Revenues	<u>\$ 586,731</u>	<u>\$ 578,574</u>	<u>\$ 636,134</u>	<u>\$ 492,040</u>	<u>\$ 531,774</u>
Principal and Interest on Revenue Bonds (1)	\$ 76,141	\$ 116,773	\$ 122,169	\$ 125,671	\$ 125,935
Debt Service Coverage on Revenue Bonds (1)	7.71x	4.95x	5.21x	3.92x	4.22x

(1) Prior First Lien Obligations and Prior Subordinate Lien Obligations only.

(2) Unaudited. See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.

(3) See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.

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Water and Wastewater System Only

The selected financial information below presents selected historical information related to the Water and Wastewater System of the City. The financial information for the fiscal years ended September 30, 2009 through 2012 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "AUDITED FINANCIAL STATEMENTS".

Operating Summary

	12 Months Ended <u>3-31-13</u> (3)	(000's) Fiscal Year Ended September 30 (4)			
		<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross Revenues	\$452,387	\$443,020	\$448,319	\$360,936	\$393,771
Maintenance and Operating Expenditures	<u>194,031</u>	<u>178,891</u>	<u>163,531</u>	<u>159,401</u>	<u>172,438</u>
Net Revenues	<u>\$258,356</u>	<u>\$264,129</u>	<u>\$284,788</u>	<u>\$201,535</u>	<u>\$221,333</u>
Principal and Interest on Prior First Lien/Prior Subordinate Lien Obligations (1)	<u>\$ 30,503</u>	<u>\$ 44,386</u>	<u>\$ 46,016</u>	<u>\$ 46,160</u>	<u>\$ 33,215</u>
Net Revenues Available for Water and Wastewater System Separate Lien Obligations	<u>\$227,853</u>	<u>\$219,743</u>	<u>\$238,772</u>	<u>\$155,375</u>	<u>\$188,118</u>
Principal and Interest on Water and Wastewater System Separate Lien Obligations	\$148,798	\$133,781	\$109,854	\$110,227	\$114,625
Debt Service Coverage (Separate Lien Obligations) (2)	1.53x	1.64x	2.17x	1.41x	1.64x

- (1) Represents only the portion of Prior First Lien Obligations and Prior Subordinate Lien Obligations allocated to the Water and Wastewater System.
- (2) The Bonds, the Previously Issued Parity Water/Wastewater Obligations, and any additional Parity Water/Wastewater Obligations issued in the future under the Master Ordinance are (a) "Separate Lien Obligations" under the Prior Lien Ordinance (as defined herein) and (b) equally and ratably secured, together with the Prior Subordinate Lien Obligations, by the Net Revenues of the City's Water and Wastewater System.
- (3) Unaudited. See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.
- (4) See "OTHER RELEVANT INFORMATION – Independent Auditors" herein.

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OFFICIAL STATEMENT

\$412,920,000*

CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Water and Wastewater System Revenue Refunding
Bonds, Series 2013A

\$178,170,000*

CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Water and Wastewater System Revenue Refunding
Bonds, Taxable Series 2013B

INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto, is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City"), of its \$412,920,000* City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2013A (the "Series 2013A Bonds") and the \$178,170,000* City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2013B (the "Series 2013B Bonds"). The Series 2013A Bonds and the Series 2013B Bonds are collectively referred to as the "Bonds". The Bonds are authorized to be issued pursuant to the authority conferred by the laws of the State of Texas (the "State"), an ordinance adopted by the City Council on June 8, 2000 (the "Master Ordinance") providing the terms upon which Parity Water/Wastewater Obligations are to be issued and the covenant and security provisions related thereto, and supplemental ordinances adopted by the City Council on June 20, 2013 (the "Twenty-Second Supplement" pertaining to the Series 2013A Bonds and the "Twenty-Third Supplement" pertaining to the Series 2013B Bonds). The Master Ordinance, the Twenty-Second Supplement, and the Twenty-Third Supplement are sometimes herein referred to collectively as the "Bond Ordinance". **Capitalized terms not otherwise defined herein have the meanings assigned in the Bond Ordinance, or the Prior Lien Ordinance (hereinafter defined), as applicable (see APPENDICES C and D).** As noted under "PLAN OF FINANCING" below, the City is not permitted to issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations, but must comply with the covenants contained in the bond ordinances authorizing the issuance of such obligations (collectively, the "Prior Lien Ordinance") while such obligations are outstanding. A summary of certain provisions of the Master Ordinance is attached hereto as APPENDIX C, and a summary of certain provisions of the Prior Lien Ordinance is attached hereto as APPENDIX D. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

The Bonds represent the twenty-second and twenty-third encumbrances to be issued or incurred as Parity Water/Wastewater Obligations under the Master Ordinance. The City has issued, and there currently remain outstanding, certain Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City's Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance, no additional Prior First Lien Obligations and Prior Subordinate Lien Obligations may be issued. Commercial Paper Obligations having a combined pledge of Water and Wastewater System and Electric Utility System net revenues may continue to be issued on a subordinate lien basis to the Parity Water/Wastewater Obligations. As of May 31, 2013, there was \$31,051,469 in aggregate principal amount of Prior First Lien Obligations outstanding, with the final maturity of the outstanding Prior First Lien Obligations occurring on May 15, 2019. As of May 31, 2013, there was \$163,380,925 in aggregate principal amount of Prior Subordinate Lien Obligations outstanding, with the final maturity of the outstanding Prior Subordinate Lien Obligations occurring on May 15, 2028. See "OBLIGATIONS PAYABLE FROM SYSTEMS REVENUES" herein. In the Prior Lien Ordinance (as defined herein), the City also reserved the right to issue, and the City did issue, obligations referred to therein as Previously Issued Separate Lien Obligations, which were secured by a lien on and pledge of Net Revenues of the Water and Wastewater System on a parity with the Parity Water/Wastewater Obligations. Such Previously Issued Separate Lien Obligations are no longer outstanding. See "SECURITY FOR THE BONDS – Pledges of Net Revenues" herein.

At such time as the Prior First Lien Obligations and the Prior Subordinate Lien Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all revenue obligations secured by a pledge of Net Revenues of the Water and Wastewater System either shall be Parity Water/Wastewater Obligations or obligations subordinate to the Parity Water/Wastewater Obligations (such as the Commercial Paper Obligations), and shall be payable only from and secured only by a lien on a pledge of the Net Revenues of the Water and Wastewater System and the revenues deposited to the credit of the accounts and funds maintained in the ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Water/Wastewater Obligations and contains covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and the Prior Subordinate Lien Obligations while any such obligations remain outstanding. See "SECURITY FOR THE BONDS – Credit Agreements" for a discussion of the treatment of the City's obligations under interest rate swap agreements as

Parity Water/Wastewater Obligations.

The City has also issued revenue obligations secured solely by the net revenues of the Electric Utility System pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance.

PLAN OF FINANCING

The Series 2013A Bonds are issued in part to refund \$_____ of the City's outstanding Commercial Paper Obligations issued for the Water and Wastewater System (the "Refunded Notes"), thereby restoring the City's available capacity under its commercial paper note program. Proceeds from the Series 2013A Bonds in an amount equal to the principal amount of the Refunded Notes will be deposited with U.S. Bank National Association, New York, New York, the issuing and paying agent for the Refunded Notes. Any interest due upon the maturity of the Refunded Notes is expected to be paid from available Water and Wastewater System Revenues. Additionally, the Series 2013A Bonds are issued in part to refund \$_____ of the City's currently outstanding Parity Water/Wastewater Obligations described in APPENDIX F attached hereto.

The Series 2013B Bonds are issued to refund \$_____ of the City's currently outstanding Parity Water/Wastewater Obligations described in APPENDIX F attached hereto. The remaining proceeds of the Bonds will be used to pay the costs of issuance thereof.

The Parity Water/Wastewater Obligations to be refunded with proceeds of the Series 2013A Bonds and proceeds of the Series 2013B Bonds are referred to as the "Refunded Bonds". The purpose of refunding the Refunded Bonds is to effect debt service savings. See "SOURCES AND USES OF FUNDS".

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such Refunded Bonds from funds to be deposited pursuant to that certain Escrow Agreement (the "Escrow Agreement") between the City and U.S. Bank National Association, Houston, Texas (the "Escrow Agent"). The Twenty-Second Supplement and Twenty-Third Supplement provide that the proceeds of the sale of the Bonds, together with funds contributed by the City, will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"), and a portion of said funds will remain uninvested while a portion of said funds will be used to purchase direct obligations of the United States of America (the "Escrowed Securities") to be held in the Escrow Fund. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

The Arbitrage Group, Inc., a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate that the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities, and other uninvested funds in the Escrow Fund will not be available to pay the Bonds.

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Government Code, as amended, and the ordinances authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will no longer be payable from or secured by the Net Revenues of the Water and Wastewater System but will be payable solely from the principal of and interest on the Escrowed Securities and cash held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and thus will not be included in or considered to be an obligation of the City for the purpose of a limitation on the issuance of revenue bonds or for any other purpose.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

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SOURCES AND USES OF FUNDS

The sources and uses of funds for the Bonds, together with funds contributed by the City, are as follows.

	<u>Series 2013A Bonds</u>	<u>Series 2013B Bonds</u>
Sources		
Par Amount		
Net Premium		
Transfer from Debt Service Fund		
Total		
Uses:		
Deposit with Paying Agent for Refunded Notes		
Deposit to Escrow Fund for Refunded Bonds		
Cost of Issuance		
Underwriters' Discount		
Total		

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OBLIGATIONS PAYABLE FROM SYSTEMS REVENUES

(As of May 31, 2013)

<u>Combined Utility Systems Obligations</u>	
Prior First Lien Obligations	\$ 31,051,469
Prior Subordinate Lien Obligations	<u>163,380,925</u>
Sub-Total	\$ 194,432,394
<u>Parity Electric Utility Obligations</u>	\$1,176,390,000
<u>Water and Wastewater System Separate Lien Obligations</u>	
Parity Water and Wastewater Obligations (a)	\$2,255,350,000
<u>Commercial Paper</u> (b)	\$ 39,510,000
<u>General Obligation Bonds</u> (c)	\$ 14,874,338
<u>Assumed Bonds and Obligations</u>	
Assumed District Bonds (d)	<u>\$ 6,571,649</u>
TOTAL	<u>\$3,687,128,381</u>

See "SECURITY FOR THE BONDS".

- (a) Preliminary, subject to change. Excludes the Refunded Bonds, includes the Bonds.
- (b) The City has a Tax-Exempt Commercial Paper Program in place for the combined utility systems in an amount not to exceed \$350,000,000 and a Taxable Commercial Paper Program for the combined utility systems in an amount not to exceed \$50,000,000. The obligations issued pursuant to each such program are referred to herein collectively as the "Commercial Paper Obligations." The outstanding amount shown above excludes the Refunded Notes. The Commercial Paper Obligations and the reimbursement obligations to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Obligations are payable from the Net Revenues of both the Electric Utility System and the Water and Wastewater System after providing for the payment of the Prior First Lien Obligations, the Prior Subordinate Lien Obligations and Parity Water/Wastewater Obligations. The City's current Financial Policy provides that Commercial Paper Obligation proceeds can only be utilized (i) for voter authorized projects (although such voter authorization is not required by State law), or (ii) to finance routine capital improvements required for normal business operation or improvements to comply with local, state and federal mandates without prior voter authorization. The Electric Utility System may utilize commercial paper for all improvements, excluding major nuclear and coal needs.
- (c) Contractual obligations and Public Improvement Refunding Bonds that are secured by and payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System.
- (d) Such bonds are secured by and payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

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DEBT SERVICE REQUIREMENTS (a)

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds	Outstanding Subordinate Lien Bond	Total Prior & Subordinate Lien Bond Requirements	The Bonds (b)		Electric Utility System Obligations	Austin Water Utility Separate Lien Obligation Bonds (b) (c)	Assumed MUD Obligations (d)	Total Separate Lien and Combined Utility Systems Requirements
				Principal	Interest				
2013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,772,640	\$ 358,691	\$ 2,131,331
2014	504,700	15,587,313	16,092,013	-	19,713,046	135,588,643	170,787,063	717,086	342,897,850
2015	6,045,000	27,480,075	33,525,075	3,735,000	24,468,033	96,175,718	151,248,192	714,462	309,866,478
2016	6,045,000	28,236,025	34,281,025	23,645,000	24,446,763	102,200,097	134,271,731	727,005	319,571,621
2017	42,150,000	18,561,750	60,711,750	27,720,000	24,009,586	95,343,081	128,201,518	645,526	336,631,460
2018	62,050,000	18,796,325	80,846,325	28,475,000	23,502,885	78,874,643	97,682,512	648,483	310,029,847
2019	31,735,000	18,905,150	50,640,150	23,730,000	22,821,544	79,956,461	102,754,817	659,459	280,562,432
2020		21,503,738	21,503,738	24,340,000	22,135,156	80,064,769	116,271,822	661,645	264,977,130
2021		15,376,663	15,376,663	30,225,000	21,246,538	78,142,777	118,429,566	669,724	264,090,267
2022		21,377,563	21,377,563	31,545,000	20,055,600	78,077,817	114,712,279	663,681	266,431,939
2023		20,363,538	20,363,538	23,330,000	18,770,071	73,701,534	120,210,284	666,568	257,041,994
2024		20,079,763	20,079,763	24,440,000	17,689,353	74,336,637	126,302,285	664,896	263,512,933
2025		16,248,175	16,248,175	25,600,000	16,540,697	74,438,274	121,212,957	668,673	254,708,775
2026		413,313	413,313	26,830,000	15,327,194	77,082,556	113,916,642	604,005	234,173,708
2027		413,313	413,313	28,180,000	14,045,872	88,246,764	112,218,792		243,104,741
2028		10,138,313	10,138,313	29,550,000	12,690,397	88,065,558	102,870,184		243,314,452
2029				30,980,000	11,261,932	75,209,036	102,399,299		219,850,267
2030				32,455,000	9,755,193	61,872,904	94,301,830		198,384,927
2031				13,690,000	8,473,250	61,829,877	73,734,162		157,727,289
2032				14,350,000	7,772,250	52,279,483	59,414,996		133,816,729
2033				15,080,000	7,036,500	52,042,647	59,407,295		133,566,442
2034				15,850,000	6,263,250	47,907,505	59,330,813		129,351,568
2035				16,615,000	5,451,625	47,718,049	59,220,606		129,005,279
2036				9,135,000	4,807,875	47,507,950	67,980,790		129,431,615
2037				9,590,000	4,339,750	38,030,248	67,798,597		119,758,595
2038				10,070,000	3,848,250	37,877,495	58,780,017		110,575,762
2039				10,575,000	3,332,125	37,716,506	49,797,934		101,421,565
2040				11,105,000	2,790,125	24,990,001	49,536,329		88,421,455
2041				11,660,000	2,221,000	24,838,785	36,070,927		74,790,712
2042				12,240,000	1,623,500		24,381,875		38,245,375
2043				12,855,000	996,125		11,685,000		25,536,125
2044				13,495,000	337,375		-		13,832,375

(a) Debt outstanding as of 05/31/13.

(b) (Preliminary, subject to change)

(c) Excludes the Refunded Bonds.

(d) Assumed MUD obligations are secured by and payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

SECURITY FOR THE BONDS

Pledges of Net Revenues

Prior First Lien Obligations/Prior Subordinate Lien Obligations . . . The Net Revenues of both the City's Electric Utility System and Water and Wastewater System have been pledged, jointly and severally, (i) on a first lien basis to the payment and security of the Prior First Lien Obligations and (ii) on a second lien basis to the payment and security of the Prior Subordinate Lien Obligations. The outstanding Prior First Lien Obligations have maturities which extend through May 15, 2019. The outstanding Prior Subordinate Lien Obligations have maturities which extend through May 15, 2028. In the ordinance authorizing the issuance of the Prior First Lien Obligations and the Prior Subordinate Lien Obligations (the "Prior Lien Ordinance"), the City retained the right to issue "Separate Lien Obligations," which are defined in the Prior Lien Ordinance as obligations payable solely from the net revenues of either the Electric Utility System or the Water and Wastewater System, but not both, and such payments for their retirement by the terms of the ordinance authorizing their issuance are secured solely by a lien on and pledge of the net revenues of the Electric Utility System or the net revenues of the Water and Wastewater System, but not both, of equal dignity with the lien on and pledge of said net revenues securing the payment of the Prior Subordinate Lien Obligations.

Parity Water/Wastewater Obligations . . . The Bonds are "Separate Lien Obligations" under the terms of the Prior Lien Ordinance, and represent the twenty-second and twenty-third encumbrances issued or incurred as Parity Water/Wastewater Obligations for the benefit of the City's Water and Wastewater System. The encumbrances treated as Parity Water/Wastewater Obligations include the obligations incurred by the City under credit agreements executed in support of bonds issued as Parity Water/Wastewater Obligations. See "SECURITY FOR THE BONDS-Credit Agreements" below. The Master Ordinance, the Twenty-Second Supplement, and the Twenty-Third Supplement pledge the Net Revenues of the Water and Wastewater System to the payment of the "Parity Water/Wastewater Obligations" (which consist of the Previously Issued Parity Water/Wastewater Obligations, the Bonds, and additional parity obligations issued and to be issued under the Master Ordinance). The Parity Water/Wastewater Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water and Wastewater System, subject to the prior claim on and lien on the Net Revenues of the Water and Wastewater System to the payment and security of the Outstanding Prior First Lien Obligations, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

Previously Issued Separate Lien Obligations . . . In the Prior Lien Ordinance, the City reserved the right to issue, and the City did issue, obligations referred to therein as Previously Issued Separate Lien Obligations, which were secured by a lien on and pledge of the Net Revenues of the Water and Wastewater System on a parity with the Parity Water/Wastewater Obligations. Such Previously Issued Separate Lien Obligations are no longer outstanding. Pursuant to the terms of the Master Ordinance, any additional obligations payable from and secured by a lien on the Net Revenues of the Water and Wastewater System must satisfy the covenants with respect thereto in the Master Ordinance. See "SECURITY FOR THE BONDS – Separate Lien Obligations" herein.

Additionally, the Bonds and Previously Issued Parity Water/Wastewater Obligations are, and future Parity Water/Wastewater Obligations may be, equally and ratably secured by a parity lien on the funds, if any, deposited to the credit of the Debt Service Fund and any special fund or funds created and maintained for the payment and security of the Parity Water/Wastewater Obligations pursuant to a Supplemental Ordinance (excluding any funds on deposit in the BAB Subsidy Subaccount, which was established for the exclusive benefit of the owners of the City's Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)(the "Taxable Series 2010B Bonds") issued as Parity Water/Wastewater Obligations, and funds on deposit in any construction fund maintained and established with the proceeds of the sale of Parity Water/Wastewater Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance.

Federal Subsidy on Build America Bonds . . . A series of automatic federal deficit reduction spending cuts known as "sequestration" took effect on March 1, 2013. Sequestration affects certain federally funded programs, including the federal subsidy payments payable to issuers with respect to their outstanding "build America bonds" for the federal fiscal year 2013 that commenced on October 1, 2012 and ends on September 30, 2013. The Taxable Series 2010B Bonds are the only obligations of the City secured by the Net Revenues of the Water and Wastewater System that are payable in part from the federal subsidy payments to be received pursuant to the "build America bonds" program. The City currently is not aware of any funding impacts from sequestration on the City's Water and Wastewater System other than

the reduction in the federal subsidy payment received by the City for the interest due on the Taxable Series 2010B Bonds on May 15, 2013. Such subsidy payment was reduced by approximately 8.7%.

Rate Covenant Required By Prior Lien Ordinance

In the Prior Lien Ordinance, the City has agreed to establish rates and charges for the facilities and services of the Electric Utility System and the Water and Wastewater System to provide Gross Revenues in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses, (ii) to fund the reserves required for Prior First Lien Obligations, Prior Subordinate Lien Obligations, Separate Lien Obligations (as defined in the Prior Lien Ordinance) and other obligations or evidences of indebtedness payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Electric Utility System and the Water and Wastewater System, and (iii) to produce Net Revenues (after satisfaction of the amount required in (ii) above) equal to at least (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior First Lien Obligations and Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Prior Subordinate Lien Obligations and all other indebtedness, except Prior First Lien Obligations and Separate Lien Obligations, payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Utility System or the Water and Wastewater System, or both.

Rate Covenant Required by Master Ordinance

In the Master Ordinance, the City has agreed to fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues in each Fiscal Year sufficient: (i) to pay all current Operating Expenses, (ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Water and Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations or (y) an amount, when added to Other Available Water and Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations, and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water and Wastewater System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above, the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates and charges to be revised and adjusted to comply with this covenant or obtain a written report from a Utility System Consultant after a review and study of the operations of the Water and Wastewater System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with such rate covenant and such adjustments and revisions to water and wastewater rates and charges are promptly implemented and enacted in accordance with such Utility System Consultant's report. Notwithstanding anything in the Master Ordinance to the contrary, the City shall be deemed to be in compliance with such rate covenant in the Master Ordinance if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Reserve Fund for Parity Water/Wastewater Obligations

The Master Ordinance creates and establishes the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). The City may fund the Reserve Fund with respect to a series of Parity Water/Wastewater Obligations in accordance with the terms of the Master Ordinance and the provisions of any Supplemental Ordinance. The City, in accordance with the provisions of any Supplemental Ordinance, may choose **not** to fund the Reserve Fund in connection with the issuance of Parity Water/Wastewater Obligations issued under the terms of such Supplemental Ordinance. **Pursuant to the terms of the Twenty-Second Supplement and the Twenty-Third Supplement, the City has determined not to fund the Reserve Fund in connection with the issuance of either series of the Bonds, and therefore, neither the Series 2013A Bonds nor the Series 2013B Bonds have any right to any moneys or any other Reserve Fund Obligations held in the Reserve Fund.**

Except as provided below with respect to Commercial Paper Obligations and obligations of the City incurred under certain Credit Agreements, the Reserve Fund shall be maintained for the benefit of the owners of the Parity

Water/Wastewater Obligations secured by the Reserve Fund. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the related Parity Water/Wastewater Obligations as they become due or paying principal of and interest on the applicable Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund is required to be an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations secured by the Reserve Fund (the "Required Reserve Amount"). The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer. If the City is required to make a withdrawal from the Reserve Fund, the City shall promptly notify the issuer of a Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency. In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues; however, such reimbursement from Net Revenues shall be subject to the following paragraph and, dependent on the terms of the Credit Facility, may be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

In accordance with the provisions of the Master Ordinance and Supplemental Ordinances authorizing the issuance of the Previously Issued Parity Water/Wastewater Obligations, the Required Reserve Amount currently on deposit in the Reserve Fund without giving effect to the refunding of the Refunded Bonds is funded with a combination of cash (\$41,393,861) and surety bonds originally issued by MBIA Insurance Corporation ("MBIA") (\$2,075,370), Financial Security Assurance Inc. ("FSA") (\$3,594,665), Ambac Assurance Corporation ("Ambac") (\$5,245,906) and XL Capital Assurance Inc. ("XL") (\$4,370,478).

In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of the Master Ordinance and any Supplemental Ordinance, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or a Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

As Parity Water/Wastewater Obligations secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Master Ordinance or a Supplemental Ordinance, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

The Reserve Fund does not secure the Bonds or Parity Water/Wastewater Obligations issued in the form of commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplemental Ordinance.

Reserve Fund for Prior First Lien Bonds and Prior Subordinate Lien Bonds

A separate reserve fund has been established under the Prior Lien Ordinance for the benefit of the Prior First Lien Bonds and Prior Subordinate Lien Bonds. In 2002, the City obtained the consent of the holders of at least 51% of the

principal amount and Maturity Amount of the outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations to amend the provisions of the Prior Lien Ordinance relating to the Reserve Fund to allow for the funding of all or a part of the amount required to be maintained in the Reserve Fund (the "Required Reserve") with Financial Commitments (defined below) and change the Required Reserve to an amount equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, as determined on (i) the date of the initial deposit of a Financial Commitment to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement, whichever date is the last to occur. The term "Financial Commitments" means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength rated in the highest rating category by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Fitch Ratings ("Fitch", and together with Moody's and S&P, the "Rating Agencies") and by A. M. Best, if rated by A. M. Best, on the date the Financial Commitment is deposited to the credit of the Reserve Fund.

The amount on deposit to the credit of the Reserve Fund under the Prior Lien Ordinance as of April 30, 2013 is \$27,000,604.68 and is funded with cash. The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior First Lien Obligations and Prior Subordinate Lien Obligations in a manner that reduces the principal amount and Maturity Amount of outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations.

Issuance of Additional Prior Lien Bonds and Subordinate Lien Bonds Precluded

The Master Ordinance provides that no additional revenue obligations issued will be on parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations.

Separate Lien Obligations

In the Prior Lien Ordinance, the City has reserved the right to issue or incur, by contract or otherwise, Separate Lien Obligations payable solely from the Net Revenues of either the Electric Utility System or the Water and Wastewater System, but not both, on a parity with the lien and pledge securing the payment of the Prior Subordinate Lien Bonds as to the appropriate utility system. In the case of such obligations secured by Net Revenues of the Water and Wastewater System, such obligations are to be issued on parity with the Parity Water/Wastewater Obligations in accordance with the terms of the Master Ordinance.

Issuance of Parity Water/Wastewater Obligations

Under the Master Ordinance, the City reserves the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if: (i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in the Master Ordinance and any Supplemental Ordinance, is not in default in the performance and observance of any of the terms, provisions and conditions contained in the Master Ordinance and any Supplemental Ordinance, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of the Master Ordinance and any Supplemental Ordinance contain the amount then required to be therein or the proceeds of the sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts; and (ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water and Wastewater System, after deducting amounts expended from the Water and Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water and Wastewater Revenues, are equal to 1.25 times the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations to be Outstanding, after giving effect to the issuance of the then proposed

Parity Water/Wastewater Obligations. The Bonds are being issued in satisfaction of the requirements described in this paragraph.

For purposes of the Accountant's certification or opinion noted in (ii) above, if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the aforesaid certificate, report or opinion of the Accountant shall give effect to the issuance of the proposed refunding of Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded). In making a determination of Net Revenues, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water and Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water and Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion. In connection with the adoption of the Fiscal Year 2012-2013 operating budget, the City Council adopted a wastewater rate increase, which became effective November 1, 2012, and a water rate increase, which became effective February 1, 2013, and is applicable to the Bonds. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates".

Short-term Parity Water/Wastewater Obligations

Pursuant to the Master Ordinance, the City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of satisfying the Net Revenues coverage test for additional Parity Water/Wastewater Obligations, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, are to be contained in a Supplemental Ordinance relating to their issuance.

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

Credit Agreements

Under the Master Ordinance, payments made under a Credit Agreement may be treated as Parity Water/Wastewater Obligations payable solely from and equally and ratably secured by a lien on the Net Revenues of the Water and Wastewater System of equal rank and dignity with the lien and pledge securing the payment of Parity Water/Wastewater Obligations if the governing body of the City makes a finding in the Supplemental Ordinance authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Water and Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water/Wastewater Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

The City has outstanding one series of Parity Water/Wastewater Obligations in which the City has executed a Credit Agreement and treated its obligations thereunder as a Parity Water/Wastewater Obligation.

In conjunction with the delivery of the City of Austin, Texas Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008, issued in the aggregate principal amount of \$170,605,000 (the "2008 Variable Rate Bonds"), and delivered on May 15, 2008, and pursuant to a fifteenth supplemental ordinance to the Master Ordinance, the City entered into an Interest Rate Management Agreement (the "2008 Swap Agreement") with Goldman Sachs Capital Markets, L.P. ("Goldman"), pursuant to which the City is obligated to make payments to Goldman calculated on a notional amount equal to the scheduled outstanding principal amount of the 2008 Variable Rate Bonds and a fixed interest rate of 3.60% per annum, and Goldman is obligated to make reciprocal payments to the City calculated on a notional amount equal to the scheduled outstanding principal amount of the 2008 Variable Rate Bonds and a variable rate equal to the SIFMA index for obligations having a maturity of 2031. Payments under the 2008 Swap Agreement are made on a net basis on the fifteenth day of each month, commencing in May 2008 and ending in May 2031. Interest on the 2008 Variable Rate Bonds is determined in a manner that differs from the SIFMA index used to calculate amounts

payable to the City under the terms of the 2008 Swap Agreement. The City entered into the 2008 Swap Agreement in conjunction with the issuance of the 2008 Variable Rate Bonds in order to effect and quantify a debt service savings on outstanding bonds that were refunded with the proceeds of the 2008 Variable Rate Bonds. Payments to be made by the City, if any, under the terms of the 2008 Swap Agreement (other than a “termination payment” as discussed below) are payable solely from and equally and ratably secured by a lien on the Net Revenues of the Water and Wastewater System of equal rank and dignity with the lien and pledge securing the payment of Parity Water/Wastewater Obligations. See APPENDIX B–“ANNUAL FINANCIAL STATEMENTS–Note 9b–Variable Rate Debt Management Program” for a discussion relating to the valuation of and risks associated with the 2008 Swap Agreement. As of May 15, 2013, the net aggregate monthly payments the City has made under the 2008 Swap Agreement equal (\$25,134,267).

If either party to the 2008 Swap Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, the 2008 Swap Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the 2008 Swap Agreement will continue in existence until May 2031. If the 2008 Swap Agreement is terminated, then current market conditions will determine whether the City will owe a termination payment to Goldman or be entitled to receive a termination payment from Goldman. Such termination payment generally would be based on the market value of the 2008 Swap Agreement on the date of termination and could be substantial. In addition, a partial termination of the 2008 Swap Agreement could occur to the extent any 2008 Variable Rate Bonds are redeemed pursuant to the City exercising its right to effect an optional redemption of 2008 Variable Rate Bonds. If such optional redemption were to occur, termination payments related to the portion of the 2008 Swap Agreement to be terminated will be owed by either the City or Goldman, depending on the existing market conditions. The obligation of the City to pay a termination payment to Goldman could result in the City issuing Parity Water/Wastewater Obligations or Subordinated Debt to enable the City to make such a termination payment.

System Fund

Under the Master Ordinance and in accordance with the provisions of the Prior Lien Ordinance authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Water/Wastewater Obligations are Outstanding a separate fund or account known and designated as the “Water and Wastewater System Fund” (the “Water and Wastewater System Fund” or the “System Fund”). All funds deposited to the credit of the System Fund and disbursements from the System Fund shall be recorded in the books and records of the City and moneys deposited to the credit of the System Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of the Water and Wastewater System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding and (iii) the special Funds and Accounts for the payment of the Parity Water/Wastewater Obligations.

FOURTH: To pay Subordinated Debt, including amounts for the payment of the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

FIFTH: To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water and Wastewater System Surplus Revenue Account.

Any Net Revenues remaining in the Water and Wastewater System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City

purpose now or hereafter permitted by law.

Surplus Revenue Account

At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water and Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water and Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water and Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water and Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water and Wastewater Funds." The amount so designated as "Other Available Water and Wastewater Funds" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

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DESCRIPTION OF THE BONDS

The Bonds will be dated the date of delivery. Interest on the Bonds will accrue from their dated date and will be payable on November 15, 2013, and on each May 15 and November 15 thereafter until maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and bear interest at per annum rates set forth on pages ii and iii hereof. Accrued interest to be paid on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal of the Bonds is payable at maturity, subject only to prior redemption as is hereinafter described.

Optional Redemption of the Series 2013A Bonds

The City reserves the right, at its option, to redeem Series 2013A Bonds maturing on or after November 15, 20__, in whole or in part, in the principal amounts of \$5,000 or any integral multiple thereof on November 15, 20__, or any date thereafter, at the redemption price of par, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption of the Series 2013A Bonds

The Series 2013A Bonds having stated maturities of November 15, 20__ and November 15, 20__, respectively (the "Series 2013A Term Bonds"), shall be subject to mandatory redemption in part prior to maturity at the redemption price of par plus accrued interest to the date of redemption on November 15 in each of the years and in principal amounts as follows:

_____% Series 2013A Term Bond due November 15, 20__	_____% Series 2013A Term Bond due November 15, 20__
<u>Year</u>	<u>Year</u>
<u>Principal Amount</u>	<u>Principal Amount</u>

*Stated maturity.

Approximately 45 days prior to each mandatory redemption date for the Series 2013A Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Series 2013A Term Bonds within the applicable Stated Maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund. Any Series 2013A Term Bond not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Series 2013A Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Series 2013A Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Series 2013A Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Optional Redemption of the Series 2013B Bonds

The City reserves the right, at its option, to redeem Series 2013B Bonds maturing on or after November 15, 2024, in whole or in part, in the principal amounts of \$5,000 or any integral multiple thereof on November 15, 2023, or any date thereafter, at the redemption price of par, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption of the Series 2013B Bonds

The Series 2013B Bonds having stated maturities of November 15, 20__ and November 15, 20__, respectively (the "Series 2013B Term Bonds"), shall be subject to mandatory redemption in part prior to maturity at the redemption price of par plus accrued interest to the date of redemption on November 15 in each of the years and in principal amounts as follows:

_____ % Series 2013B Term Bond due
November 15, 20__

<u>Year</u>	<u>Principal Amount</u>
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_____ % Series 2013B Term Bond due
November 15, 20__

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

*Stated maturity.

Approximately 45 days prior to each mandatory redemption date for the Series 2013B Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Series 2013B Term Bonds within the applicable Stated Maturity to be redeemed on the next following November 15 from moneys set aside for that purpose in the Debt Service Fund. Any Series 2013B Term Bond not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Series 2013B Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Series 2013B Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Series 2013B Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

Not less than thirty (30) days prior to a redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class postage prepaid, in the name of the City and at the City’s expense, to each registered owner of a Bond to be redeemed in whole or in part at the address of the registered owner appearing on the registration book of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the registered owner.

With respect to any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of a notice of redemption, the notice may state that the redemption may, at the option of the City, be conditioned upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for the redemption, or upon the satisfaction of any prerequisites set forth in the notice of redemption; and, if conditional notice of redemption is given and such prerequisites to the redemption and sufficient moneys are not received, such notice shall have no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

Defeasance

The City may defease and discharge its obligation to the holders of any or all of the Bonds to pay the principal of, redemption premium, and interest thereon by depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust: (a) cash in an amount equal to the principal amount of, redemption premium, and interest to become due on the Bonds to the date of maturity or prior redemption, or (b) Government Obligations, consisting of (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and are rated as to investment quality by a nationally recognized investment rating firm no less than “AAA” or its equivalent; or (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent. Government Obligations deposited in trust to defease the Bonds are required to be affirmed by an independent public accounting firm of national reputation to mature as to

principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to pay the principal of, redemption premium, and interest on such Bonds.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is U.S. Bank National Association, Houston, Texas. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be given to each registered owner of the Bonds then outstanding, which notice will also give the address of the new Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve in the capacity and perform the duties of Paying Agent/Registrar for the Bonds.

Interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent by United States mail, first-class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or redemption prior to maturity upon their presentation to the designated payment/transfer office of the Paying Agent/Registrar. If a date for making a payment on the Bonds, the taking of any action or the mailing of any notice by the Paying Agent Registrar shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment, taking action or mailing of a notice will be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and a payment, action or mailing on such date shall have the same force and effect as if made on the original date the payment was due, or the action was required to be taken or the mailing was required to be made.

Record Date for Interest Payment

The record date (“Record Date”) for the interest payable on any interest payment date with respect to the Bonds means the close of business on the last business day of the month preceding such interest payment date. In the event of a non-payment of interest on one or more maturities of the Bonds on a scheduled interest payment date, and for 30 days thereafter, a new record date for such interest payment for such maturity or maturities (a “Special Record Date”) will be established by the Paying Agent/Registrar, if any, 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 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 registered owner of such maturity or maturities of the Bonds appearing on the 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.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds 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 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. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated payment/transfer office of the Paying Agent/Registrar, or sent by United States mail, first-class postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds 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.

Bondholders' Remedies

Neither the Master Ordinance, the Twenty-Second Supplement nor the Twenty-Third Supplement specifies events of default with respect to the Bonds. If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in any of the Master Ordinance, the Twenty-Second Supplement or the Twenty-Third Supplement, or the City declares bankruptcy, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance, the Twenty-Second Supplement or the Twenty-Third Supplement and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. None of the Master Ordinance, the Twenty-Second Supplement or the Twenty-Third Supplement provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Twenty-Second Supplement or the Twenty-Third Supplement, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The City may exercise authority to issue obligations and enter into credit agreements pursuant to Chapter 1371, Texas Government Code ("Chapter 1371"), secured by the revenues of the Water and Wastewater System. In the proceedings authorizing the issuance of obligations or the execution and delivery of credit agreements, the City may agree to waive sovereign immunity from suit or liability for the purposes of adjudicating a claim to enforce the credit agreement or obligation or for damages for breach of the credit agreement or obligation. The City has not waived the defense of sovereign immunity with respect to the Bonds under Chapter 1371. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the State legislature has effectively waived the City's sovereign immunity from a suit for money damages outside of Chapter 1371, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in any of the Master Ordinance, the Twenty-Second Supplement or the Twenty-Third Supplement. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

The City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenue, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any other remedies available to the registered owners would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

BOOK-ENTRY-ONLY SYSTEM

DTC will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants

include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). Direct Participants and Indirect Participants are referred to collectively as “Participants”. DTC has a Standard & Poor’s rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities 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 in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities 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. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s Procedures. 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC’s records. 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 nor its nominee, 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 redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized

representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

Subject to DTC's policies and guidelines, the City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

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THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to in this document as “Austin Energy”) and a Water and Wastewater System (also referred to in this document as the “Austin Water Utility” or the “Water and Wastewater Utility”) which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet Electric Utility System demand. The Electric Utility System had approximately 1,659 full-time regular employees as of September 30, 2012. The Water and Wastewater System had approximately 1,094 full-time regular employees as of the same date.

THE WATER AND WASTEWATER SYSTEM

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City*</u>
Greg Meszaros	Director	6 Years
David Anders	Assistant Director, Finance and Business Services	25 Years
Jane Burazer	Assistant Director, Treatment	19 Years
David Juarez, P.E.	Acting Assistant Director, Pipeline Operations	22 Years**
Chris Chen, P.E.	Assistant Director, Engineering Services	1 Month
David Juarez, P.E.	Assistant Director, Water Resource Management	22 Years**
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	17 Years**

*As of June 30, 2013.

**Length of service not continuous.

WATER SYSTEM

Service Area

The City supplies treated water to residential and commercial customers within the corporate limits of the City and to a portion of Travis and Williamson Counties. The presently defined service area totals approximately 538 square miles. The City also has contracted to supply treated water on a wholesale basis to five municipal utility districts (“MUDs”), one water control and improvement district (“WCID”), six water supply corporations, one private utility, the Cities of Manor, Rollingwood and Sunset Valley, and the Village of San Leanna. In addition, the City has had a Water Reclamation Initiative for nearly twenty years to develop facilities and processes to make treated wastewater effluent available for irrigation and cooling processes. The City is currently in the process of establishing operating and capital funds for a Reclaimed Water Utility in addition to the Water and Wastewater operating and capital funds. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities” in this document.

The City has previously acquired the systems and assets of eleven WCIDs. The City has paid off and canceled the bonded indebtedness of all of these WCIDs. The Texas Commission on Environmental Quality (“TCEQ”) is empowered to grant the City a certificate of convenience and necessity to provide water and wastewater service to retail customers outside the City’s boundaries. The City is not required to obtain such a certificate. References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been assumed by the TCEQ.

Water Supply

In 1888, City leaders campaigned successfully for the first Austin Dam across the Colorado River, which was completed early in 1893. In 1934, a \$4,500,000 loan and grant was obtained from the Public Works Administration to complete the Buchanan Dam. The Lower Colorado River Authority (“LCRA”) finished the dam (which is 150 feet high, 11,000 feet long), and the lake it forms is thirty-two miles long and two miles wide, covering 22,000 surface acres.

Since that time, a stairway of lakes was created by building five additional dams, giving the area 150 miles of lakes. Tom Miller Dam is within the City limits, and forms Lake Austin, which covers 1,590 surface acres; Mansfield Dam, the fifth largest masonry dam in the world, impounds Lake Travis, encompassing up to approximately 19,300 acres of surface area at the full conservation pool elevation of 681 feet MSL; Starcke Dam creates Lake Marble Falls, which spreads over 900 acres; Lake Lyndon B. Johnson, held by Alvin Wirtz Dam, has an area of 6,300 acres; and Roy Inks Dam forms Inks Lake, with a surface of 900 acres. The City owns Tom Miller Dam and has leased it to LCRA through December 31, 2050. The other dams are owned by LCRA.

The combined storage capacity of the six lakes is around 3,300,000 acre-feet of water, or more than a trillion gallons. Approximately 800,000 acre-feet of this capacity are reserved for flood control. Of the six dams on the Colorado River, two form major impounding reservoirs for the control of flood water; however, Mansfield Dam is the only designated flood control structure. The combined storage capacity of Lakes Travis and Buchanan, the two major water supply storage reservoirs upstream of Austin and managed by LCRA, is approximately 2 million acre-feet.

The City has also constructed Longhorn Dam on the Colorado River just downstream of Lady Bird Lake, and Decker Dam on Decker Creek, a tributary of the Colorado River that joins the river downstream of Longhorn Dam. Lady Bird Lake, which has a permitted capacity of approximately 3,500 acre-feet, is created by Longhorn Dam. Decker Dam creates Lake Walter E. Long, which has a permitted capacity of approximately 34,000 acre-feet.

United States Geological Survey (“USGS”) records at Austin gauging station No. 08158000 show the following flows for the water year (October 1 through September 30):

1987 – 3,399,000 Acre Feet	1996 – 758,300 Acre Feet	2004 – 928,065 Acre Feet
1988 – 834,000 Acre Feet	1997 – 3,013,512 Acre Feet	2005 – 1,077,031 Acre Feet
1989 – 667,900 Acre Feet	1998 – 1,313,831 Acre Feet	2006 – 528,785 Acre Feet
1990 – 692,300 Acre Feet	1999 – 803,240 Acre Feet	2007 – 2,155,974 Acre Feet
1991 – 829,700 Acre Feet	2000 – 627,370 Acre Feet	2008 – 621,526 Acre Feet
1992 – 5,419,000 Acre Feet	2001 – 1,371,435 Acre Feet	2009 – 584,735 Acre Feet
1993 – 978,000 Acre Feet	2002 – 1,674,985 Acre Feet	2010 – 798,517 Acre Feet
1994 – 708,200 Acre Feet	2003 – 1,017,294 Acre Feet	2011 – 670,104 Acre Feet
1995 – 896,700 Acre Feet		2012 – 212,849 Acre Feet

Using the last twenty-six years from 1987-2012, the average flow was 1,253,167 acre-feet per year. (Note: The year 2012 flow of 212,849 acre feet (69 billion gallons) is atypical being the first year that interruptible stored water was not released for downstream farming operations, and was not used in the above calculations) This gauging station is located on the Colorado River downstream of Longhorn Dam.

Water Rights. The City holds independent rights to impound, divert and use the waters of the Colorado River and its tributaries, and additional rights to such water pursuant to agreements with LCRA.

The City’s independent water rights have been adjudicated before the TCEQ in accordance with the Water Rights Adjudication Act, Texas Water Code, Section 11.301, et seq. The City’s rights, as determined by the TCEQ, are set forth in the Final Determination of all claims of Water Rights in the Lower Colorado River Segment of the Colorado River Basin issued by the TCEQ on July 29, 1985. Both the City and LCRA appealed the Final Determination, seeking additional rights and contesting the rights awarded to each other, in a proceeding styled *In Re: The Exceptions of the Lower Colorado River Authority and the City of Austin to the Adjudication of Water Rights in the Lower Colorado River Segment of the Colorado River Basin*, Cause No. 115,414-A-1 in the District Court of Bell County, Texas, 264th Judicial District (“Cause No. 115,414-A-1”).

The City and LCRA entered into a Comprehensive Water Settlement Agreement (the “Settlement Agreement”) in settlement of Cause No. 115,414-A-1 on December 10, 1987. The Settlement Agreement generally improves the independent water rights of both the City and LCRA. Such rights for the City include: the rights to maintain Tom Miller Dam and Lake Austin, Longhorn Dam and Lady Bird Lake, and Decker Dam and Lake Walter E. Long; the right to divert and use 272,403 run of the river acre-feet of water per year from Lake Austin and Lady Bird Lake for municipal purposes; the right to divert and circulate an unlimited amount of water per year from Lady Bird Lake for industrial purposes so as to consumptively use not to exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial (cooling) purposes so as to consumptively use not to exceed 16,156 acre-feet per

year; and the right to divert and use water through Tom Miller Dam for the generation of hydroelectric power. LCRA's independent water rights, as determined by the TCEQ, include the rights to maintain Lakes Travis and Buchanan and to divert and use water therefrom. Pursuant to the Settlement Agreement and the final judgment in Cause No. 115,414-A-1, certain other pending water-related disputes between the City and LCRA were settled. LCRA was granted an option to acquire up to a 50% undivided interest in the City's proposed Water Treatment Plant No. 4 (discussed under "Water Treatment Plants" below and referred to as "WTP No. 4"). The District Court issued a final judgment consistent with the Settlement Agreement. Certificates of Adjudication have been issued by the TCEQ.

Pursuant to previous agreements between the City and LCRA, LCRA has agreed to supply the City additional water from storage in Lakes Travis and Buchanan and other sources. The City also has leased Tom Miller Dam, and the City's right to divert and use water for the generation of hydroelectric power through Tom Miller Dam, to LCRA. The Settlement Agreement provided for the City to receive water from Lake Travis for WTP No. 4, and for additional water for municipal and other purposes of use downstream of Lake Travis.

The City and LCRA executed the First Amendment to the Settlement Agreement (the "First Amendment") on October 7, 1999. This First Amendment extends the existing Settlement Agreement through the year 2050, and gives the City a 50-year assured water supply by providing additional water from the Highland Lakes system, a chain of lakes formed on the Colorado River that includes Lake Travis, Lake Austin and Lady Bird Lake, and other sources. Additionally, the First Amendment includes an option for the City to renew the Settlement Agreement through the year 2100. The City paid a discounted amount of \$100.0 million to the LCRA as part of the First Amendment contract provisions. The \$100.0 million payment to LCRA included compensation for the following terms:

- Pre-paid reservation fee for an additional 75,000 firm acre-feet of water supply, which increased the City's total water supply from 250,000 firm acre-feet to 325,000 firm acre-feet for the additional 50-year period with an option to renew for another additional 50-year period.
- Pre-paid water use charges that would be paid by the City for water use above 150,000 firm acre-feet up to 201,000 firm acre-feet.

Under the terms of the First Amendment, the Water and Wastewater System will begin annual payments to LCRA for raw water diverted in excess of 150,000 acre-feet once the Water and Wastewater System's average annual diversions for two consecutive years exceed 201,000 acre-feet, which is unlikely to occur prior to 2015. The First Amendment also has numerous other provisions that benefit the City. Also, a legal issue regarding the building of WTP No. 4 was settled. LCRA's option to acquire up to 50% of the WTP No. 4 lapsed on January 1, 2000. All sections of the 1987 Settlement Agreement related to WTP No. 4 were deleted as part of the First Amendment. The First Amendment provides for mutual release of the City and LCRA from any claims or causes of action relating to the delayed construction of WTP No. 4.

Water Treatment Plants

Austin Water Utility has two water treatment plants (Davis and Ullrich) which have a combined rated capacity of 285 million gallons per day ("mgd"). These water treatment plants have a combined clear well storage capacity of 35 million gallons on site. In September 2008, the City decommissioned a third water treatment plant, the 80-year old Green Water Treatment Plant, which had reached the end of its functional life.

Austin Water Utility water distribution system includes approximately 3,672 miles of water mains of varying diameters, 38 distribution storage facilities with a storage capacity of approximately 170 million gallons, 25,703 City maintained fire hydrants, and 45 booster pump stations.

The City receives its water supply from the Colorado River through the two water treatment plants. The Davis Plant and the Ullrich Plant both take water from Lake Austin.

The Davis Plant, located at Mount Bonnell Road and West 35th Street, has a rated capacity of 118 mgd. The plant is of conventional design, with rapid mix basins, flocculation basins, sedimentation basins, gravity filters, clearwell storage, raw water, system chlorine disinfection, and finished water pumping stations. The plant was constructed in 1954 and expanded in 1963, 1975 and 1986.

The Ullrich Plant, located on a site south of Red Bud Trail and Forest View Drive, has a rated capacity of 167 mgd. The

existing plant facilities consist of an intake and raw water pumping station, raw water transmission main, seven upflow-solids contact clarifiers, eighteen filters, chlorine disinfection, clearwell reservoir, high service pumping station, and sludge handling facilities. A 67 mgd upgrade to the Ullrich Plant was completed in 2006. This expansion increased the rated capacity of the plant from 100 mgd to 167 mgd.

WTP No. 4 is under construction and is estimated to be completed by the spring of 2014. Located in northwest Austin, WTP No. 4 will draw its water from Lake Travis. To meet projected needs, the construction will add initial capacity of 50 mgd with expansion capability up to 300 mgd with future phases. Funding for the construction of WTP No. 4 comes from a combination of cash transferred from the operation fund and Commercial Paper Obligations.

Water Use Management Plan

Austin Water Utility has both a water conservation plan and a drought contingency plan, as required in Texas for large municipal water suppliers. Austin's Water Conservation Plan details incentive programs, educational efforts and regulations designed to reduce both peak and average day water use. Austin's Drought Contingency Plan outlines the City's response to emergency demand or supply conditions. In addition to year-round prohibitions against water waste and a mandatory watering schedule that allows not more than twice per week for outdoor irrigation, the plan calls for more restrictive stages if combined storage levels in the Highland Lakes fall below certain levels, or if daily pumpage exceed limits established by the Austin Water Utility Director. Watering times and days are further limited, and restrictions are placed on discretionary water uses such as ornamental fountains and vehicle washing. Water use restrictions are codified in Austin's City Charter, Chapter 6-4, which was revised by the Austin City Council on August 16, 2012. With this updated strategy, Austin Water Utility is striving to continue strengthening conservation efforts while also protecting the City's urban landscape and tree canopy. Inclining block rates, implemented April 1, 1994, are designed to promote water conservation by single family residential customers; it is believed that Austin has one of the highest rates in the country for customers using more than 20,000 gallons per month. Seasonal rates implemented in 2000 for commercial and multifamily customers are also designed to promote water conservation. Also see "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Reuse Facilities" in this document.

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Water Storage and Pumping Facilities

In addition to the water treatment plants, the City owns and operates the following storage facilities and major water pump stations as part of the Water and Wastewater System.

	<u>Total Storage Capacity</u> (Millions of Gallons)	<u>Firm Pumping Capacity</u> (Gallons per Minute)
<u>North System</u>		
Anderson Mill (1)	3	n/a
Avery Ranch (1)	3	n/a
Capital of Texas (1)	0.5	n/a
East Austin	12	37,800
Forest Ridge	3	8,000
Four Points (1) (Elevated)	1	n/a
Four Points (Ground)	7	7,800
Guildford Cove	0.275	1,000
Howard Lane 1	10	50,000
Howard Lane 2	10	See above
Jollyville	11	49,800
Lookout Lane	0.3	800
Martin Hill (1)	34	n/a
North Austin	10	39,800
Pond Springs (1)	3	n/a
Spicewood Springs	10	58,000
Tanglebriar (1)	0.2	n/a
<u>South System</u>		
Barclay Road	0.5	3,000
Center Street	8	31,400
Davis Lane 1	10	39,500
Davis Lane 2	10	See above
LaCrosse (1)	2	n/a
Leuthan Lane	3	SWB - 6,950 SWC - 2,700
Mt. Larson	0.1	100
Never Bend Cove	0.06	1,599
Pilot Knob	10	15,800
Slaughter Lane	6	SWB - 15,000 SWC - 5,400
Thomas Springs (1) (Elevated)	1.25	n/a
Westlake Drive	0.01	500

(1) Storage only, no pumps.

Source: Austin Water Utility.

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Historical Water Pumpage - TABLE EIGHT

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2004 through 2013.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2004	48,469	(5.2)%	197
2005	51,374	6.0%	247
2006	56,603	10.2%	241
2007	45,868	(19.0)%	180
2008	53,066	15.7%	227
2009	53,331	0.5%	240
2010	43,827	(17.8)%	190
2011	52,824	20.5%	231
2012	47,094	(10.8)%	203
2013	49,454 (1)	5.0%	236

(1) Estimated.

Source: Austin Water Utility.

Projected Water Pumpage - TABLE NINE

The following table, based on actual operating experience, summarizes the annual water pumpage and maximum day pumpage projected by the City.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2014	51,188	243
2015	51,418	245
2016	51,773	246
2017	52,437	248
2018	53,112	251
2019	53,853	254
2020	54,630	257
2021	50,858	236
2022	55,366	261
2023	56,140	265

Source: Austin Water Utility.

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Information Concerning Water Sales - TABLE TEN

	Fiscal Year Ended September 30									
	<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012</u>	
	<u>Average Customers</u>	<u>Thousand Gallons</u>	<u>Average Customers</u>	<u>Thousand Gallons</u>	<u>Average Customers</u>	<u>Thousand Gallons</u>	<u>Average Customers</u>	<u>Thousand Gallons</u>	<u>Average Customers</u>	<u>Thousand Gallons</u>
Thousand Gallons Pumped		53,065,960		53,331,330		43,827,360		52,823,662		47,094,082
Less: Sales to Other Water Utilities (1)		<u>3,830,477</u>		<u>3,553,293</u>		<u>2,771,880</u>		<u>3,572,029</u>		<u>3,071,606</u>
Thousand Gallons to System		<u>49,235,483</u>		<u>49,778,037</u>		<u>41,055,480</u>		<u>49,251,633</u>		<u>44,022,476</u>
Water Sales: (2)										
Urban	190,116	40,520,123	196,595	40,236,545	198,437	33,885,594	211,185	44,502,550	212,466	38,974,582
Rural	<u>11,444</u>	<u>2,158,250</u>	<u>11,254</u>	<u>2,157,708</u>	<u>11,215</u>	<u>1,745,697</u>		<u>0</u>		<u>0</u>
	201,560	42,678,373	207,849	42,394,253	209,652	35,631,291	211,185	44,502,550	212,466	38,974,582
City Departments	<u>497</u>	<u>1,195,465</u>	<u>575</u>	<u>1,356,366</u>	<u>573</u>	<u>1,240,967</u>	<u>575</u>	<u>1,410,791</u>	<u>498</u>	<u>725,182</u>
Total Sales to Ultimate Consumer	<u>202,057</u>	<u>43,873,838</u>	<u>208,424</u>	<u>43,750,619</u>	<u>210,225</u>	<u>36,872,258</u>	<u>211,760</u>	<u>45,913,341</u>	<u>212,964</u>	<u>39,699,764</u>
Used by Water Utility		174,946		70,090		90,417		69,262		55,685
Other Unmetered Usage		1,560,139		1,567,941		1,288,524		1,553,016		1,384,566
Loss and Unaccounted For		<u>3,626,560</u>		<u>4,389,387</u>		<u>2,804,281</u>		<u>1,716,014</u>		<u>2,882,461</u>
Thousand Gallons to System		<u>49,235,483</u>		<u>49,778,037</u>		<u>41,055,480</u>		<u>49,251,633</u>		<u>44,022,476</u>
Maximum Daily Consumption		227,144		228,234		193,110		220,552		202,544
Average Daily Consumption		130,697		129,600		108,614		135,532		117,364

(1) Includes sales to all wholesale customers.

(2) FY 2011 & FY 2012 Water Sales include Urban and Rural combined.

Source: Austin Water Utility.

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Large Water Customers - TABLE ELEVEN

**Water and Wastewater Utility
Large Water Customers
Five Year Comparative Data (2008 - 2012)**

Fiscal Year Ended September 30
(Gallons and Dollars in Thousands)

	<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012</u>	
	<u>Gallons</u>	<u>Revenue</u>								
Samsung	1,118,400	\$ 4,020	1,024,144	\$ 4,116	749,103	\$ 3,150	1,212,413	\$ 5,346	1,614,098	\$ 7,608
Water District 10	1,056,852	2,722	1,057,082	3,276	739,907	2,424	977,849	3,427	856,658	3,350
University of Texas	1,085,005	3,521	1,170,061	4,147	979,972	3,679	1,147,002	4,424	821,457	4,395
Freescall, Inc. (1)	748,582	2,696	698,391	2,816	675,872	2,855	690,252	3,044	599,530	2,767
Wells Branch MUD	530,506	1,376	565,819	1,580	454,483	1,312	554,683	1,697	518,536	1,777
North Austin MUD	430,012	1,167	484,918	1,502	367,776	1,187	479,142	1,884	402,928	1,490
Spansion	749,225	2,025	555,174	1,937	614,897	2,005	578,465	1,884	384,288	1,823
Northtown MUD	255,934	691	286,030	819	254,986	791	310,965	1,029	304,387	1,086
Lost Creek MUD	316,004	895	320,820	964	242,833	768	318,805	1,075	283,405	1,111
Shady Hollow MUD	<u>225,365</u>	<u>642</u>	<u>242,315</u>	<u>774</u>	<u>201,921</u>	<u>685</u>	<u>268,087</u>	<u>963</u>	<u>226,256</u>	<u>921</u>
	<u>6,515,885</u>	<u>\$19,785</u>	<u>6,404,754</u>	<u>\$21,931</u>	<u>5,281,750</u>	<u>\$18,856</u>	<u>6,537,663</u>	<u>\$24,773</u>	<u>6,011,543</u>	<u>\$26,328</u>

(1) Totals for Freescall, Inc. include their east Austin and west Austin plant sites.
Source: Austin Water Utility.

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WASTEWATER SYSTEM

Service Area

Austin Water Utility provides wastewater service to customers within the corporate limits of the City and a portion of Travis and Williamson Counties. The City has entered into wholesale service contracts with four MUDs, one WCID, and the Cities of Manor, Rollingwood, Sunset Valley, and West Lake Hills to provide wastewater service.

Facilities

Austin Water Utility has two main wastewater treatment plants with a total permitted capacity of 150 mgd, one biosolids treatment and disposal facility, over 2,657 miles of sanitary wastewater mains and lines, and 124 lift stations. The two treatment plants are the Walnut Creek Wastewater Treatment Plant, which began operations in 1977, and the South Austin Regional Wastewater Treatment Plant, which started operating in 1986. A third plant, the Govalle Wastewater Treatment Plant, constructed in 1937 with permitted capacity of 10 mgd, was decommissioned in October 2006 after completion of a 25 mgd expansion at the South Austin Regional Wastewater Treatment Plant. The Hornsby Bend Biosolids Treatment Plant operates as a sludge treatment and disposal facility and was placed in operation in 1956. In 2009 and 2010, the City received from the TCEQ renewals of discharge permits (TPDES permits) for all its wastewater treatment plants. The permits are renewable again in 2014.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During fiscal year 2012, average flows to the plant were approximately 57 mgd. Sludge from this plant is pumped to the anaerobic digesters at Hornsby Bend for stabilization and disposal. A 15 mgd upgrade to this plant (which resulted in the plant's current capacity of 75 mgd) was completed in 2004.

The South Austin Regional Wastewater Treatment Plant began operation in April 1986. The plant is now permitted to discharge at a rate of 75 mgd after a 25 mgd upgrade was completed in August 2006. During fiscal year 2012, average flows to the plant were approximately 46 mgd. An interceptor transfers wastewater from the former Govalle plant to the South Austin Regional Wastewater Treatment Plant. Waste sludge is pumped to the Hornsby Bend facility to anaerobic digesters which were constructed simultaneously with the plant.

The Hornsby Bend Biosolids Treatment Plant serves as the City's central biosolids treatment and disposal facility. Waste sludge from the Walnut Creek and the South Austin Regional plants is pumped to anaerobic digesters at Hornsby Bend. A greenhouse enclosed aquaculture pond is used to treat the pond water before its use for irrigation on utility owned land at the site. Major improvements recently completed at Hornsby Bend include sludge thickening facilities. Biosolids received at Hornsby Bend are thickened, anaerobically digested, dewatered in sludge drying basins or mechanically dewatered using belt presses and composted for marketing and distribution. Some dried biosolids are applied to on-site agricultural land. A Center for Environmental Research has been established with the cooperation of the City, The University of Texas and Texas A&M University. The City provides laboratory, offices and research facilities at Hornsby Bend for the two universities to conduct environmental research.

In 1985, the City entered into a contract with the Brushy Creek Water Control and Improvement District No. 1, Williamson County MUD No. 2, Williamson County MUD No. 3 and the City of Round Rock to fund, construct, and operate a regional wastewater collection and treatment system (the "Project") serving the upper Brushy Creek watershed. In 1994, the Project participants terminated the agreement. The City and the City of Round Rock subsequently entered an interlocal agreement where the two cities assumed the obligations and divided the Project assets and entered an interim operations and maintenance agreement. LCRA and the Brazos River Authority ("BRA") purchased Round Rock's share in the Project and have also purchased a portion of the City's share relating to the area now included in the City of Cedar Park's extraterritorial jurisdiction. The City of Cedar Park entered into a wastewater service agreement with LCRA and BRA in 1997. Final negotiations were completed, selling the City's remaining assets to the LCRA, effective October 1, 2000, with the City becoming a customer of the LCRA and BRA wastewater system. The agreement, which requires the City to pay for its portion of capital expansions and operations and maintenance costs on an annual basis, reserves enough wastewater capacity to adequately serve all of the area inside the City's city limits or extraterritorial jurisdiction and within the Brushy Creek watershed. In December 2009, the City purchased an operating interest from LCRA for approximately \$12 million.

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

Lift Stations

In addition to the wastewater treatment plants, the Austin Water Utility owns and operates the following major lift stations.

<u>Name</u>	<u>Firm Capacity (Gallons per Minute)</u>
Boggy Creek East	22,500
Tracor	5,580
Taylor Slough	3,400
Lake Creek	4,200
Davis Springs	3,600

Source: Austin Water Utility.

Historical Wastewater Flows - TABLE TWELVE

The following table summarizes the historical wastewater flows to the City's wastewater treatment facilities from fiscal years 2003 through 2013.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
2003	33,332	(2.5)%
2004	31,742	(4.8)%
2005	32,624	2.8%
2006	30,324	(7.1)%
2007	37,208	22.7%
2008	32,011	(14.0)%
2009	32,177	0.5%
2010	37,254	15.8%
2011	32,946	(11.6)%
2012	37,756	14.6%
2013 (1)	36,103	(4.4)%

(1) Estimated.

Source: Austin Water Utility.

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Projected Wastewater Flows - TABLE THIRTEEN

The following table, based on actual operating experience, summarizes the annual wastewater flows projected to be received at the City's wastewater treatment plants.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>
2014	36,439
2015	36,775
2016	37,111
2017	37,447
2018	37,783
2019	38,118
2020	38,454
2021	38,790
2022	39,126
2023	39,462

Source: Austin Water Utility.

The rated capacity of the Walnut Creek Wastewater Treatment Plant was increased from 60 mgd to 75 mgd during 2004 and the South Austin Regional Wastewater Treatment Plant was upgraded from 50 mgd to 75 mgd in 2006.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the proposed FY 2014-18 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately \$986.2 million for system improvements for such period. Such improvements will include treatment facilities, reservoir, pump station and lift station improvements, and major transmission distribution and collection improvements. It is anticipated that such improvements will be financed as follows: (1) the issuance of \$689.8 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements) and (2) the application of \$296.4 million of anticipated transfers from current Water and Wastewater System revenues and amounts on hand.

Services Financed by Utility Districts

On August 19, 1981, the City Council enacted an ordinance establishing the basic requirements for the City's consent to the creation of a MUD, a WCID, a Fresh Water Supply District or any other water district created under State law for the purpose of supplying water and/or wastewater service to land within the extraterritorial jurisdiction or the city limits of the City. That ordinance has been modified by the City's enactment of its Land Development Code, which contains provisions relating to the City's consent to MUDs and WCIDs. In February 2011, the City Council further clarified the City's policy by resolution, as described below.

MUDs and WCIDs supply water and wastewater service to areas within and outside the City limits and function as a financing mechanism for development of land.

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

Under the creation agreements with the districts, the districts may be annexed separately and dissolved by the City. Upon annexation and dissolution of the districts, the City would assume the district's outstanding debts and other obligations, which pursuant to State law would become payable from ad valorem taxes levied and collected within the City or, in some cases, from a surcharge fee assessed by the City to utility users within the boundaries of the annexed district. Upon annexation, the City is empowered to issue any authorized but unissued bonds of the district and to use

the proceeds for improvements within the annexed district. Alternatively, some of the districts may be annexed but not dissolved at the option of the City. If so, the City would be required only to provide services other than water and wastewater services and not to assume the district's outstanding debt. In December 1997, the City annexed ten MUDs and assumed their outstanding utility system debt.

In February 2011, the City Council approved a resolution establishing a policy and general criteria under which the City Council will consider requests to create municipal utility districts. The policy states that the Council shall consider the following criteria: adherence to the comprehensive plan; extension of public infrastructure with MUD or developer financing; affordable housing; environmental improvement; public transportation facilities; open space; green building; development standards; amenities; school and public safety sites; City provision of water and wastewater services; and financial viability.

In April 2011, the City Council approved resolutions consenting to special legislation that would create nine new MUDs, subject to criteria that would protect the City's interests. The City's MUD policy provides for consideration of extraordinary public benefits, superior development, and enhancement of other City interests when negotiating the consent agreement. These MUDs were subsequently created by the Texas Legislature, conditioned upon the City entering into a consent agreement with each MUD. Each MUD's enabling legislation also allows continuation of the district as a "limited district" after full-purpose annexation by the City if the district and the City enter into a strategic partnership agreement ("SPA"). The City is requiring a SPA as a condition of its consent. If the City does not consent to the creation of the district or enter into such agreements as are required by the terms of the City's consent ordinance, the MUDs will be dissolved. Following staff and board and commission review, in March 2012 the City Council conducted public hearings and approved ordinances consenting to the creation of the MUDs. In April 2012, the City Council conducted public hearings regarding a strategic partnership agreement. The SPAs are to be adopted by the City after each MUD has adopted the SPA.

Water Reuse Facilities

The City has implemented a water reclamation initiative to develop facilities and processes to make treated wastewater effluent available for irrigation, manufacturing, toilet flushing, and cooling uses. The water reuse facilities operated as part of the Water and Wastewater System include three pump stations, two pressure zones with a boosted area, three water storage facilities with 3.5 MG in storage, and 44.7 miles of mainlines. An additional 7.3 miles of mainlines are in design or under construction. The water reuse facilities presently serve a total of forty-two customers.

Customer demand is highly dependent on weather conditions. In 2012, customers used 1,521 billion gallons (BG) of reclaimed water. Efforts to promote the use of reclaimed water are focused on existing large-volume commercial and industrial potable water users that can convert a portion of their use of treated potable water to reclaimed water. The water reuse facilities extend from the eastern edge of the City, where the water originates at the wastewater treatment plants, to the center of the City, where most of the reclaimed water customers are located.

Water and Wastewater Rates

Rates for water and wastewater services are established by the City Council. Any rate increase to be effective for succeeding fiscal years must be approved by the City Council, and no assurances can be given that the Water and Wastewater System will seek future rate increases or whether the City Council will implement any future rate increases.

With 80% of the Water and Wastewater System's costs fixed and less than 20% of fixed revenues, this can inhibit the Water and Wastewater System's ability to cover costs during extreme weather or economic events. To help improve the financial position, the Water and Wastewater System implemented a 5.1% combined water and wastewater rate increase in fiscal year 2012 and a new fixed Water Sustainability Fee that strengthens the future financial health and stability of the Water and Wastewater System.

The City is not subject to regulation by the TCEQ with regard to the rates charged for water and wastewater services to customers within the boundaries of the City. The TCEQ has appellate jurisdiction to determine municipal water and wastewater rates outside the City's boundaries.

State law allows water districts to appeal the City's water and wastewater rates to the TCEQ.

The following schedules present the monthly retail and wholesale customer water and wastewater rates.

Water Service Rates Effective February 1, 2013 – TABLE FOURTEEN

Monthly Customer Charges

<u>Customer Account Charge</u>	<u>Meter Size</u>	<u>Retail Equivalent Meter Charge per Month (1)</u>	<u>Multi-Family Charge per Month</u>	<u>Commercial Charge per Month</u>
Retail Customer Account Charge(\$/Month)	5/8	\$ 7.10	\$ 8.95	\$ 7.25
	3/4	10.00	13.43	10.88
	1	14.00	22.38	18.13
	1¼	16.00	32.33	26.23
	1½	22.00	44.75	36.25
	2	35.00	71.60	58.00
	3	57.00	143.20	116.00
	4	109.00	223.75	181.25
	6	219.00	447.50	362.50
	8	746.00	716.00	580.00
	10	896.00	1,029.25	833.75
	12	1,076.00	1,521.50	1,232.50

Volumetric Surcharge

Water Revenue Stability Reserve Fund Surcharge	Charge per <u>1,000 Gals. (2)</u>
	\$0.12

Residential Monthly Tiered Minimum Charge

0 – 2,000 Gallons	Min. Charge <u>Per Month (3)</u>
2,001 – 6,000 Gallons	\$ 2.00
6,001 – 11,000 Gallons	4.50
11,001 – 20,000 Gallons	7.45
20,001 – Over Gallons	12.55

Large Volume Fixed Minimum Charge

Freescale	Min. Charge <u>Per Month (4)</u>
Hospira	\$ 39,500.00
Samsung	5,100.00
Sematech	104,000.00
Spansion	4,400.00
University of Texas	24,800.00
	20,800.00

- (1) Charge is applied to all customer classes.
- (2) Fee is charged to all water customers per 1,000 gallons of water billed for the billing period to fund the Revenue Stability Reserve Fund.
- (3) Fee is charged in addition to the Retail Equivalent Meter Charge and is applied based on the total billed consumption for the billing period as it falls within the rate block, not as a volumetric charge per 1,000 gallons.
- (4) Fee is charged in addition to the Retail Equivalent Meter Charge.

Source: Austin Water Utility.

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Volume Unit Charge (1)

	<u>Charge per 1,000 Gals.</u>
Single-Family Residential (2)	
0 – 2,000 Gallons	\$ 1.25
2,001 – 6,000 Gallons	2.80
6,001 – 11,000 Gallons	5.60
11,001 – 20,000 Gallons	9.40
20,001 – Over Gallons	12.25
Multifamily (3)	
Off Peak	\$ 3.99
Peak	4.40
Commercial (3)	
Off Peak	\$ 4.73
Peak	5.22
Large Volume (3)	
Freescala	
Off Peak	\$ 3.88
Peak	4.28
Hospira	
Off Peak	\$ 4.69
Peak	5.17
Samsung	
Off Peak	\$ 3.83
Peak	4.23
Sematech	
Off Peak	\$ 4.03
Peak	4.44
Spancion	
Off Peak	\$ 3.93
Peak	4.34
University of Texas	
Off Peak	\$ 4.73
Peak	5.22

(1) Wholesale unit charges vary between \$3.21 and \$7.14 for each 1,000 gallons.

(2) The City has approved an inclining block rate structure to promote water conservation for Single Family Residential customers. These rates will be administered on the basis of 100 gallon increments.

(3) Off Peak (November 1 – June 30 Bills). Peak (July 1 – October 31 Bills).

Source: Austin Water Utility.

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Wastewater Service Rates Effective November 1, 2012 – TABLE FIFTEEN

Customer Account Charge

Customer Account Charge (\$/month)	<u>Retail Customers</u> \$10.00	<u>Wholesale Customers</u> \$10.00
------------------------------------	------------------------------------	---------------------------------------

Volume Unit Charge (1)

	<u>Unit Cost per 1,000 Gallons (2)</u>
Retail	
Single-Family	
0 - 2,000 Gallons	\$4.31
2,001 - Over Gallons	8.92
Multifamily	\$8.21
Commercial	\$8.23
Large Volume:	
Freescale	\$7.67
Hospira	8.01
Samsung	6.93
Sematech	7.19
Spansion	7.06
University of Texas	8.21

(1) Wholesale unit charges vary between \$3.88 and \$5.52 for each 1,000 gallons.

(2) Applied to average water consumption during December, January and February billing periods, or actual water consumption, whichever is lower.

Source: Austin Water Utility.

The water and wastewater minimum charge and volumetric service rates effective February 1, 2013 and November 1, 2012, respectively, reflect a 5.5% increase over the rates charged in the prior year. Including the Water Revenue Stability Reserve Fund Surcharge (see “Water Service Rates – TABLE FOURTEEN” above), the water and wastewater service rates reflect a 6.3% increase over the rates charged in the prior year.

Wholesale Rate Challenge

On April 12, 2013, four of Austin Water’s eighteen wholesale water customers submitted a water rate petition challenging the City’s wholesale water rates to the Texas Commission on Environmental Quality (TCEQ). In their Petition, the four wholesale customers (North Austin MUD, Northtown MUD, Travis County Water Control and Improvement District WCID #10 (Westlake), and Wells Branch MUD) allege that the City’s wholesale rates are not just or reasonable. The Petition alleges the new rates disproportionately increase the monthly fixed charges; collect for costs unrelated to water service; discourage conservation; and unfairly burden commercial and large volume customers. The Petition also asks the TCEQ to set interim rates while the appeal is pending. The TCEQ has reviewed the Petition and has recommended referral to the State Office of Administrative Hearings (SOAH). The rate appeal process could take approximately a year.

The four wholesale water customers represent \$8.3 million or 3.1% of the \$268.6 million annual water revenue. Additionally, the Petition only challenges a small portion of their revenue or how Austin Water has designed its rates, and therefore would not be a significant revenue impact to Austin Water if the appeal was upheld.

Water and Wastewater Capital Recovery Fees

On September 3, 1982, the City Council adopted an ordinance under which all new non-industrial and non-commercial customers of the Water and Wastewater System must pay a Capital Recovery Fee at the time that the customer’s new tap

is purchased. The fee has been revised a number of times since that date and is currently applied to all connections added to the Water and Wastewater System unless expressly waived by the City Council. In 1989, the City Council appointed an Impact Fee Advisory Committee and reauthorized the Capital Recovery Fee in compliance with procedures and methodology established by State law. The total Water and Wastewater Capital Recovery Fee was implemented August 5, 1999 and revised effective October 1, 2007. The revised fees are shown below. There are a number of express exemptions from payment of these fees. The City's policy is to use Capital Recovery Fee receipts to either service debt, defease debt or finance growth-related capital improvement projects, thus reducing the amount required to be debt financed and saving the Water and Wastewater System the related financing costs. The fees listed below are based on one service unit (5/8" meter).

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Drinking Water Protection Zone in the City's extraterritorial jurisdiction	\$2,500	\$1,400	\$3,900
Drinking Water Protection Zone in the City limits	2,200	1,200	3,400
Desired Development Zone in the City's extraterritorial jurisdiction	1,800	1,000	2,800
Desired Development Zone in the City limits	1,000	600	1,600
Urban watersheds	800	500	1,300
Central urban redevelopment combining district area and the area bounded by Lady Bird Lake, Lamar Boulevard, 15 th Street, and IH-35	700	400	1,100
Outside of Austin extraterritorial jurisdiction	2,500	1,400	3,900

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Analysis of Water Bills - TABLE SIXTEEN A

	Fiscal Year Ended September 30				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>Average Monthly Bill Per Customer - Water</u>					
Residential *	\$ 32.28	\$ 37.23	\$ 29.52	\$ 46.56	\$ 45.04
Multifamily *	450.56	497.19	484.96	554.14	591.68
Commercial *	267.71	285.78	240.56	302.33	303.72
Large Volume	133,215.70	137,990.95	128,925.24	187,302.62	216,445.74
City Departments	559.07	665.31	504.56	697.92	738.96
Average Monthly Bill – Above Customers	\$ 67.42	\$ 74.48	\$ 63.07	\$ 86.42	\$ 87.09
Sales to Other Water Utilities **	\$ 49,534.41	\$ 50,551.73	\$ 41,007.04	\$ 55,663.29	\$ 55,877.81
Average Monthly Bill – All Customers	\$ 71.58	\$ 78.84	\$ 66.58	\$ 91.14	\$ 91.80
<u>Average Monthly Use in 1,000 Gallons – Water</u>					
Residential *	8.35	8.78	6.76	8.81	7.62
Multifamily *	133.53	133.11	124.29	133.75	126.46
Commercial *	64.11	62.23	48.23	60.14	54.87
Large Volume	36,920.25	34,837.35	30,260.52	41,983.88	45,339.01
City Departments	197.55	200.44	179.61	201.22	124.96
Average Monthly Use – Above Customers	17.75	17.82	14.51	17.75	15.96
Sales to Other Water Utilities **	18,489.52	16,781.03	12,772.62	16,270.57	14,634.11
Average Monthly Use – All Customers	19.30	19.27	15.61	19.13	17.20
<u>Average Revenue Per 1,000 Gallons – Water</u>					
Residential *	\$3.87	\$4.24	\$4.37	\$5.28	\$5.91
Multifamily *	3.37	3.74	3.90	4.14	4.68
Commercial *	4.17	4.59	4.99	5.03	5.54
Large Volume	3.61	4.01	4.26	4.46	4.77
City Departments	2.83	3.32	2.81	3.47	5.91
Average Revenue – Above Customers	\$3.80	\$4.18	\$4.35	\$4.87	\$5.46
Sales to Other Water Utilities **	\$2.68	\$3.01	\$3.21	\$3.42	\$3.82
Average Revenue – All Customers	\$3.71	\$4.09	\$4.27	\$4.76	\$5.34

*Rural & Urban (Inside & Outside City) customers combined.

**Includes all Wholesale customers.

Source: Austin Water Utility.

Analysis of Wastewater Bills - TABLE SIXTEEN B

	Fiscal Year Ended September 30				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>Average Monthly Bill Per Customer – Wastewater</u>					
Residential *	\$ 33.08	\$ 36.22	\$ 32.49	\$ 35.16	\$ 36.79
Multifamily *	715.29	749.26	800.32	847.28	895.83
Commercial *	319.00	333.47	314.11	322.84	350.13
Large Volume	160,122.61	155,973.46	144,699.09	196,261.93	219,013.24
City Departments	218.13	365.15	470.68	371.53	352.98
<u>Average Monthly Bill – Above Customers</u>	\$ 74.50	\$ 78.34	\$ 74.65	\$ 79.46	\$ 83.42
Sales to Other Utilities **	\$ 44,450.94	\$ 49,907.13	\$ 49,409.22	\$ 49,363.10	\$ 50,635.47
Average Monthly Bill – All Customers	\$ 76.85	\$ 80.89	\$ 77.15	\$ 81.94	\$ 85.94
<u>Average Monthly Use in 1,000 Gallons – Wastewater</u>					
Residential *	4.63	4.85	4.16	4.28	4.33
Multifamily *	112.76	112.37	110.10	112.22	115.40
Commercial *	46.63	45.20	41.66	42.47	43.78
Large Volume	25,903.39	23,946.17	22,123.58	29,344.27	31,493.39
City Departments	30.87	51.30	59.61	47.05	45.07
Average Monthly Use – Above Customers	11.02	10.96	9.97	10.26	10.39
Sales to Other Utilities **	9,708.18	10,182.46	10,334.83	9,911.86	9,868.40
Average Monthly Use – All Customers	11.53	11.48	10.49	10.76	10.88
<u>Average Revenue Per 1,000 Gallons – Wastewater</u>					
Residential *	\$7.15	\$7.47	\$7.81	\$8.21	\$8.50
Multifamily *	6.34	6.67	7.27	7.55	7.76
Commercial *	6.84	7.38	7.54	7.60	8.00
Large Volume	6.18	6.51	6.54	6.69	6.95
City Departments	7.07	7.12	8.27	7.90	7.83
Average Revenue – Above Customers	\$6.76	\$7.15	\$7.49	\$7.74	\$8.03
Sales to Other Utilities **	\$4.58	\$4.90	\$4.78	\$4.98	\$5.13
Average Revenue – All Customers	\$6.67	\$7.05	\$7.35	\$7.61	\$7.90

*Rural & Urban (Inside & Outside City) customers combined.

**Includes all Wholesale customers.

Source: Austin Water Utility.

**THE ELECTRIC UTILITY SYSTEM
“AUSTIN ENERGY”**

Management (as of March 31, 2013)

	<u>Years at City</u>	<u>Additional Years of Experience</u>	<u>Total</u>
General Manager			
Larry Weis	2.0	29.0	31.0
Deputy General Managers			
Cheryl Mele, PE, <i>Chief Operating Officer</i>	21.0	5.0	26.0
Kerry Overton, <i>Chief Administrative Officer</i>	13.0	11.0	24.0
Senior Vice President			
Ann Little, CPA, <i>Finance and Corporate Services</i>	13.0	18.0	31.0
Vice Presidents			
David Wood, PE, <i>Power Supply and Market Operations</i>	20.0	7.0	27.0
Jerry Hernandez, PE, <i>Electric Service Delivery</i>	20.0	10.0	30.0
Debbie Kimberly, <i>Distributed Energy Services</i>	0.5	30.0	30.5
Jawana Gutierrez, PMP, <i>Customer Care</i>	21.0	5.0	26.0
Mark Dreyfus, Ph.D., <i>Regulatory Affairs and Corporate Communications</i>	13.0	12.0	<u>25.0</u>
Executive Team Years of Experience			<u>250.5</u>

A new governance model for the management of Austin Energy is currently being studied and reviewed by the City Council.

Service Area

The service area for Austin Energy was established by the Public Utility Commission of Texas (“PUCT”) pursuant to a certificate of convenience and necessity on April 3, 1978. The City’s service area encompasses 206.41 square miles within the City itself and 230.65 square miles of surrounding Travis and Williamson Counties. The establishment of such a service area entitles Austin Energy to provide electric service within this area. As presently constituted, the City’s service area overlaps with approximately 11 square miles of the service area of ONCOR Electric Delivery in Travis and Williamson Counties.

The City may not extend the service area for Austin Energy to an area receiving similar utility service from another utility service provider without first obtaining a certificate of convenience and necessity from the PUCT. The City has no plans to expand its present service area.

Real Estate Taxes

Austin Energy pays no real property taxes on facilities inside or outside the City, nor payments in lieu of taxes with respect to Austin Energy.

Customer Base – Average Monthly Number of Customers

<u>For 12 Month Period ended September 30, 2012</u>	<u>Average Monthly Number of Customers</u>	<u>Percent</u>
Residential	376,614	89.17%
Commercial	44,006	10.42%
Industrial	82	0.02%
Public Street & Highway	4	0.00%
Governmental Authorities	<u>1,664</u>	<u>0.39%</u>
Total Service Area Customers	<u>422,370</u>	<u>100.00%</u>

Source: Austin Energy.

Physical Property

The City either owns or has an ownership interest in a diverse mix of generation sources, including coal, nuclear and natural gas facilities. In addition, Austin Energy has renewable energy installations or contracts for purchased power from wind, landfill methane, and biomass projects. See “DESCRIPTION OF PHYSICAL PROPERTY” and “STRATEGIC PLANS, GOALS AND POLICIES – Austin Energy Resource, Generation and Climate Protection Plan to 2020” in this document.

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Generation Facilities– TABLE ONE

As of September 30, 2012, generation facilities wholly or partially owned by Austin Energy are as follows.

<u>Unit</u>	<u>Year Installed</u>	<u>Nameplate Rating (MW)</u>	<u>Fuel</u>
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	321.0	Gas
Unit No. 2	1977	405.0	Gas
Gas Turbines	1988	200.0	Gas
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Gas Turbines	2010	90.0	Gas
Combined Cycle	2004	300.0	Gas
MEC CHP (Dell Children’s Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	<u>200.0</u>	Nuclear
Total Capacity owned by Austin Energy		2,470.6	
Purchased Power (1)(2):			
LCRA Texas Wind Contract	1995	10.0	Wind
FPL Energy Upton Wind I, LP	1999-2001	76.7	Wind
RES North America Sweetwater Wind	2005	126.0	Wind
Whirlwind Energy LLC	2007	59.8	Wind
Hackberry Wind LLC	2008	165.6	Wind
Penascal Wind Power/Penascal II Wind Project	2011	195.6	Wind
Gemini Solar Development Co LLC	2011	30.0	Solar
Gas Recovery System, LLC	1994-2003	4.0	Landfill Methane
Ecogas Inc. and Energy Developments, Inc	2002-2003	7.8	Landfill Methane
Nacogdoches Power LLC	2012	<u>100.0</u>	Biomass
		<u>775.5</u>	
Total Capacity including Purchased Power		3,246.1	

(1) The City has also signed contracts to purchase electric energy to be provided in future years. See “CUSTOMER STATISTICS - Power and Energy Purchase Contracts” in this document.

(2) Purchased power portfolio is comprised of 100% renewable energy.

Source: Austin Energy.

See “CUSTOMER STATISTICS - Generation and Use Data - TABLE FOUR - System Peak Demand” in this document for more information on peak demand and generation capacity. Generation capacity is adequate to meet native load. Based on historical availability patterns, the Electric Reliability Council of Texas (“ERCOT”) currently expects that only 8.7% of wind facilities’ nameplate ratings will be included in capacity requirements to meet system peak demand.

Fuel Supply

The cost and availability of fuel are two of the factors that affect Austin Energy's finances. Fuel mix percentages (based on generation) by fuel type are provided below.

<u>Fuel Type</u>	Percentage of Generation As of September 30,				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Coal	33.2%	28.3%	33.3%	28.9%	27.0%
Natural Gas & Oil	25.7%	26.5%	25.9%	25.8%	20.5%
Nuclear	27.1%	26.4%	23.0%	21.3%	21.9%
Renewable Energy	6.1%	9.5%	10.0%	9.5%	14.9%
Purchased Power	<u>7.9%</u>	<u>9.3%</u>	<u>7.8%</u>	<u>14.5%</u>	<u>15.7%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Austin Energy.

Fuel Type

Coal . . . Coal supply and rail transportation are procured through a portfolio of contracts designed to minimize cost. Typically, several weeks of coal inventory are maintained to protect against disruptions. Coal inventories are managed within targeted ranges, and depending on the efficiency of railroad performance, train sets are either removed from or added to service to maintain desired inventory levels. Austin Energy's coal inventory was 96 days at April 15, 2013.

Natural Gas . . . Austin Energy utilizes a portfolio of gas contracts and multiple pipelines in an effort to diversify risk and minimize cost.

Nuclear . . . The South Texas Project Nuclear Operating Company ("STPNOC"), on behalf of the owners of the South Texas Project (see "DESCRIPTION OF PHYSICAL PROPERTY - South Texas Project Electric Generating Station" in this document), is responsible for the supply of nuclear fuel and for the disposal of spent fuel for the South Texas Project Electric Generating Station ("STP"). Volatility in uranium prices and a number of industry-wide challenges to security of supply in the past few years have led to decisions to enter into long-term supply contracts and to carry a full reload of natural uranium hexafluoride.

DESCRIPTION OF PHYSICAL PROPERTY

Fayette Power Project

The Fayette Power Project ("FPP") is a power project co-owned by the LCRA and Austin Energy. Austin Energy is a 50% owner in Units 1 and 2 of the Fayette Power Project. A third unit, also at the facility, is 100% owned by LCRA. Pursuant to the Participation Agreement (between the City of Austin and LCRA), LCRA was appointed Project Manager and a Management Committee was established, supported by five Subcommittees (Environmental, Fiscal/Budget, Fuels, Water and Technical) composed of representatives from each participant to direct the operation of the project. The FPP is a 7,500 acre site located 8½ miles east of LaGrange, Texas, which is approximately 65 miles southeast of the City.

FPP installed scrubbers on Units 1 and 2 in 2011 to meet SO2 permit levels and to help meet limits of air toxics in the recently finalized federal Mercury and Air Toxics Standards (MATS) rules. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Regulation Related to Air Emissions – Mercury and Air Toxics Standards (MATS)" in this document. Austin Energy's share of the final cost is \$197 million. The scrubbers, in combination with other existing control equipment, are expected to help the facility meet the majority of the MATS limits; however, some smaller scale add-on enhancements will likely be required to meet the mercury limits before the 2015 compliance deadline, at a projected cost of approximately \$8 million for Austin Energy. For additional information regarding the FPP, see "STRATEGIC PLANS, GOALS AND POLICIES - Goals Summary" in this document.

Austin Energy Gas Generation Facilities

Austin Energy owns four gas generation facilities located in Austin Energy's service territory.

Decker Power Plant consists of two large steam-boiler units, Decker 1 and Decker 2, placed in service in 1970 and 1977, respectively. The plant also includes four Pratt and Whitney aeroderivative gas turbines placed into service in 1988. The Decker plant is served by two natural gas pipelines.

Austin Energy began commercial operation of a 300 MW combined cycle gas-fired electric generating facility at the Sand Hill Energy Center on September 1, 2004. The "one-on-one" combined cycle unit consists of one (1) "F" class combustion turbine ("CT"), one (1) natural circulation, duct fired, heat recovery steam generator ("HRSG"), and one (1) steam turbine and balance of plant equipment and controls. The unit was designed so that a future "F" technology CT/HRSG train may be added to achieve a nominal rating of 500 MW for this power block. In summer 2010, two General Electric LM6000 aeroderivative gas turbines were placed into service at the Sand Hill Energy Center. The two new units (45 MW each) are similar to the four existing peaking units installed at Sand Hill in 2001. The plant is served by three natural gas pipelines.

In July 2006, Austin Energy added electric generation at a central utility plant located at the redevelopment site of the former Robert Mueller Airport. The plant is a tri-generation facility producing steam, chilled water and power for adjacent buildings. Excess electric power generated at the facility is sent to the electric grid. The electric power is produced by a gas turbine rated at 4.6 MW. The gas turbine exhaust passes through a heat recovery steam generator producing steam for use by an adjoining hospital and/or in an absorption chiller. A 1.5 MW standby diesel generator provides the plant with "Black Start" capability. The plant is served by one natural gas pipeline.

South Texas Project Electric Generating Station

STP is a two-unit pressurized water reactor nuclear power plant system that produces 2,700 megawatts of electricity. It is located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles southeast of Austin, Texas. On August 29, 2012, Dennis Koehl was announced as the new CEO and Chief Nuclear Officer. Mr. Koehl, a former Xcel Energy Inc. Sr. Vice President, assumed this new position on October 15, 2012.

South Texas Project Ownership

STP is a two-unit nuclear power plant with Unit 1 and Unit 2 (or Units 1 and 2) having a nominal output of approximately 1,350 MW each. Participant Ownership ("Participants") in STP Units 1 and 2 and their percentage of ownership are as follows:

	Ownership	
	Effective February 2, 2006 (1)	
	<u>%</u>	<u>MW (Approximate)</u>
NRG Energy ("NRG")	44.0	1,188
CPS Energy (City of San Antonio)	40.0	1,080
City of Austin – Austin Energy	<u>16.0</u>	<u>432</u>
	<u>100.0</u>	<u>2,700</u>

(1) In 2006, Texas Genco, holder of a 44% interest in STP, was acquired by NRG Energy, Inc. NRG Energy holds its interest in STP Units 1 and 2 in NRG South Texas LP.

STP is operated by STPNOC, financed and directed by the Participants pursuant to an operating agreement among the Participants and STPNOC. Currently, a four-member board of directors governs the STPNOC, with each of the three Participants appointing one member to serve. The fourth member is STPNOC's chief executive officer and president. All costs and generation output are shared in proportion to each Participant's interest.

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission ("NRC") license that expires in 2027 and 2028, respectively. Under NRC regulations, the STP owners can request a 20-year license renewal. The STP license renewal project process is underway for Units 1 and 2. NRC review of the license renewal application is proceeding on schedule and with no significant challenges. Three hundred requests for additional information were received from the NRC.

The NRC is presently preparing draft Supplemental Environmental Impact Statements in support of the new extended license. Contention petitions were denied and are now closed. While the process for licensing new and existing plants will move forward, the NRC has voted that no final licensing decisions will be made until burial waste issues are resolved.

On November 13, 2008, NRG South Texas LP, one of the STP partners, provided Austin Energy with notice of an updated proposal to add Units 3 and 4 at the South Texas Project site. The City had the right to participate in the ownership of the proposed new units, up to its existing 16 percent share of the South Texas Project. Austin Energy evaluated the City's ownership option and provided City Council with an analysis on which to base a decision. The City Council elected to decline participation in this expansion as currently proposed.

Low Pressure turbine upgrades were completed in 2007 for Units 1 and 2. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy's share is 21.9 MW. A major capital project was the replacement of reactor vessel heads in 2009 and 2010 as a proactive move to eliminate reactor head corrosion issues found throughout the industry and reported at other facilities.

CUSTOMER RATES

Retail Service Rates

The City Council has original jurisdiction over Austin Energy's retail electric rates. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act (Texas Utilities Code, Chapter 33, "PURA") by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City's corporate limits.

State courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction. See "CUSTOMER STATISTICS - Electric Rates - TABLE THREE" in this document for the current Electric Utility System rates by customer class.

In June 2012, following an 18-year period with no change in its base electric rates, City Council approved a system average 7% rate increase for Austin Energy which was reflected on electric bills beginning in October 2012. The increase is anticipated to provide Austin Energy an additional \$71 million in base revenue annually and an additional \$21 million in 2015 from long-term contract customers. The City Council plans to further assess rate adjustment needs in 2014-2015. After this review, it is expected that rates will be reviewed at least every five years. The City Council reaffirmed that future rate increases should not exceed 2% per year and that Austin Energy rates remain in the lower 50% among Texas electric utilities. The rates approved by the Austin City Council also include several line item charges that can change annually. The initial level of these changes for residential customers is shown below:

- Power Supply Adjustment (currently the Fuel Charge): recovers dollar-for-dollar fuel and power supply costs.
- Regulatory Charge: recovers dollar-for-dollar Austin Energy's retail transmission expense and other regulatory expenses, such as environmental costs.
- Customer Assistance: residential customers living inside the City will pay \$1.72 per 1,000 kWh to fund utility bill discounts for low income customers (will more than double the number of customers assisted annually to 25,000). Residential customers living outside the City will pay \$1.18 per 1,000 kWh. All commercial customers will pay \$0.65 per 1,000 kWh.
- Service Area Streetlights: 93 cents per 1,000 kWh to maintain and power the streetlights and traffic signals in the City will be charged to customers living inside the city limits of the City.
- Energy Efficiency Services: \$2.89 per 1,000 kWh for energy efficiency programs, the least expensive offset to new generation.

New *residential* rates and structure: Based on current usage, summer electric bills would increase by less than \$10 per month for the smallest users and between \$13 and \$24 per month for average users. Based on current usage, winter electric bills would increase by less than \$7 a month for small and average energy users. The average increase for residential customers is about 14%. A new 5-tier inclining base rate structure provides customers who strive for greater energy efficiency and conservation the opportunity to keep their kWh costs at or very close to levels currently paid.

New *commercial* rates: The increase in base electric rates (Energy Charge and Demand Charge) for commercial customers ranges from 1% to 18%. Very large customers would generally experience a smaller increase because they receive power at a very high voltage and own and operate the equipment (transformers) that steps the voltage down to the proper level for their facilities.

New *industrial* rates: While new industrial rates were approved by City Council, all current industrial customers have signed contracts which are set to expire in 2015. The new approved rates would have resulted in an additional \$21 million base revenue increase had the contracts not been in place.

Residential ratepayers taking service outside the City's corporate limits appealed the rate change to the PUCT (PUC Docket No. 40627). The parties to the appeal signed a settlement agreement on March 22, 2013, and the settlement was approved by the PUCT on April 29, 2013. The settlement sets rates for the outside City customers which are to be effective June 1, 2013 (see TABLE THREE for these rates).

Fuel Adjustment Clause

The City assesses an annually updated Fuel Adjustment Clause charge based on a formula designed to recover the actual cost of fuel, purchased power, and wholesale fees and charges to meet the City's service area obligations. The intent of the fuel formula is to avoid any over or under recovery of costs associated with fuel. This charge was replaced by the Power Supply Adjustment for the vast majority of customers in October 2012. Only customers under contract through May of 2015 will continue to be assessed the Fuel Adjustment Clause.

Typical Residential Electric Bills of Large Texas Cities

<u>City</u>	<u>Electric Bill</u>
San Antonio	\$ 92.24
AUSTIN	94.19
Corpus Christi	106.39
Dallas/Fort Worth	95.27
Houston	103.13
El Paso	115.25

*Average residential bill for 1,000 KWh during the period September 2011 to August 2012, including fuel costs. The cities shown, other than Austin and San Antonio, are served by competitive retail service providers.

Source: Public Utility Commission of Texas and powertochoose.org.

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CUSTOMER STATISTICS

Five Year Electric Customer Statistics – TABLE TWO

TABLE TWO shows service area billed customer sales since the fiscal year ended September 30, 2008. The revenue per year varies in large degree due to the price of fuel which is passed through to customers in the fuel adjustment clause as stated above. MWH sales variances are due to a combination of customer growth and weather.

	Fiscal Year Ended September 30				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>Revenue (000's)</u>					
Residential	\$ 416,809	\$ 406,393	\$ 407,074	\$ 457,263	\$ 422,195
Commercial	408,808	402,032	409,952	433,887	409,330
Industrial	138,901	132,792	122,714	145,553	158,727
Public Street & Highway	8,403	8,430	8,515	8,591	7,881
Sales to Government Authorities	<u>86,069</u>	<u>82,751</u>	<u>81,875</u>	<u>85,447</u>	<u>83,476</u>
Total	<u>\$1,058,990</u>	<u>\$1,032,398</u>	<u>\$1,030,130</u>	<u>\$1,130,741</u>	<u>\$1,081,609</u>
<u>MWH</u>					
Residential	4,220,598	4,218,600	4,238,690	4,561,858	4,381,194
Commercial	4,534,964	4,480,902	4,553,866	4,675,615	4,633,557
Industrial	2,233,505	2,218,315	2,038,706	2,342,538	2,648,487
Public Street & Highway	47,690	47,831	48,078	48,327	46,949
Sales to Government Authorities	<u>1,147,483</u>	<u>1,137,492</u>	<u>1,096,986</u>	<u>1,094,965</u>	<u>1,005,961</u>
Total	<u>12,184,240</u>	<u>12,103,140</u>	<u>11,976,326</u>	<u>12,723,303</u>	<u>12,716,148</u>
<u>Average Monthly Number of Customers</u>					
Residential	352,574	363,217	368,700	372,329	376,614
Commercial	42,585	43,050	43,489	43,814	44,006
Industrial	79	80	80	82	82
Public Street & Highway	4	4	4	4	4
Sales to Government Authorities	<u>1,549</u>	<u>1,575</u>	<u>1,597</u>	<u>1,636</u>	<u>1,664</u>
Total	<u>396,791</u>	<u>407,926</u>	<u>413,870</u>	<u>417,865</u>	<u>422,370</u>
<u>Average Monthly KWH per Customer</u>					
Residential	998	968	958	1,021	969
Commercial	8,874	8,674	8,726	8,893	8,774
Industrial	2,356,018	2,310,745	2,123,652	2,383,535	2,691,551
Public Street & Highway	993,542	996,479	1,001,625	936,570	958,137
Sales to Government Authorities	<u>61,732</u>	<u>60,192</u>	<u>57,242</u>	<u>55,771</u>	<u>50,381</u>
<u>Average Monthly Bill per Customer</u>					
Residential	\$ 98.52	\$ 93.24	\$ 92.01	\$ 102.34	\$ 93.42
Commercial	799.98	778.23	785.55	825.25	775.14
Industrial	146,520.04	138,325.00	127,827.08	148,100.33	161,308.06
Public Street & Highway	175,062.50	175,625.00	177,395.83	166,492.25	160,832.96
Sales to Government Authorities	<u>4,630.35</u>	<u>4,378.92</u>	<u>4,272.33</u>	<u>4,352.17</u>	<u>4,180.69</u>
<u>Average Revenues per KWH</u>					
Residential	\$0.09876	\$0.09633	\$0.09604	\$0.10024	\$0.09637
Commercial	0.09015	0.08972	0.09002	0.09280	0.08834
Industrial	0.06219	0.05986	0.06019	0.06213	0.05993
Public Street & Highway	0.17620	0.17625	0.17711	0.17777	0.16786
Sales to Government Authorities	<u>0.07501</u>	<u>0.07275</u>	<u>0.07464</u>	<u>0.07804</u>	<u>0.08298</u>

Source: Austin Energy.

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Electric Rates – TABLE THREE

Inside City of Austin rates were effective October 1, 2012. Outside City of Austin Rates are effective June 1, 2013.

Residential Electric Rates - Inside City of Austin

<u>Customer Classification</u>	<u>Customer Charge</u>	<u>kWh Tier</u>	<u>Energy Charge (\$/kWh)</u>		<u>Power Supply Adjustment (\$/kWh)</u>	<u>Regulatory Charge (\$/kWh)</u>	<u>Community Benefit Charge (\$/kWh)</u>
			<u>Jun-Sep</u>	<u>Oct-May</u>			
Residential	\$10.00	0-500 kWh	\$0.03300	\$0.01800	Varies	\$0.00728	\$0.00554
		501-1000 kWh	\$0.08000	\$0.05600			
		1001-1500 kWh	\$0.09100	\$0.07200			
		1501-2500 kWh	\$0.11000	\$0.08400			
		Additional kWh	\$0.11400	\$0.09600			

Residential Electric Rates - Outside City of Austin

<u>Customer Classification</u>	<u>Customer Charge</u>	<u>kWh Tier</u>	<u>Energy Charge (\$/kWh)</u>		<u>Power Supply Adjustment (\$/kWh)</u>	<u>Regulatory Charge (\$/kWh)</u>	<u>Community Benefit Charge (\$/kWh)</u>
			<u>Jun-Sep</u>	<u>Oct-May</u>			
Residential	\$10.00	0-500 kWh	\$0.03750	\$0.01800	Varies	\$0.00728	\$0.00407
		501-1000 kWh	\$0.08000	\$0.05600			
		1001-1500 kWh	\$0.09325	\$0.07170			
		1501-2500 kWh	\$0.09325	\$0.07170			
		Additional kWh	\$0.09325	\$0.07170			

Commercial Electric Rates - Inside City of Austin

<u>Classification</u>	<u>Customer Charge</u>	<u>Delivery Charge</u>	<u>Demand Charge (\$/kW)</u>		<u>Energy Charge (\$/kWh)</u>		<u>Power Supply Adjustment (\$/kWh)</u>	<u>Regulatory Charge</u>	<u>Community Benefit Charge (\$/kWh)</u>
			<u>Jun-Sep</u>	<u>Oct-May</u>	<u>Jun-Sep</u>	<u>Oct-May</u>			
Secondary < 10kW	\$18.00	NA	NA	NA	\$0.06198	\$0.04598	Varies	\$0.00711/kWh	\$0.00461
Secondary ≥ 10 < 50 kW	\$25.00	\$4.00	\$6.15	\$5.15	\$0.02914	\$0.02414	Varies	\$2.47/kW	\$0.00379
Secondary ≥ 50 kW	\$65.00	\$4.50	\$7.85	\$6.85	\$0.02247	\$0.01747	Varies	\$2.59/kW	\$0.00346
Primary < 3 MW	\$250.00	\$2.50	\$10.00	\$9.00	\$0.01263	\$0.00763	Varies	\$2.28/kW	\$0.00305
Primary ≥ 3 < 20 MW	\$2,000.00	\$3.50	\$11.25	\$10.25	\$0.01265	\$0.00765	Varies	\$2.92/kW	\$0.00288
Primary ≥ 20 MW	\$2,500.00	\$3.50	\$12.00	\$11.00	\$0.00760	\$0.00260	Varies	\$2.91/kW	\$0.00274
Transmission	\$2,500.00	NA	\$12.00	\$11.00	\$0.00815	\$0.00615	Varies	\$2.48/kW	\$0.00251

Commercial Electric Rates - Outside City of Austin

<u>Classification</u>	<u>Customer Charge</u>	<u>Delivery Charge</u>	<u>Demand Charge (\$/kW)</u>		<u>Energy Charge (\$/kWh)</u>		<u>Power Supply Adjustment (\$/kWh)</u>	<u>Regulatory Charge</u>	<u>Community Benefit Charge (\$/kWh)</u>
			<u>Jun-Sep</u>	<u>Oct-May</u>	<u>Jun-Sep</u>	<u>Oct-May</u>			
Secondary < 10kW	\$18.00	NA	NA	NA	\$0.06198	\$0.04598	Varies	\$0.00711/kWh	\$0.00365
Secondary ≥ 10 < 50 kW	\$25.00	\$3.98	\$6.11	\$5.12	\$0.02896	\$0.02399	Varies	\$2.47/kW	\$0.00303
Secondary ≥ 50 kW	\$65.00	\$4.47	\$7.81	\$6.81	\$0.02234	\$0.01737	Varies	\$2.59/kW	\$0.00278
Primary < 3 MW	\$236.00	\$2.36	\$9.44	\$8.44	\$0.01192	\$0.00720	Varies	\$2.28/kW	\$0.00247
Primary ≥ 3 < 20 MW	\$1,872.00	\$3.28	\$10.53	\$9.53	\$0.01184	\$0.00716	Varies	\$2.92/kW	\$0.00234
Primary ≥ 20 MW	\$2,500.00	\$3.50	\$12.00	\$11.00	\$0.00760	\$0.00260	Varies	\$2.91/kW	\$0.00223
Transmission	\$2,500.00	NA	\$12.00	\$11.00	\$0.00815	\$0.00615	Varies	\$2.48/kW	\$0.00206

Source: Austin Energy.

Lighting Rates

<u>Customer Classification</u>	<u>Customer Charge</u>	<u>Energy Charge (\$/kWh)</u>		<u>Power Supply Adjustment</u>	<u>Regulatory Charge</u>	<u>Community Benefit Charge (Inside COA) (\$/kWh)</u>	<u>Community Benefit Charge (Outside COA) (\$/kWh)</u>
Customer Owned Metered Lighting	\$15.00	\$0.06983	\$0.05483	Varies	\$0.00316	\$0.00146	\$0.00065
Customer Owned Non-Metered Lighting	NA	\$0.02604	\$0.02604	Varies	\$0.00094	\$0.00113	\$0.00065
	100 Watt	175 Watt	250 Watt				
	High Pressure	Mercury	High Pressure	400 Watt		Power Supply	
	<u>Sodium</u>	<u>Vapor</u>	<u>Sodium</u>	<u>Mercury Vapor</u>		<u>Adjustment (\$/kWh)</u>	
Security Lights	\$7.03	\$12.05	\$18.07	\$28.12		Varies	

Source: Austin Energy.

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Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On June 9, 2006, the PUCT approved the City's most recent wholesale transmission rate of \$1.002466/kW. Transmission revenues totaled \$63 million in fiscal year 2012 and are expected to total approximately \$63 million in fiscal year 2013. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

GreenChoice® Energy Rider

In March 2001, Austin Energy adopted a GreenChoice® Energy charge for renewable energy. Customers who subscribe to the GreenChoice program will pay, in lieu of the fuel adjustment factor, a renewable energy charge as determined by Austin Energy. Austin Energy's GreenChoice program has led all voluntary utility green-pricing programs in the nation in kilowatt-hours of renewable energy sold during its first decade of operation, as ranked by the National Renewable Energy Laboratory. Subscribers see the fuel charge on their electric bill replaced with a GreenChoice charge that remains fixed for 5 years or more, depending on the contracted renewable energy source. The GreenChoice program is Green-e certified. Green-e is the nation's leading independent consumer protection program for the sale of renewable energy and greenhouse gas reductions in the retail market.

Green Choice Sales (kWh) by Calendar Year

2003	235,478,890
2004	344,446,101
2005	434,040,739
2006	580,580,401
2007	577,636,840
2008	723,824,901
2009	764,895,830
2010	754,203,479
2011	698,703,263
2012	744,442,709

Power and Energy Sales Contracts

Austin Energy has numerous enabling agreements in place with various market participants. The agreements are designed to facilitate energy transactions by providing a standard agreement and may be cancelled by either party upon thirty (30) days' written notice. Any transactions are by mutual agreement; no party is obligated to offer, sell or buy energy under the agreements. Austin Energy is an active participant in the ERCOT wholesale power market. In December 2010, ERCOT commenced operation of a nodal or Locational Market Price (LMP) market. Under this structure, Austin Energy generators are economically dispatched based on their cost against total ERCOT load rather than Austin Energy load. All load is likewise served by the ERCOT centralized dispatch. Bilateral power purchase and sale contracts are unaffected by this change and remain a key feature of the market.

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Generation and Use Data – TABLE FOUR

	Fiscal Year Ended September 30									
	2008		2009		2010		2011		2012	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		11,446,861,000		10,780,499,000		10,275,574,000		10,142,406,000		9,060,948,000
kWh Received from ERCOT		2,067,170,000		2,763,237,000		2,832,001,000		3,433,333,000		4,299,061,000
Less: kWh Delivered to ERCOT		(355,061,000)		(401,123,000)		(390,666,000)		(184,992,000)		(155,105,000)
Less: kWh Delivered to Other Utilities		<u>(369,236,000)</u>		<u>(483,631,000)</u>		<u>(198,682,000)</u>		<u>(30,221,000)</u>		<u>(112,900,000)</u>
Total kWh Delivered to Service Area		<u>12,789,734,000</u>		<u>12,658,982,000</u>		<u>12,518,227,000</u>		<u>13,360,526,000</u>		<u>13,092,005,000</u>
Service Area Energy Use:										
Residential	352,574	4,226,036,265	363,217	4,218,600,234	368,700	4,238,690,401	372,329	4,561,857,688	376,614	4,381,193,546
General Service (Less UT & ENW)	<u>43,342</u>	<u>7,566,322,558</u>	<u>43,829</u>	<u>7,477,806,302</u>	<u>44,305</u>	<u>7,362,471,563</u>	<u>44,660</u>	<u>7,766,695,257</u>	<u>44,863</u>	<u>7,957,926,386</u>
	<u>395,916</u>	<u>11,792,358,823</u>	<u>407,046</u>	<u>11,696,406,536</u>	<u>413,005</u>	<u>11,601,161,964</u>	<u>416,989</u>	<u>12,328,552,945</u>	<u>421,477</u>	<u>12,339,119,932</u>
Public Street Lighting	4	35,142,877	4	47,830,865	4	48,077,910	4	48,327,221	4	46,948,693
City Utility Departments	179	210,643,582	187	214,401,264	177	189,961,003	235	219,180,770	191	198,728,570
Other City Departments	<u>690</u>	<u>133,769,398</u>	<u>688</u>	<u>130,345,139</u>	<u>683</u>	<u>123,407,724</u>	<u>636</u>	<u>113,612,914</u>	<u>697</u>	<u>117,686,130</u>
	<u>873</u>	<u>379,555,857</u>	<u>879</u>	<u>392,577,268</u>	<u>864</u>	<u>361,446,637</u>	<u>875</u>	<u>381,120,905</u>	<u>892</u>	<u>363,363,393</u>
Total Service Area Sales	396,789	12,171,914,680	407,925	12,088,983,804	413,869	11,962,608,601	417,864	12,709,673,850	422,369	12,702,483,325
Sales to UT & ENW (Nightwatchman)	1	14,124,875	1	14,156,478	1	13,717,834	1	13,629,431	1	13,662,906
Loss and Unaccounted For	<u> </u>	<u>603,694,445</u>	<u> </u>	<u>555,841,718</u>	<u> </u>	<u>541,900,565</u>	<u> </u>	<u>637,222,719</u>	<u> </u>	<u>375,857,769</u>
Total kWh Delivered to Service Area	<u>396,790</u>	<u>12,789,734,000</u>	<u>407,926</u>	<u>12,658,982,000</u>	<u>413,870</u>	<u>12,518,227,000</u>	<u>417,865</u>	<u>13,360,526,000</u>	<u>422,371</u>	<u>13,092,004,000</u>
System Peak Demand (kW)		2,514,000		2,602,000		2,628,000		2,714,000		2,702,000

Source: Austin Energy.

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Energy Risk Management

In an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy has established an Energy Risk Management Program. This program is authorized by the City Council with an \$800 million limit and is led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk over a five year time horizon. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. Austin Energy typically settles these contracts in cash.

The City implemented GASB Statement 53, Accounting and Financial Reporting for Derivative Instruments, in fiscal year 2010, which addresses the recognition, measurement, and disclosure related to derivative instruments. In accordance with GASB Statement No. 53, the City is required to report the fair value of all derivative instruments on the statement of net assets. In addition, GASB Statement No. 53 requires that all derivatives be categorized into two types – (1) hedging derivative instruments and (2) investment derivative instruments. Hedging derivative instruments significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of an associated hedgeable item. Investment derivative instruments are entered into primarily for income or profit purposes or they are derivative instruments that do not meet the criteria of an effective hedging derivative instrument. Changes in fair value of hedging derivative instruments are deferred on the statement of net assets; and changes in fair value of investment derivative instruments are recognized as gains or losses on the statement of activities.

Premiums paid for options are deferred until the contract is settled. As of September 30, 2012, \$4.6 million in premiums was deferred. As of September 30, 2012, the fair value of Austin Energy's futures, options, swaps, and congestion rights was an unrealized loss of \$71.1 million, of which \$79.7 million is reported as derivative instruments in liabilities and \$8.6 million is reported as derivative instruments in assets. The fair values of these derivative instruments are deferred until future periods on the balance sheet using deferred outflows and deferred inflows.

Further explanation and historical information at last fiscal year end can be found in the footnotes to the financial statements for the fiscal year ended September 30, 2012 (see APPENDIX B – “Annual Financial Report – Note 9a – Energy Risk Management Program”).

Power and Energy Purchase Contracts

The City has signed several long-term energy purchase agreements for conventional, wind, solar and landfill gas (methane) electric generation.

In December 1994, the City signed a 25-year contract with Alternative Power Limited Partnership (“APLP”) to purchase electric energy generated by APLP's 3-megawatt landfill gas plant in Austin. After dissolution of APLP in 2002, the seller of electric energy under the contract is now Gas Recovery Systems, LLC, the former general partner of APLP. Another megawatt of capacity was added in 2003, bringing the total capacity to 4 MW.

In March 1995, the City signed a 25-year contract with LCRA to purchase up to 10 MW of electric energy per year from the LCRA Texas Wind Power Project located in the Delaware Mountains east of El Paso. The project went into commercial operation in September 1995.

In December 1999, Austin Energy signed a 10-year contract to purchase the output of a 20 MW wind energy project built by Texas Wind Power Company (“Texas Wind”) in Upton County. Texas Wind assigned the contract to King Wind LP in December 1999. The original contract provided Austin Energy an option to agree to purchase an additional 78.4 MW of electricity from the project to be provided by an increase in the project capacity. In October 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and necessitating an increase in the project capacity by an additional 56.7 MW. In December 2000, King Wind LP assigned the contract to FPL Energy Upton Wind I, LP. The 76.7 MW wind farm began full-scale operation in September 2001. A fourth amendment was executed in July 29, 2011 to allow a contract extension through December 31, 2012. The contract terminated on January 9, 2013 in accordance with the terms of a fifth amendment which was signed December 27, 2012.

In December 1999, Austin Energy signed two contracts for the purchase of energy from landfill methane-recovery projects to be developed by Ecogas Inc. and Energy Developments, Inc. (“EDI”). Ecogas Inc. assigned its rights to

EDI in October 2000. In October 2002, EDI brought on the first 5.2 MW of landfill methane generation at its Tesson Road facilities located in San Antonio, Texas. Another 2.6 MW of landfill methane generation was added in 2003, bringing the total capacity to 7.8 MW.

In February 2005, Austin Energy began purchasing 91.5 MW of wind power from the Sweetwater Phase II wind project near Sweetwater, Texas under a 12-year contract. In December 2005, Austin Energy increased its purchase to a total of 126.0 MW with additional capacity from Sweetwater Phase III.

In September 2006, Austin Energy signed a 20-year contract with Renewable Energy Systems (“RES”) America Development, Inc. to purchase the output of a 59.8 MW wind energy project located in Floyd County, Texas. On October 10, 2006, RES assigned the contract to Whirlwind Energy, L.L.C. The project began full-scale commercial operation in December 2007.

In August 2007, Austin Energy signed a 15-year contract with RES to purchase the output of a 165.6 MW wind energy project located in Shackelford County, Texas near Abilene. On September 6, 2007, RES assigned the contract to Hackberry Wind, LLC. The project began full-scale commercial operation in December 2008.

In August 2008, Austin Energy signed a 20-year contract with Nacogdoches Power LLC to purchase the output of a 100 MW biomass power plant fueled by wood waste such as forest residue, mill residue, waste pallets and municipal wood waste. The project is located near Nacogdoches, Texas and commenced commercial operation in June 2012.

In August 2009, Austin Energy signed a 25-year contract with Gemini Solar Development Company, LLC to purchase the output of a 30 MW solar power plant. The project is located on an Austin Energy site near Webberville just east of Austin and commenced commercial operation in December 2011.

In September 2011, Austin Energy signed a 25-year contract with Los Vientos Windpower IB, LLC, an affiliate of Duke Energy Generation Services Holding, Inc. to purchase the output of a 201.6 MW wind energy project located in Willacy County, Texas. Energy purchases from Los Vientos IB commenced in November, 2012, and full scale commercial operation commenced in December 2012. Also in September 2011, Austin Energy signed a 25-year contract with Whitetail Wind Energy, LLC an affiliate of Exelon Corporation, to purchase the output of a 92.34 MW wind energy project located in Webb County, Texas. Energy purchases from Whitetail also began in November, 2012, and full-scale commercial operation commenced on December 21, 2012.

In October 2011, Austin Energy signed a 15-month power purchase agreement (the “PPA”) with Penascal Wind Power LLC and Penascal II Wind Project LLC to purchase the combined output of a 195.6 MW wind energy project located in Kenedy County, Texas. On May 16, 2012, the term of the PPA was extended through December 31, 2015.

With respect to the contracts described above, Austin Energy is obligated to purchase all of the energy generated by each of the facilities up to the maximum amount as described above; to the extent energy is so generated. Many of the facilities described above do not run at full capacity for 24 hours a day; therefore, Austin Energy may be purchasing energy in amounts less than the maximum amounts that are shown above.

Electric Transmission and Distribution System Statistics

The transmission and distribution plant statistics of Austin Energy as of September 30, 2012 are as follows:

	<u>Number of Substations</u>	<u>Miles of Lines</u>	<u>Kilovolts</u>
Transmission	12	620	345/138/69
Distribution	60	11,398	35/12.5/7.2
Overhead Primary		2,376	
Overhead Secondary		3,027	
Underground Primary		2,964	
Underground Secondary		3,031	

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

the participants in STP, setting forth the duties, obligations and responsibilities with respect to transmission facilities associated with STP.

Austin Energy is interconnected with LCRA, CenterPoint Energy (formerly Houston Lighting & Power Co.), CPS Energy and American Electric Power. Austin Energy is a member of ERCOT. As a participant in ERCOT, Austin Energy is able to provide and be provided with a reliable backup supply of generation under normal and emergency conditions. The diversification of fuel sources of the member systems increases the potential for economic interchanges among the respective systems. Sale and purchase transactions generally maximize the use of less expensive fuel sources by all members of the interconnected system.

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

ISO 9001 Registration

The Austin Energy division responsible for the construction, maintenance and operation of Austin's electric system has become the first of any utility in the nation to earn ISO 9001:2000 registration. ISO (International Organization for Standardization) 9000 is a series of international quality standards designed to ensure that all activities related to providing and delivering a product or service are appropriately quality assured. To earn the registration, applicants must develop a Quality Management System that reflects standards of performance for every major process, in this case, related to building, maintaining and repairing the electric system. Auditors from the National Standards Authority of Ireland ("NSAI"), the worldwide entity that administers the ISO quality management program, issued the registration on January 3, 2008. The certification followed a rigorous four-day review in December 2007 of the Electric Service Delivery Quality Management System by NSAI auditors.

In June 2010, Austin Energy's Customer Care unit was also registered as an ISO 9001:2008 organization. The Customer Care unit is responsible for receiving customer requests, responding to customer requests, billing customers, processing customer payments, and managing customer accounts. Customer Care is currently going through their re-registration audit.

In June 2012, Austin Energy's Electric Service Delivery ("ESD") Quality Management System was re-registered under the current ISO 9001:2008 standard. An external auditor from the National Standards Authority of Ireland spent five days reviewing performance metrics, opportunities for improvements or corrective actions, and 20 work processes across various work groups. Austin Energy transmission and distribution work units are the first of any utility in the country to be so certified. ESD's next certification audit will occur in August 2013.

In January 2013, Austin Energy's Power Supply and Market Operations ("PSMO") received ISO registration for their quality management system. The PSMO quality management system includes over fifty (50) work processes related to operations, maintenance, planning, environmental compliance, plant engineering and market operations.

Planning is underway to determine which Austin Energy business unit will be next to pursue this important business management endeavor.

Conventional System Improvements

In September 2012, the 2013-2017 Capital Improvements Spending Plan was approved by the City Council in the amount of \$1,092,963,000. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and the issuance of commercial paper which from time to time will be refinanced with long-term debt.

\$1.1 Billion Five Year Capital Spending Plan

\$ in Millions	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Distribution	\$ 62	\$ 53	\$ 55	\$ 57	\$ 58	\$ 285
Distribution Substation	14	10	14	15	16	69
Transmission	45	17	20	24	22	128
Electric Service Delivery	121	80	89	96	96	482
Power Production	65	57	119	173	53	467
Customer Service Billing & Metering	4	7	4	8	10	33
Facilities, Technology & Support Services	31	28	16	16	20	111
Total	\$ 221	\$ 172	\$ 228	\$ 293	\$ 179	\$ 1,093

Austin Energy Smart Meter Installation Program

Austin Energy initiated a pilot project in 2001 to evaluate the then new automated meter technology. Austin Energy installed (1-way) automated meter read (“AMR”) meters at apartment buildings throughout Austin, 110,000 of which are still installed. In 2008, Austin Energy began the second phase of its smart meter program to exchange the remaining 300,000 customer meters with second generation-2-way AMR meters. These AMR meters communicate daily meter reads via radio signals. The 2-Way AMR meter deployment was completed in 2010. Austin Energy currently has approximately 426,000 AMR meters installed: 110,000 1-Way residential meters, 270,000 2-Way residential meters and 46,000 2-Way commercial and industrial meters.

STRATEGIC PLANS, GOALS AND POLICIES

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for continued success.

First, an overarching Risk Management Strategy guides Austin Energy to manage its exposure when considering future courses of action. This approach allows Austin Energy to prepare for future options without prematurely investing and allows time for more information to become known before major commitments are made.

Second, a strategy to provide Excellent Customer Service positions Austin Energy to meet evolving customer expectations in a rapidly changing energy industry. Under this strategy, Austin Energy intends to build employee and customer satisfaction so that it is positioned for competition or regulation in the future.

Third, an Energy Resource strategy directs Austin Energy to seek cost-effective renewable energy and conservation solutions to meet customers’ new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy has developed a Resource, Generation and Climate Protection Plan to 2020 discussed further in the next section.

Austin Energy Resource, Generation, and Climate Protection Plan to 2020

In February 2007, the City Council passed Resolution 20070215-023, directing the City Manager to develop, implement, and report to the City Council annually upon the implementation and progress of policies, procedures, and targets as necessary to make Austin the leading city in the nation in the effort to reduce and reverse the negative impacts of global warming. Soon thereafter, the Austin Climate Protection Program was created to implement this resolution and help the City build a more sustainable community.

The Austin Climate Protection Program has worked with all 23 departments to create a tailored climate protection plan to ensure that departmental operations were reducing greenhouse gas emissions from energy, water, waste, purchasing, education and transportation. Austin Energy developed the Resource, Generation, and Climate Protection Plan to 2020 (the “Plan”) to meet these objectives for utility operations. The City Council adopted the Plan on April 22, 2010, as a resource planning tool that brings together demand and energy management options over the planning horizon.

Developing the Plan involved extensive analysis of the expected risks, costs, and opportunities to meet the future demand for electricity services. The goals outlined in this document are based on Austin Energy’s current understanding of technology and of national, state and local energy policies. The primary goals of the Plan are by 2020 to achieve 800 MW in energy efficiency, 35% renewable energy generation, and CO₂ emissions 20% below 2005 levels.

The Plan is designed to be flexible and dynamic. As circumstances change, the City must maintain the flexibility to modify elements to respond to a range of factors, including economic conditions, customer load, fuel prices and availability, infrastructure build-out, technological development, law and regulations, policy direction, and customer needs. Therefore, as conditions change, the Plan will be adapted and modified to manage risk, maintain system and service reliability, achieve policy goals, and meet customer demand for excellence in all aspects of service. As each significant implementation step is undertaken through contracts, purchases or other arrangements, Austin Energy’s recommendations to the City Council will be supported by assessment of impacts on all customers and by charting the progress each step will make toward achieving the goals outlined in this Plan.

Austin Energy will review the Plan annually and issue a report on performance against goals. Austin Energy will reassess the Plan in a public forum every two years, the first of which took place in 2012. Every major resource decision and Plan change will be taken before the City Council for review and authorization. The Plan demonstrates that customers and the community can indeed expect equitable, economic, and environmentally responsible electric services.

Goals Summary

Austin Energy has adopted the following changes and additions to its current resource planning goals, with a target of meeting these goals by 2020:

- Increase the energy efficiency goal from 700 MW to 800 MW
- Increase the renewable energy goal from 30% to 35%
- Increase the solar component of the renewable energy goal from 100 MW to 200 MW
- Establish a CO₂ reduction goal of 20% below 2005 level

Specific resource investments will be evaluated continually by Austin Energy, reinforcing that the goals are adaptable to changing legal/regulatory, market, and economic conditions. As explained further in the Plan, however, each individual investment will be considered by the City Council and subject to public review.

Coal/Nuclear. The Plan recognizes current ownership levels in the STP and the Fayette Power Plant. Plan implementation would effectively reduce by about 24% the amount of energy Austin Energy receives from the Fayette Power Project by 2020 to meet customer load. That reduction figures prominently in the Austin Energy goal to reduce its greenhouse gas emissions within the planning horizon by 20% from 2005 levels.

Natural Gas. The Plan calls for the build out of the gas-fueled Sand Hill Energy Center to add 200 megawatts of combined cycle capacity. This is in addition to the recently completed installation of 90 MW of peaking units at the facility.

Biomass. A total of 100 MW of biomass-fueled generation is contracted under a purchase power agreement. The City Council approved a 20-year contract through which Austin Energy may purchase the annual output of a 100 MW wood chip-fueled biomass plant located in Nacogdoches County, Texas. The plant, built by Nacogdoches Power LLC (a Southern Company subsidiary), commenced commercial operation in June 2012.

Wind. The majority of the Austin Energy renewables goal will be met through wind-generated power. As of September 30, 2012, wind generation totals 633.7 MW of capacity. Austin Energy has executed additional wind contracts for 293.94 MW of capacity with expected commercial operation in 4Q2012 and 1Q2013. The Plan calls for total wind capacity by 2020 of 1,001 MW. See “CUSTOMER STATISTICS - Power and Energy Purchase Contracts” in this document.

Solar. Installed solar capacity will increase from 30 MW to 200 MW by 2020. In February 2009, the City Council approved a 25-year contract under which Austin Energy now purchases the annual output of a 30 MW solar farm located near Webberville on Austin Energy property in Travis County, Texas. That project built by Gemini Solar Development Company, commenced commercial operation in December 2011 and is one of the nation's largest solar projects.

On October 6, 2011, the City Council passed Resolution 20111006-059, directing the City Manager to develop a report analyzing strategies relating to the FPP that were outlined in the Generation Plan. Specifically, the report would detail: the potential impact of the Cross-State Air Pollution Rule ("CSAPR") promulgated by the United States Environmental Protection Agency ("USEPA") and other proposed USEPA regulations that could impact FPP's costs of operation; the feasibility of selling the City's share of FPP to LCRA or a third party; and the feasibility of "mothballing" the City's share of FPP. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental Regulation Related to Air Emissions" in this document. A presentation to the City Council on October 30, 2012 included an update to the Generation Plan and related strategic goals. The report noted that Austin Energy will continue to study options to achieve the CO₂ goal by 2020. FPP represents approximately 75% of annual CO₂ emissions so feasibility of reduction or removal of FPP's contribution will continue to be reviewed. Future actions to build, acquire, or remove resources will be presented to City Council with a current assessment of the impact to goals and affordability. There are no current plans to sell or mothball FPP.

Financial Policies

In a constantly changing electric utility industry, Austin Energy continues to follow strong financial policies aimed at maintaining financial integrity while allowing for flexibility to respond to market and regulatory challenges. Some of the more significant financial policies reviewed and approved annually by City Council during the budget process are:

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). However, if projected revenue in future years is not sufficient to support projected requirements, the ending balance may be budgeted to achieve structural balance.
- Debt Service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x.
- A Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
 - An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.
 - Up to a maximum of 60 days of additional non-power supply operating requirements set aside as a Contingency Reserve.
 - Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Rate Stabilization Reserve.
- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for Austin Energy customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two years. A Rate Stabilization Reserve shall be created and established, replacing the Competitive Reserve in FY 2011-2012, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs. Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

- The General Fund Transfer shall not exceed 12% of Austin Energy's three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.

A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments.

- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four years prior to the expected plant closure.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

The City Council has original jurisdiction over Austin Energy's retail electric rates, while the PUCT sets Austin Energy's recoverable Transmission Matrix Expense. Certain residential ratepayers can appeal retail rate changes to the PUCT under section 33.101 of PURA by filing a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City limits. State courts have held that the PUCT may apply the same ratemaking standards in such an appeal as are applied to utilities over which the PUCT has original jurisdiction.

Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, prejudicial, discriminatory, predatory, or anti-competitive.

An Independent System Operator ("ISO") was established for ERCOT as a part of the rules that were adopted by the PUCT to establish access to the wholesale electric market in the State and was approved by the PUCT on August 21, 1996. The ISO received approval on May 5, 2000, of its certification under Senate Bill 7, adopted by the State legislature and signed into law in 1999 ("SB7"). The ISO's responsibilities as detailed in SB7 are to (1) ensure nondiscriminatory access to the ERCOT transmission system; (2) ensure the reliability and adequacy of the ERCOT network; (3) ensure timely and accurate customer switching; and (4) ensure the accuracy of accounts among wholesale buyers and sellers. Austin Energy is a member of ERCOT, and Austin Energy staff is active in the ERCOT stakeholder process.

SB7 amended PURA to provide for retail deregulation of the electric utility industry in the State. SB7 opened retail competition for Investor Owned Utilities beginning January 1, 2002. SB7 allowed local authorities to choose when to bring retail competition to their Municipally Owned Utilities ("MOU"), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to "opt in" for retail competition is adopted by the MOU's governing body, the decision is irrevocable. The City has not opted in to competition. As a result, retail competition is not allowed inside Austin Energy's service territory. Austin Energy participates in the wholesale power market.

State Wholesale Market Design Developments

In the summer of 2002, the PUCT initiated an investigation to convert the wholesale market in the ERCOT region from a zonal-based market design to a nodal market design. On September 22, 2003, the PUCT adopted a rule requiring that ERCOT use a stakeholder process to develop a nodal market design. The PUCT's purpose in ordering the change was to promote economic efficiency in the production and consumption of electricity, support wholesale and retail competition, support the reliability of electric service, and reflect the physical realities of the ERCOT electric system. The key components of the nodal market as ordered by the PUCT include: continued reliance on bilateral markets for energy and ancillary services; establishment of a day-ahead energy market; resource-specific bid curves for energy and ancillary services; congestion pricing incorporating direct assignment of all congestion rents to resources causing the congestion; tradable congestion revenue rights ("CRRs") made available through auctions; nodal energy prices for resources; energy trading hubs; and zonal energy prices for load settlement.

On September 23, 2005, ERCOT filed with the PUCT the nodal market Protocols developed through the ERCOT stakeholder process. The nodal Protocols incorporate specific provisions that allow Austin Energy to hedge congestion risk in the new market. For its generation resources in operation before September 1, 1999, Austin Energy receives pre-assigned CRRs at a discount to the market price which are allocated before the auction of CRRs. The service territory of Austin Energy is identified as a load zone for settlement purposes. On February 23, 2006, the PUCT voted to approve the nodal Protocols for the ERCOT region. The nodal market began operation in December of 2010.

Since the implementation of the ERCOT nodal market in 2010, each day, Austin Energy's Energy and Market Operations staff offer Austin Energy's generation resources into the ERCOT markets. All power to serve Austin Energy's load is procured from the ERCOT market as well. Participation in the centralized ERCOT wholesale market allows Austin Energy to procure the cheapest source of supply possible to service its customers, whether that power is produced from Austin Energy's own generation resources or procured from the ERCOT market.

Federal Rate Regulation

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

Austin Energy is not subject to FERC's jurisdiction under sections 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under State law that is similar to the Regional Transmission Organizations envisioned in FERC Order No. 2000 and which predates the Order by several years. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas electric market. ERCOT is responsible for the management and oversight of the day-to-day operations of the transmission network. Under PURA, the PUCT has specific responsibilities to oversee ERCOT operations and market participant compliance with ERCOT Protocols.

Under the Energy Policy Act of 2005, municipal entities are now subject to certain FERC authority on reliability. Specific reliability requirements have been developed by FERC. On July 20, 2006, FERC certified the North American Electric Reliability Council ("NERC") as the nation's Electric Reliability Organization responsible for developing and enforcing mandatory electric reliability standards under FERC's oversight. On April 19, 2007, FERC approved the Delegation Agreement between the NERC and the Texas Reliability Entity ("TRE") that governs the responsibilities of the TRE as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. On June 4, 2007, FERC approved an initial set of NERC reliability standards that apply to entities operating in the ERCOT region. Austin Energy has established compliance programs in its Energy Markets; transmission systems planning, operations and reliability; and Information Technology and Telecommunications units to examine the requirements for compliance with the new standards and to evaluate and implement any needed changes to systems and procedures. This process is verified through external audits involving the TRE.

Environmental Regulation - General

Austin Energy's operations are subject to environmental regulation by Federal, State and local authorities. Austin Energy has processes in place for assuring compliance with applicable environmental regulations. Austin Energy's Environmental Services section consists of a staff of educated and trained environmental compliance professionals who are responsible for establishing and maintaining compliance programs throughout the utility. The Environmental Services section interprets existing Federal, State and local regulations and monitors changes to regulations that affect Austin Energy. Austin Energy maintains an Environmental Management Information System (EMIS) which delineates roles and responsibilities, and automatically schedules environmental compliance tasks throughout the organization. The Environmental Services section staff and facility personnel monitor conformance with the environmental requirements, report deficiencies to facility management, and coordinate corrective actions where appropriate. Environmental Services is also responsible for conducting environmental training for the organization.

Environmental Regulation Related to Air Emissions

Mercury and Air Toxics Standards (MATS)

Published in February 2012, USEPA's final MATS rule sets new emissions limits for mercury and other toxic air emissions from coal and oil-fired electric utility boilers to be achieved by 2015. For Austin Energy, this rule applies to the Fayette Power Project units 1 & 2. The flue gas desulphurization ("FGD") units or "scrubbers" that were put in operation in 2011 remove a significant portion of the air toxics to below the new limits. Although the scrubbers remove some mercury, a preliminary feasibility study conducted in early 2012 concluded that some additional "add-on" equipment will be necessary to enhance the removal of mercury in existing emissions control equipment to below the new limit. Austin Energy and co-owner LCRA are proceeding with the engineering and planning phase of installing that equipment. A preliminary estimate of Austin Energy's share of that capital expense is approximately \$8 million. With the scrubbers already in operation, Austin Energy and LCRA are well-positioned to comply with the MATS rule.

Maintenance Start-up and Shutdown Permits

In 2011, Austin Energy and all owners of large electric generating units in Texas applied to the TCEQ for permits to cover routine Maintenance, Start-up and Shut-down emissions ("MSS"). Amended permits that account for MSS emissions have been issued to all but one Austin Energy facility. The amended permit for the remaining facility is expected to be issued in calendar year 2013 and the facility is considered to be in compliance while the permit amendment is pending. Minor amendments to reflect MSS emissions are still pending for some facilities but expected to be issued in calendar year 2013.

Cross-State Air Pollution Rule and Clean Air Interstate Rule

Austin Energy's large facilities have been complying with the Clean Air Interstate Rule ("CAIR"), a cap-and-trade program for annual NOx and SO2 emissions, since 2009. The USEPA finalized a court-mandated replacement for CAIR in 2011, called the Cross-State Air Pollution Rule ("CSAPR"), with compliance to begin in 2012 for annual NOx, annual SO2 and ozone season NOx emissions in 23 eastern- and mid-U.S. states including Texas. A federal court stayed CSAPR in late 2011 pending judicial review of the rule and in August 2012, the court vacated CSAPR holding that the USEPA had exceeded its authority in the way it apportioned cleanup responsibilities among the affected states. The result of that decision is that CAIR remains in effect and Austin Energy continues to comply with CAIR until such time as the USEPA develops a replacement for CSAPR or the status of CSAPR is otherwise changed by a court.

Environmental Regulation Related to Water Discharges

Section 316(b) of the Clean Water Act establishes requirements to minimize the impact of cooling water intake structures on aquatic organisms. The USEPA proposed revised standards in 2011 that would require cooling water intake structures to be designed to limit organism impingement and entrainment. All major power plants with once-through cooling would be required to complete studies assessing impacts to aquatic organisms and appropriate mitigation measures, and design requirements would be enforced via state-issued Texas Pollution Discharge Elimination System (TPDES) permits. The proposed rule would impact Decker Creek Power Station and the Fayette Power Project, which both employ once-through cooling water; exact requirements and impacts of the proposal will not be known until the rule is final, which is scheduled for summer of 2013 per a consent decree. Austin Energy is similarly positioned to all power plants in Texas that employ once-through cooling.

Environmental Regulation Related to Hazardous Wastes and Remediation

The USEPA proposed a rule in 2010 that would set new requirements for the storage of Coal Combustion Residuals ("CCRs") and potentially reclassify those CCRs as a hazardous waste when stored in a landfill. The Fayette Power Project, like all coal burning plants, generates CCRs such as fly ash, bottom ash and gypsum. FPP currently recycles the majority of their CCR for beneficial use, such as for road base or as cement substitutes, with the remaining fractions stored onsite in a landfill for possible future use (recycle rates depend on market demand for the product). In 2011, Austin Energy and LCRA completed a project to permanently close a "wet" ash pond where ash slurry had previously been sent for dewatering before recycle, and converted ash handling to a dry system; the costs of the USEPA's proposed retrofit requirements for that ash pond would be avoided in the future since it is no longer active. A hazardous classification would result in new liability to Austin Energy and LCRA and likely costs to upgrade or design compliant

landfills at the facility. The USEPA did not propose a hazardous classification for CCRs that are recycled for beneficial use, only stored; however, a hazardous classification could also result in reduced demand for CCRs and therefore greater volumes that would need to be stored in new onsite landfills. Austin Energy is in a similar position to all coal plants in the United States that burn coal and produce CCRs. It is not known when the USEPA will finalize the proposed rule and what future requirements will be.

Environmental - Other

Austin Energy began decommissioning the Holly Street Power Plant in 2011. The project includes the removal of the main power plant and adjacent support structures and the cleanup of historical contamination. The project is expected to be completed by the end of 2014.

Nuclear Regulation

Nuclear generation facilities are subject to regulation by the Nuclear Regulatory Commission (“NRC”) and are required to obtain liability insurance and a United States Government indemnity agreement in order for the NRC to issue operating licenses. This primary insurance and the retrospective assessment discussed below are to insure against the maximum liability under the Price-Anderson Act for any public claims arising from a nuclear incident which occurs at any of the licensed nuclear reactors located in the United States.

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities even though the statutory protections for many non-commercial reactors are different. The Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at \$12.6 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$117.495 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$17.55 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of \$300 million for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers’ compensation system as sole remedy and bring suit against another party. The limit increased to \$375 million effective January 1, 2010.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of \$1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion, but is less than the total amount available for such losses (\$2.75 billion is the maximum amount available for purchase from NEIL). Nuclear property insurance consists of \$500 million in primary property damage insurance and \$2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of NEIL. In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is \$30.7 million during any one policy year. This number changes annually and is calculated as 10 times the current premium for each policy.

The NRC regulations set forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each holder of an operating license is required to submit to the NRC a bi-annual report indicating how reasonable assurance would be provided. The City provides the required report on its share of STP to the NRC which is based on the minimum amount for decommissioning, excluding waste disposal, as required by the NRC regulations of \$105 million per unit (January 1986 dollars). This minimum is required to be

adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The 2008 report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A. The City has been collecting for its share of anticipated decommissioning activities which may begin as early as 2027 through its rates since Fiscal Year 1989. The decommissioning trust market value on September 30, 2012 was \$184,982,589.12. For Fiscal Year 2013, Austin Energy estimates that it will continue to collect approximately \$5 million for decommissioning expense. In 2007 dollars, the minimum amount for decommissioning the City's share of STP is \$221 million. See "INVESTMENTS – Legal Investments" in this document.

Recent Events Affecting the Nuclear Industry

On March 11, 2011, a region of Japan sustained significant loss of life and destruction because of a major earthquake and resulting tsunami. Included in the damage areas were the Fukushima nuclear units, which lost power to components of the backup and safety control systems and began emitting radiation into the surrounding environment. Following the incident, the NRC began looking into the safety aspects of nuclear plant operations in the United States with the objective of assuring that events such as those at the Fukushima plant do not occur in this country. On August 31, 2012, the NRC issued Interim Staff Guidance ("ISG") to U.S. nuclear power plants to ensure proper implementation of three orders the agency issued in March, in response to lessons learned from the Fukushima Dai-ichi nuclear accident. The ISGs represent acceptable approaches to meeting the orders' requirements before their December 31, 2016 compliance deadline. The ISGs are not mandatory, but U.S. nuclear power plants would have to seek NRC approval in order to follow a different compliance approach. The NRC issued draft versions of the ISGs on May 31, 2012 and asked for public input; the final ISGs reflect information gained from the month-long comment period and subsequent public meetings.

The first NRC order requires all U.S. plants to better protect portable safety equipment put in place after the 9/11 terrorist attacks and to obtain sufficient equipment to support all reactors and spent fuel pools at a given site simultaneously. The ISG for this order endorses the industry's updated guidance for dealing with a scenario that knocks out all of a plant's alternating current electric sources. The updated approach includes the use of backup power supplies for devices that would burn off accident-generated hydrogen before it could accumulate to explosive levels. The staff concludes the updated approach will successfully implement the first NRC order. The ISG is available in the Agencywide Document Access and Management System ("ADAMS") under accession number ML12229A174; the associated industry document is available under accession number ML12242A378.

The second NRC order applies only to U.S. boiling-water reactors that have "Mark I" or "Mark II" containment designs. Mark I reactors must improve installed venting systems that help prevent core damage in the event of an accident; Mark II reactors must install these venting systems. The ISG for this order provides more detailed technical information on the vents, as well as how vent designs and operating procedures should avoid, where possible, relying on plant personnel taking actions under hazardous conditions. The second ISG is available in ADAMS under accession number ML12229A475.

The third NRC order requires all plants to install enhanced equipment for monitoring water levels in each plant's spent fuel pool. The ISG for this order largely endorses an industry document that the staff concludes will successfully implement the order. The ISG defines in more detail the water levels the new equipment must accurately report, as well as standards for equipment mounting, powering and testing, personnel training and other criteria. The final ISG notes several areas, including instrument qualifications and instrument protection from falling debris, where the industry revised its initial approach. An exception in the staff's endorsement sets specific seismic criteria to ensure the instruments will survive an earthquake. This ISG is available in ADAMS under accession number ML12221A399; the associated industry document is available under accession number ML12240A304.

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**COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 2008 TO SEPTEMBER 30, 2012**
(in thousands rounded)

	Fiscal Year Ended September 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
INCOME					
Revenue	\$1,633,140	\$1,707,190	\$1,518,352	\$1,573,459	\$1,628,261
Operating Expense	<u>(1,054,566)</u>	<u>(1,071,056)</u>	<u>(1,026,312)</u>	<u>(1,041,685)</u>	<u>(1,012,532)</u>
Balance Available for Debt Service	578,574	636,134	492,040	531,774	615,729
Depreciation and Amortization Expense	<u>(241,884)</u>	<u>(224,995)</u>	<u>(209,019)</u>	<u>(196,620)</u>	<u>(192,726)</u>
Earnings Before Interest Expense	336,690	411,139	283,021	335,154	423,003
Interest Incurred on Debt	(177,954)	(181,665)	(174,497)	(181,899)	(175,301)
Other	<u>4,580</u>	<u>(1,741)</u>	<u>(6,378)</u>	<u>(26,632)</u>	<u>(10,868)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS (a) (b) (c) (d)	<u>\$ 163,316</u>	<u>\$ 227,733</u>	<u>\$ 102,146</u>	<u>\$ 126,623</u>	<u>\$ 236,834</u>
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>(64.57%)</u>	<u>(62.74%)</u>	<u>(67.59%)</u>	<u>(66.20%)</u>	<u>(62.18%)</u>
Balance Available for Debt Service	35.43%	37.26%	32.41%	33.80%	37.82%
Depreciation and Amortization Expense	<u>(14.81%)</u>	<u>(13.18%)</u>	<u>(13.77%)</u>	<u>(12.50%)</u>	<u>(11.84%)</u>
Earnings Before Interest Expense	20.62%	24.08%	18.64%	21.30%	25.98%
Interest Incurred on Debt	(10.90%)	(10.64%)	(11.49%)	(11.56%)	(10.77%)
Other	<u>0.28%</u>	<u>(0.10%)</u>	<u>(0.42%)</u>	<u>(1.69%)</u>	<u>(0.67%)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>10.00%</u>	<u>13.34%</u>	<u>6.73%</u>	<u>8.05%</u>	<u>14.55%</u>

(a) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2012, are as follows (in thousands rounded):

Transfer to General Fund	\$137,241
Transfers to Other Funds	\$ 5,424

(b) Excludes Combined Utility Funds' deferred costs recovered in future years of \$43,938 for the 12 months ended September 30, 2012.

(c) There was no extraordinary gain or loss during each respective 12 month period.

(d) Excludes capital contributions of \$32,419 for the 12 months ended September 30, 2012.

Source: City Controller's Office.

OPERATING STATEMENT
ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM
(in thousands)

	Fiscal Year Ended September 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
REVENUE					
ELECTRIC UTILITY					
Domestic and Rural Residential	\$ 414,159	\$ 457,272	\$ 402,597	\$ 402,892	\$ 408,827
Commercial General	615,588	641,510	592,125	594,637	613,858
City Utility Departments	21,356	19,065	15,721	17,316	17,839
Public Street Lighting	5,653	6,507	6,396	6,343	6,365
City General Government Departments	10,942	7,400	8,152	8,670	8,647
Sales to Other Utilities	4,057	943	7,584	16,878	45,511
Transmission	63,434	59,066	60,746	57,003	56,004
Rent from Electric Property	2,090	3,206	3,255	2,722	2,485
Customers' Forfeited Discounts and Penalties	1,144	5,031	4,898	5,141	5,114
Miscellaneous	<u>41,449</u>	<u>49,139</u>	<u>46,202</u>	<u>50,684</u>	<u>53,085</u>
Total Electric Utility	<u>\$1,179,872</u>	<u>\$1,249,139</u>	<u>\$1,147,676</u>	<u>\$1,162,286</u>	<u>\$1,217,735</u>
WATER UTILITY					
Water Services	\$ 211,050	\$ 239,769	\$ 169,055	\$ 193,401	\$ 178,266
Miscellaneous Revenue	1,198	3,036	2,002	1,610	2,865
Revenue Stability Fee	16,639	0	0	0	0
Reclaimed Revenue	<u>367</u>	<u>579</u>	<u>399</u>	<u>469</u>	<u>383</u>
Total Water Utility	<u>\$ 229,454</u>	<u>\$ 243,384</u>	<u>\$ 171,456</u>	<u>\$ 195,480</u>	<u>\$ 181,514</u>
WASTEWATER UTILITY					
Wastewater Services	\$210,534	\$ 201,422	\$ 185,866	\$ 193,596	\$ 180,399
Miscellaneous Revenue	2,719	3,234	3,323	2,813	3,202
Reclaimed Revenue	<u>0</u>	<u>8</u>	<u>4</u>	<u>7</u>	<u>8</u>
Total Wastewater Utility	<u>\$ 213,253</u>	<u>\$ 204,664</u>	<u>\$ 189,193</u>	<u>\$ 196,416</u>	<u>\$ 183,609</u>
Interest	<u>\$ 10,561</u>	<u>\$ 10,003</u>	<u>\$ 10,027</u>	<u>\$ 19,277</u>	<u>\$ 45,404</u>
TOTAL REVENUE	<u>\$1,633,140</u>	<u>\$1,707,190</u>	<u>\$1,518,352</u>	<u>\$1,573,459</u>	<u>\$1,628,263</u>

Source: City Controller's Office.

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OPERATING STATEMENT
ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM – (Continued)
(in thousands)

	Fiscal Year Ended September 30				
EXPENSE	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
ELECTRIC UTILITY					
Production	\$ 330,066	\$ 378,484	\$ 339,221	\$ 353,059	\$ 391,628
Joint Facility Production	189,914	202,217	201,024	187,374	180,674
System Control	17,366	13,663	12,335	12,852	12,121
Transmission and Distribution	116,884	107,035	113,958	105,552	92,559
Jobbing and Contract Work	181	415	(3)	751	(675)
Customer Accounting and Collection	13,454	18,374	14,327	15,189	15,813
Customer Services	20,926	20,163	20,961	22,408	18,300
Administrative and General	<u>186,884</u>	<u>167,173</u>	<u>165,088</u>	<u>172,062</u>	<u>147,896</u>
Total Electric Utility	<u>\$ 875,675</u>	<u>\$ 907,524</u>	<u>\$ 866,911</u>	<u>\$ 869,247</u>	<u>\$ 858,316</u>
WATER UTILITY					
Treatment	\$ 33,464	\$ 31,538	\$ 29,597	\$ 30,996	\$ 29,078
Pipeline Operations	22,317	20,932	19,909	19,080	17,365
Engineering Services	4,926	4,386	4,374	3,648	3,404
Water Resources Management	2,048	1,919	1,958	1,794	1,434
Environmental Affairs & Conservation	6,789	7,766	10,064	10,995	7,594
Support Services - Utility	9,233	8,138	7,817	6,835	4,553
One Stop Shop	219	167	157	434	561
Reclaimed Water Services	212	0	0	0	0
Other Operating Expenses	<u>20,134</u>	<u>16,265</u>	<u>14,993</u>	<u>22,026</u>	<u>19,903</u>
Total Water Utility	<u>\$ 99,342</u>	<u>\$ 91,111</u>	<u>\$ 88,869</u>	<u>\$ 95,808</u>	<u>\$ 83,892</u>
WASTEWATER UTILITY					
Treatment	\$ 30,301	\$ 28,502	\$ 28,004	\$ 30,218	\$ 27,209
Pipeline Operations	13,798	13,102	14,158	13,807	15,268
Engineering Services	5,715	5,431	5,382	5,567	3,027
Water Resources Management	2,104	1,987	1,843	1,685	1,332
Environmental Affairs & Conservation	1,877	1,967	1,873	1,956	1,748
Support Services - Utility	9,869	8,810	8,684	6,020	5,687
One Stop Shop	348	329	285	514	508
Other Operating Expenses	<u>15,537</u>	<u>12,293</u>	<u>10,303</u>	<u>16,863</u>	<u>15,545</u>
Total Wastewater Utility	<u>\$ 79,549</u>	<u>\$ 72,421</u>	<u>\$ 70,532</u>	<u>\$ 76,630</u>	<u>\$ 70,324</u>
TOTAL EXPENSE (1)	<u>\$1,054,566</u>	<u>\$1,071,056</u>	<u>\$1,026,312</u>	<u>\$1,041,685</u>	<u>\$1,012,532</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE	<u>\$ 578,574</u>	<u>\$ 636,134</u>	<u>\$ 492,040</u>	<u>\$ 531,774</u>	<u>\$ 615,730</u>
Electric Customers	412,552	418,968	419,353	407,926	392,167
Water Customers	214,971	212,754	210,901	209,994	202,533
Wastewater Customers	202,444	199,818	198,116	196,842	188,958

(1) Interest expense, depreciation, amortization, other non-operating items, and OPEB accrual are not included in total expense.

Source: City Controller's Office.

DISCUSSION OF OPERATING STATEMENT

Austin Energy Revenues

Variations in total Austin Energy revenues for the fiscal years (“FY”) ended September 30, 2008 through September 30, 2012 were attributable to changes in cost of fuel for power generation and weather variations. Total fuel costs are passed through to the consumer.

Water and Wastewater System Revenues

Variations in Water and Wastewater System revenues for the period FY08 through FY12 were largely attributable to weather and system rate changes.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY08 through FY12 were largely attributable to changes in the cost of fuel for power generation and general inflationary increases in other expense categories.

Water and Wastewater System Expenses

Changes in Water and Wastewater System expenses for the period FY08 through FY12 were primarily attributable to inflationary increases in the cost of power and chemicals, along with system growth.

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The Electric Utility System and Water and Wastewater System – TABLE FIVE (000's)

	Fiscal Year Ended September 30				
	2012	2011	2010	2009	2008
Plant Cost					
Utility Systems					
Electric	\$4,723,203	\$4,585,408	\$4,475,178	\$4,302,379	\$4,084,559
Water	2,209,639	2,046,462	1,893,032	1,757,958	1,746,414
Wastewater	<u>2,205,455</u>	<u>2,111,926</u>	<u>2,012,704</u>	<u>1,932,710</u>	<u>1,822,136</u>
Total Cost	<u>\$9,138,297</u>	<u>\$8,743,796</u>	<u>\$8,380,914</u>	<u>\$7,993,047</u>	<u>\$7,653,109</u>
Allowance for Depreciation:					
Electric	\$2,131,588	\$1,995,831	\$1,895,660	\$1,797,981	\$1,705,518
Water	564,937	555,727	517,841	483,312	472,469
Wastewater	<u>707,281</u>	<u>654,436</u>	<u>603,524</u>	<u>557,609</u>	<u>514,634</u>
Total Depreciation	<u>\$3,403,806</u>	<u>3,205,994</u>	<u>3,017,025</u>	<u>2,838,902</u>	<u>2,692,621</u>
Cost after Depreciation	<u>\$5,734,491</u>	<u>\$5,537,802</u>	<u>\$5,363,889</u>	<u>\$5,154,145</u>	<u>\$4,960,488</u>
Equity in Utility Systems					
Utility Systems	\$9,138,297	\$8,743,796	\$8,380,914	\$7,993,047	\$7,653,109
Plus: Inventories, Materials and Supplies (1)	56,019	54,204	49,376	45,557	45,849
Net Construction Assets and Unamortized Bond Issue Cost	<u>104,298</u>	<u>79,769</u>	<u>57,826</u>	<u>86,610</u>	<u>36,622</u>
	<u>\$9,298,614</u>	<u>\$8,877,769</u>	<u>\$8,488,116</u>	<u>\$8,125,214</u>	<u>\$7,735,580</u>
Less:					
Allowance for Depreciation	\$3,403,806	\$3,205,994	\$3,017,025	\$2,838,902	\$2,692,621
Construction Contract Payable	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$3,403,806</u>	<u>\$3,205,994</u>	<u>\$3,017,025</u>	<u>\$2,838,902</u>	<u>\$2,692,621</u>
Utility Systems, Net	\$5,894,808	\$5,671,775	5,471,091	5,286,312	5,042,959
Revenue Bonds and Other Debt Outstanding (2)	\$3,808,929	\$3,595,807	\$3,366,859	\$3,284,335	\$3,107,434
Less: Bond Retirement and Reserve Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Debt	<u>\$3,808,929</u>	<u>\$3,595,807</u>	<u>\$3,366,859</u>	<u>\$3,284,335</u>	<u>\$3,107,434</u>
Equity in Utility Systems	<u>\$2,085,879</u>	<u>\$2,075,968</u>	<u>\$2,104,232</u>	<u>\$2,001,977</u>	<u>\$1,935,525</u>
Percentage of Equity in Utility Systems	35.39%	36.60%	38.46%	37.87%	38.38%

(1) Does not include fuel oil or coal inventories of approximately \$26.88 million at September 30, 2012. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of \$3.48 billion (net of discounts, unamortized gains and losses on refundings, and inclusive of premiums); Contract Revenue Bonds of \$0 (net of discounts); Capital Lease Obligations of \$1.2 million; Commercial Paper of \$305 million (net of discounts); General Obligation Bonds of \$5.76 million; and Contractual Obligations of \$9.37 million.

Source: City Controller's Office.

LITIGATION

A number of claims against the City, as well as certain other matters of litigation, are pending with respect to various matters arising in the normal course of the City's operations. The City Attorney and the City management are of the opinion that resolution of the claims pending (including the matters described below) will not have a material adverse effect on the City's financial condition or the financial condition of the Electric Utility System or of the Water and Wastewater System.

The City has accrued liabilities of \$6.3 million in the Liability Reserve Fund for claims payable at September 30, 2012.

Electric Utility System Litigation

The City is in litigation with the owner of a block of land in downtown Austin, which is the site of a municipal parking garage and utility-owned chilled-water plant site. The chilled-water plant is one of two currently providing chilled-water services to some of Austin Energy's commercial customers in the downtown area. The City initiated a condemnation proceeding against the land on August 9, 2001 in Travis County Probate Court as Cause No. 2403, *City of Austin v. Whittington, et al.* The trial court granted the City summary judgment upholding the City's right to condemn the land, and a jury awarded the condemnee a price of \$7.75 million. The condemnee appealed the condemnation proceeding. It also brought a related suit for declaratory judgment in the 250th Travis County District Court, Cause No. GN302752, *Whittington, et al. v. City of Austin*, alleging the City had failed to include an alleyway crossing the land in its condemnation proceeding, and thus had not taken title to the entire block. In the original condemnation proceeding, the Third Court of Appeals (Case No. 03-03-00496-CV) reversed the trial court's summary judgment, holding that the City had failed to meet its burden to show the City Council made proper determinations of public purpose and necessity in deciding to condemn the land. The Texas Supreme Court declined to review the appellate court's decision. In the separate alleyway case, the trial court entered judgment against the City, finding that the City had failed to include the alleyway in its condemnation proceeding and thus did not hold title to the alleyway portion of the land. The cases were consolidated and tried to a jury in April 2007. The jury found against the City, finding that its condemnation of the property was improper and invalid, and also valued the property at \$10.5 million. The City appealed. The Third Court of Appeals upheld the trial court verdict. However, on August 31, 2012, the Texas Supreme Court reversed the Court of Appeals and held that the City's condemnation of the property was proper. The case has been ordered to be remanded to the trial court for judgment in favor of the City and awarding the condemnee \$10.5 million for the property. A motion for rehearing was filed on October 16, 2012. The Supreme Court denied the Motion for Rehearing and remaining issue of pre and post judgment interest was heard by the Travis County District Court. A final judgment reflecting pre and post judgment interest on the \$10.5 million has not yet been entered in the case.

The Environmental Integrity Project ("EIP"), on behalf of Texas Campaign for the Environment, sued the LCRA in federal district court in Houston in March 2011. The EIP alleged violations of the federal Clean Air Act ("CAA") at FPP. The EIP also sought various relief, including assessment of civil penalties for alleged violations of the CAA. The City joined the lawsuit and retained outside counsel to represent the City and its ownership interest in the two units it partially owns. In March 2012, the federal judge assigned to the case dismissed three out of EIP's four claims. The remaining claim is set to be heard in early 2013. EIP filed a new Notice of Intent to sue LCRA in June 2012 alleging additional violations of the CAA. However, they have not added claims in the existing lawsuit, nor have they filed a new lawsuit on those alleged violations. The City cannot predict the potential financial impact to the City at this time.

The City has been named in a lawsuit stemming from the September 4, 2011 Wildfire which damaged a number of homes in the Steiner Ranch community in Travis County. The plaintiffs each claim that the City's electric utility was negligent in the maintenance and operation of power lines which allegedly caused the Steiner Ranch Fire. Specifically, the plaintiffs claim that improper conductor spacing caused two conductors to make contact with each other, which in turn caused molten materials to disperse and ignite nearby vegetation. Plaintiff, Ronya Aigner, Individually and as Heir of the Estate of Kevin Lee Aigner, filed suit on November 2, 2012. Kevin Aigner, a Travis County Constable, who was working in the Steiner Ranch area died on September 10, 2011, as a result of a stroke. Plaintiff alleges that the City caused the fire which ultimately led to Aigner's death a week after the fire. A number of insurance companies also filed intervening petitions in the Aigner litigation. On December 10, 2012, the following intervenors filed suit: Trinity Universal Insurance Company; Milwaukee Safeguard Insurance Company; Fidelity National Indemnity Insurance Company; ASI Lloyds; and Metropolitan Lloyds Insurance Company of Texas. On December 20, 2012, the following additional intervenors filed suit: Allstate Insurance Company; Chartis Property Casualty Company; Lexington Insurance Company; State Farm Lloyds; State Farm County Mutual Insurance Company of Texas; Farmers Insurance Exchange;

Farmers Texas County Mutual Insurance Company Fire Insurance Exchange; Texas Farmers Insurance Company; United Services Automobile Association; USAA Casualty Insurance Company; USAA General Indemnity Company; USAA Texas Lloyds Insurance Company; and Garrison Property and Casualty Insurance Company. An additional intervention was filed on April 5, 2013. The added intervening plaintiffs include three sets of underinsured residents of Steiner Ranch and a claim by Daniel and Katherine Sterns on behalf of their six-year-old daughter, Emma. The Sterns allege that the fire aggravated Emma's pre-existing Turrets Syndrome. The City has filed a motion challenging each of the plaintiffs' complaints. The Carriers presented claims of approximately \$13 million. This figure represents hundreds of property claims. The Aigner and Sterns Plaintiffs have not specified their damages.

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THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. The City Council is comprised of a Mayor and six council members elected at-large for three-year staggered terms. See APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY - Governance”.

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 duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Marc Ott was appointed City Manager in January 2008.

City Manager – Marc A. Ott

Mr. Marc A. Ott was selected as City Manager for the City by the Austin City Council in January 2008. Mr. Ott is the 17th person in City history to be appointed City Manager in a full-time capacity. Mr. Ott previously served as Assistant City Manager for infrastructure services for the City of Fort Worth. In that role, he was responsible for Fort Worth’s infrastructure operations carried out by the departments of Water, Transportation and Public Works, Engineering and Aviation. Mr. Ott was also responsible for implementing one of the Fort Worth City Council’s top strategic priorities: promoting orderly growth. Prior to his position in Fort Worth, Mr. Ott was City Administrator for the City of Rochester Hills, Michigan, where he had administrative and managerial oversight of all municipal operations. In addition, Mr. Ott was City Manager of Kalamazoo, Michigan, from 1993 to 1997. He also served as that city’s Deputy City Manager for two years and as an Assistant City Manager for almost a year. Mr. Ott earned his bachelor’s degree in management with a concentration in economics from Michigan’s Oakland University and master’s in public administration from the same university. He is also a graduate of the Program for Senior Executives in State and Local Government at the John F. Kennedy School of Government, Harvard University.

Chief Financial Officer – Elaine Hart, CPA

Ms. Elaine Hart received her B.B.A. in Accounting from The University of Texas at Arlington. Her career with the City spans more than 20 years including over 10 years in public power. Ms. Hart served as Interim Chief Financial Officer for two months before being appointed to the position of Chief Financial Officer in April 2012. Prior to her appointment as Chief Financial Officer, she served as Senior Vice President Finance and Corporate Services for Austin Energy, the municipally owned electric utility. During her tenure at the City (service not continuous), she has also served in other financial capacities, including the City’s Chief Financial Officer in the late 1980s, Assistant Finance Director, City Controller and Deputy City Auditor. Ms. Hart also has private sector auditing, accounting and consulting experience.

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 owns and operates several major enterprises including Austin Energy, the Water and Wastewater System, an airport and two public event facilities.

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 approved collective bargaining for fire fighters but not for police officers. Approximately 15% of the City’s employees are members of the American Federation of State, County and Municipal Employees, 8% 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 payroll or in its retirement systems. The retirement systems may grant cost-of-living increases up to 6% for the municipal employees and 6% for 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

The City annexes territory on a regular basis. Chapter 43 of the Texas Local Government Code regulates annexation of property by Texas municipalities. Before 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. Generally, those services may not be at a lower level of service than provided in other areas of the City with similar characteristics. The City is not obligated to provide a uniform level of service 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 State law, there are two processes for the annexation of territory into a city. The three-year Municipal Annexation Plan (“MAP”) process applies generally to populated annexation areas, i.e., those that include 100 or more properties with a house on each lot. Unpopulated areas, areas that are annexed by consent, and areas that meet certain other criteria follow the “exempt area process”. The processes involve staff review, development of a service plan (or regulatory plan for a limited purpose annexation), property owner notification, publication of a newspaper notice, two public hearings, and ordinance approval. The MAP process also includes an inventory of existing services and a period in which residents appointed by the county commissioners negotiate with City staff on the service plan.

If the annexation service plan for an annexation area includes a schedule for the provision of full municipal services, the City has two and one-half years from the date of the annexation to substantially complete the capital improvements necessary to provide services to the area. However, if necessary, the City may propose a longer schedule. A wide range of services – police and fire protection, sanitation, and maintenance of public facilities such as water and wastewater facilities, roads, streets, and parks – must be provided immediately following annexation. Failure to provide municipal services in accordance with the service plan may provide grounds for a petition and court action for compliance with the service plan or for disannexation of the area, and may also result in a refund of taxes and fees collected for services not provided. The City may not reannex for ten years any area that was disannexed for failure to provide services; however, the City has never been forced to disannex due to such failure.

Some of the areas which may be considered for annexation will include developed areas for which water, sewer, and drainage services are being provided by utility districts created for such purposes. Existing utility districts, as well as new districts that may be created from time to time, may issue bonds for 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 any net revenues derived from the operation of its water and sanitary sewer systems. State law generally requires that if a city is annexing a district, the district must be annexed in its entirety. Upon annexation by a city, a district is dissolved and the city assumes the district’s outstanding bonds and other obligations and levies and collects ad valorem taxes on taxable property within the corporate limits of the city ad valorem taxes sufficient to pay the principal of and interest on such assumed bonds.

The City also assumes liabilities when it annexes land in an Emergency Services District (“ESD”) and that territory is disannexed from the ESD. This liability, however, is limited to assumption of a pro-rata share of debt and assumption of those facilities directly used to provide service to the area.

The City Charter and the State’s annexation laws provide the City with the ability to undertake 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. 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. 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. The City believes that limited purpose annexation is a valuable growth management tool. Since 1999 the City has annexed over 11,000 acres of territory for limited purposes. Strategic Annexation Programs are developed annually. These programs prioritize areas to be considered for annexation, usually at the end of the calendar year, to minimize the fiscal impact to the City.

The following table sets forth (in acres) the annual results of the City’s annexations since 2000.

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
2000	4,057	4,184
2001	3,908	15
2002	2,019	1,957
2003	3,253	0
2004	1,114	7,030
2005	1,914	1,234
2006	351	621
2007	2,466	1,266
2008	2,262	14
2009	295	984
2010	1,129	2,495
2011	726	0
2012	3,387	3,818

(1) Includes acres converted from limited purpose to full purpose status.

Recent Annexation

In the first half of 2012, the City annexed 3,818 acres for limited purposes. These annexations were conducted with the consent of property owners and in accordance with Strategic Partnership Agreements (“SPAs”) with nine new MUDs. Full purpose annexation will be deferred to allow the MUDs to issue debt for major infrastructure improvements and public amenities to serve two large new mixed-use developments in eastern Travis County. In the remainder of 2012, the City annexed 3,387 acres for full purposes. Included in the 2012 annexation program are two fully developed areas with mixed commercial, industrial, and residential land uses; four vacant tracts with development plans approved or in process; the Circuit of the Americas racetrack site; and two other associated undeveloped or publicly owned sites. The total taxable assessed value (“TAV”) for these areas exceeds \$119,000,000.

In 2011, the remaining portion of Ribelin Ranch consisting of undeveloped wildlife habitat preserve land was converted from limited to full purpose annexation status. In addition, the City annexed a commercial and industrial area as well as a partially developed single-family residential subdivision for full purposes. The TAV for these areas was approximately \$20,510,145.

The 2010 annual program included full purpose annexation of several developed residential and commercial areas, planned residential areas, and public right-of-way. Together the City’s full and limited purpose annexations included approximately 8,500 residents and 3,624 acres. In accordance with the terms of the amended SPA between the City and the Springwoods Municipal Utility District, this area was annexed for limited and later full purposes. In addition, the City annexed the adjacent Springwoods MAP area. City Council also approved the creation and limited purpose annexation of two new Public Improvement Districts (“PIDs”), Whisper Valley and Indian Hills. Future full purpose annexation of these areas will occur in accordance with the terms of the development agreement.

In accordance with the terms of a SPA between the City and the River Place Municipal Utility District (the “River Place MUD”), all of the territory in the River Place MUD not previously annexed by the City was annexed for limited purposes of planning and zoning in 2009. In addition, the 2009 annual program included full purpose annexation of three small developed residential areas, a commercial and industrial area, and city owned property. Austin surpassed 300 square miles in incorporated area in 2010 and the City’s estimated population grew to 778,560 people. Austin remains the 15th most populous city in the United States.

In 2008, Austin annexed the largest population since 1997, approximately 13,400 people. The largest of the 2008 annexations was Anderson Mill Municipal Utility District, which is more than 1,000 acres in size. This annexation resulted from a 1998 SPA between the City and the district. Other populated areas annexed for full purposes in 2008 include North Acres and Anderson Mill Estates, most of which were already in the City’s limited purpose jurisdiction due to 1984 annexations. The City also annexed commercial properties and several new subdivisions under development. The TAV annexed in 2008 was over \$1.1 billion.

2007 saw the conversion of Watersedge, Ribelin Ranch, and approximately one-half of Goodnight Ranch from limited purposes to full purposes. The remaining portion of Ribelin Ranch, consisting of undeveloped wildlife habitat preserve land, was converted from limited to full purpose annexation status in 2011. In addition, the City annexed a commercial and industrial area as well as a partially developed single-family residential subdivision for full purposes. The total TAV for these areas was approximately \$20,510,145. In addition, the final remaining portions of Avery Ranch, annexed for limited purposes in 2000, were converted to full purposes. Several planned residential subdivisions in the extraterritorial jurisdiction were annexed. In total, 2,466 full purpose acres and \$22 million in TAV were annexed in 2007.

The Pearce Lane/Ross Road area, located in southeast Travis County, was converted to full purpose annexation status in December 2006. This annexation area was added to the City's MAP in 2003 and includes two Del Valle Independent School District sites. Approximately \$83 million in TAV and over 2,500 residents were added to the City. Sunfield Municipal Utility District No. 2 includes 575 acres southeast of Austin and was annexed for limited purposes in 2006.

In 2005, full purpose annexation of the Springfield and Walnut Creek MAP areas added over \$123 million in TAV and 375 acres to the City. Nearly all the remaining Avery Ranch subdivision areas in Williamson County were converted from limited to full purpose annexation status in 2005. A total of 1,914 full purpose acres and over \$140 million in TAV were annexed in 2005. Limited purpose areas annexed included Goodnight Ranch, Watersedge and the Woods at Greenshores.

Approximately \$50 million in TAV was annexed for full purposes in 2004. Over 6,000 acres northwest of the City, known as the Robinson Ranch area, and the 748 acre Ribelin Ranch area, were annexed for limited purposes in June 2004.

Future Annexation

In the next several years, two MUDs are scheduled for annexation under approved SPAs with the City. The commercial portion of Lost Creek MUD was annexed in 2008 while annexation of the remaining residential property will take place in 2015. River Place MUD will be annexed for full purposes in its entirety in December 2017.

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.

Effective October 1, 2012, the municipal employees contribute 8.0% and the City contributes 18.0% of payroll. The Firefighters (who are not members of the Social Security System) contribute 16.7% of payroll, and the City contributes 21.05%. The Police Officers contribute 13.0% and the City contributes 21.63% of payroll.

The contributions to the pension funds are designed to fund current service costs and to amortize the unfunded actuarial accrued liability. As of December 31, 2011, the amortization period of the unfunded actuarial accrued liability for the City of Austin Employees Retirement System ("COAERS") was 27.1 years, for the Firefighters Fund was 20.9 years and for the Police Officer's Fund was 25.2 years.

As of December 31, 2011, the actuarial accrued liability for the COAERS was \$2,723,800,000 and the funded ratio was 65.7%. The actuarial accrued liability for the Firefighters Fund was \$746,143,000 and the funded ratio was 87.3%. The actuarial accrued liability for the Police Officers' Fund was \$815,259,000 and the funded ratio was 67.9%.

Although the COAERS funding period had been infinite since December 31, 2002, investment losses in 2008 of 25.9% led to a significant decrease in the actuarial funded ratio and a significant increase to the unfunded actuarial accrued liability. In 2005, a Supplemental Funding Plan ("SFP") was approved that increased the City's annual contribution rate to a maximum of 12%, but even this additional funding was not sufficient to restore the long-term financial health of the COAERS. In FY 2011, City Council approved an amendment to the SFP that increased the City contribution rate to a maximum rate of 18% of pay to be contributed by 2013. The City contributed an additional 6% in FY 2011, an additional 8% in FY 2012 and will contribute an additional 10% in FY 2013 pursuant to the terms of the SFP, which will bring the City's contribution rate to the maximum of 18%. In addition, a new benefit tier for new employees hired on or after January 1, 2012, has been approved by the COAERS Board of Trustees, the City Council and the Texas

Legislature. The new benefit tier increases the age and service criteria necessary to reach retirement eligibility. It also decreases the pension multiplier, which is used to determine the final pension amount paid to future retirees. These two actions are expected to substantially improve the long-term financial health of the COAERS over time.

See APPENDIX B – “Annual Financial Report – Note 7” for additional information on the City’s Pension Plans.

Other Post-Employment Benefits

In addition to providing pension benefits, the City provides certain health care and insurance benefits to its retirees (“OPEB”). 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, dental, vision, and \$1,000 of life insurance. The City pays a portion of the retiree’s medical insurance premiums 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 City pays the entire cost of the premium for life insurance for the retiree.

The City recognizes the cost of providing these benefits as payroll expenses/expenditures in an operating fund with corresponding revenue in the Employee Benefits Fund and are funded on a pay-as-you-go basis. The estimated cost of providing these benefits for 3,731 retirees was \$24.2 million in 2012 and \$22.7 million in 2011 for 3,529 retirees.

As of September 30, 2012, the City’s unfunded actuarial accrued liability is approximately \$1.5 billion; the net OPEB obligation is \$493.1 million. The City has worked with a task force consisting of employees and retirees to determine which elements of the retiree health care plan they value most highly. Using their input and information from other sources, the City has run alternate scenarios to assess the effect these would have on reducing retiree benefits or developing other cost-sharing strategies. Cost reduction strategies have also been implemented.

See APPENDIX B – “Annual Financial Report – Note 8” for additional information on the City’s OPEB.

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 \$6.3 million for claims and damages at the end of fiscal year 2012. Employee injuries are covered by the Workers’ Compensation Fund, and health claims are protected by the Employee Benefits Fund.

INVESTMENTS

The City invests its available funds in investments authorized by State law, particularly the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code (the “PFIA”), 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 Texas law, the City is authorized to invest in:

- (1) obligations of the United States or its agencies and instrumentalities, including letters of credit;
- (2) direct obligations of the State of Texas or its agencies and instrumentalities;
- (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States;
- (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
- (6) bonds issued, assumed or guaranteed by the State of Israel;
- (7) certificates of deposit meeting the requirements of the PFIA that are issued by an institution that has its

- main office or a branch office in the State of Texas and are guaranteed or insured by a combination of cash and the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits;
- (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas;
 - (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency;
 - (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank;
 - (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of ninety (90) days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share;
 - (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and,
 - (13) 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 above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service.

The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if:

- (i) the value of securities loaned under the program must not be collateralized at less than 100%, including accrued income, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool;
- (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; and
- (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

Effective September 1, 2005, the City, as the owner of a municipal electric utility that is engaged in the sale of electric energy to the public, may invest funds held in a "decommissioning trust" (a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation) in any investment authorized by Subtitle B, Title 9, Texas Property Code ("Texas Trust Code"). The Texas Trust Code provides that a trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.

The City may also contract with an investment management firm registered under the Investment Advisor Act of 1940 (15 U.S.C. Section 80b.1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the City retains ultimate responsibility as

fiduciary of its assets.

The City is specifically prohibited from investing 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.

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 that address the quality and capability of investment personnel. The policy includes a list of the type of authorized investments for City funds, the maximum allowable stated maturity of any individual investment owned by the City, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. 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) understanding of the suitability of the investment to the financial requirements of the City;
- (2) preservation and safety of principal;
- (3) liquidity;
- (4) marketability of each investment;
- (5) diversification of the portfolio; and
- (6) yield.

The City's investment policy authorizes the City to invest its funds and funds under its control in all of the eligible investments described above under "Legal Investments", except those investments described in clauses (3) and (6).

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 the 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 and the ending value of each pooled fund group;
- (4) the book value and market value of each separately listed asset at the 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 Chief Financial Officer of the City.

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 representative 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 Chief Financial Officer of the City, Treasurer and Investment Officers.

Current Investments

As of April 30, 2013, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	3%
U. S. Agencies	50%
Money Market Funds	4%
Local Government Investment Pools	43%

The dollar weighted average maturity for the combined City investment portfolios is 304 days. The City prices the portfolios weekly utilizing a market pricing service.

TAX MATTERS

THE FOLLOWING DISCUSSION, WHICH WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SALE OF THE BONDS, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED BELOW. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE BONDS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

Certain Federal Income Tax Considerations

General. The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Bonds and is based on the Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service ("IRS") and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Bonds and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers qualifying for the health insurance premium assistance credit, taxpayers who may be subject to or personal holding company provisions of the Code) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Bonds as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Bonds as "capital assets" (generally, property held for investment) within the meaning of section 1221 of the Code. This discussion is based on statutes, regulations, published rulings and court decisions existing on the date of delivery of Bond Counsel's opinions, as described below ("Existing Law"), all of which are subject to change or modification, retroactively.

As used herein, the term “U.S. Holder” means a beneficial owner of a Bond who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term “Non-U.S. Holder” means a beneficial owner of a Bond that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER’S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BEFORE DETERMINING WHETHER TO PURCHASE BONDS.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2013A Bonds under federal or state law and could affect the market price or marketability of the Series 2013A Bonds. Any such legislation, action or court decision could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such legislation, action or court decision being enacted or becoming effective cannot be predicted. Prospective purchasers of the Series 2013A Bonds should consult their own tax advisors regarding the foregoing matters.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner’s social security number or other taxpayer identification number (“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient’s federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Tax-Exempt Bonds

Opinion

On the date of initial delivery of the Series 2013A Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render its opinion that, in accordance with Existing Law, (1) for federal income tax purposes, interest on the Series 2013A Bonds will be excludable from the “gross income” of the holders thereof and (2) the Series 2013A Bonds will not be treated as “specified private activity bonds”, the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Code. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Series 2013A Bonds. See APPENDIX E - Form of Bond Counsel’s Opinions.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City’s federal tax certificate related to the Series 2013A Bonds, (b) covenants of the City contained in the Bond Ordinance relating to certain matters, including arbitrage and the use of the proceeds of the Series 2013A Bonds and the property financed or refinanced therewith, and (c) the report of The Arbitrage Group (see “OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculations”). Failure by the City to observe the aforementioned representations or covenants could cause the interest

on the Series 2013A Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Series 2013A Bonds in order for interest on the Series 2013A Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Series 2013A Bonds to be included in gross income retroactively to the date of issuance of the Series 2013A Bonds. The opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Series 2013A Bonds.

Bond Counsel's opinion regarding the Series 2013A Bonds represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion related to the Series 2013A Bonds is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Series 2013A Bonds.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Series 2013A Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Series 2013A Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Series 2013A Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any U.S. Holder who has purchased a Series 2013A Bond as an Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below. In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such U.S. Holder in excess of the basis of such Original Issue Discount Bond in the hands of such U.S. Holder (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

All U.S. Holders of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

Under section 6012 of the Code, U.S. Holders of tax-exempt obligations, such as the Series 2013A Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Series 2013A Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such Series 2013A Bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a Series 2013A Bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

Taxable Bonds

Certain U.S. Federal Income Tax Consequences to U.S. Holders

Periodic Interest Payments and Original Issue Discount. The Series 2013B Bonds are not obligations described in section 103(a) of the Code. Accordingly, the stated interest paid on the Series 2013B Bonds or original issue discount, if any, accruing on the Series 2013B Bonds will be includable in “gross income” within the meaning of section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Bonds. An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Series 2013B Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner’s tax basis in the Series 2013B Bonds. Generally, a U.S. Holder’s tax basis in the Series 2013B Bonds will be the owner’s initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Series 2013B Bonds has been held for more than one year.

Defeasance of the Taxable Bonds. Defeasance of any Series 2013B Bond may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Series 2013B Bond, will not be subject to U.S. federal income or withholding tax in respect of such Series 2013B Bond, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Series 2013B Bond.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder’s allocable portion of the interest income received by the controlled foreign corporation.

CONTINUING DISCLOSURE OF INFORMATION

In the Twenty-Second Supplement and the Twenty-Third Supplement, the City has made the following agreement for the benefit of the Holders and beneficial owners of the Series 2013A Bonds and the Series 2013B Bonds, respectively. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”).

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement within the various tables and in APPENDIX B. The City will update and provide this information within six (6) months after the end of each fiscal year, beginning with the fiscal year ending in 2013. The City will provide the updated information to the MSRB through its Electronic Municipal Market Access (“EMMA”) information system.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Web site or filed with the United States Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”). The updated 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 information by the required time and 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 of each year unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Disclosure Event Notices

The City shall notify the MSRB, in a timely manner not in excess of ten (10) Business Days after the occurrence of the event, of any of the following events with respect to the Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of holders of the Bonds, if material;
- (8) Bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the City;
- (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

(Neither the Bonds, the Twenty-Second Supplement nor the Twenty-Third Supplement make any provision for credit or liquidity enhancement.) The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Bond Ordinance.

As used in clause 12 above, the phrase “bankruptcy, insolvency, receivership or similar event” means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and officials or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or

governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. The term “Business Day” means a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions are authorized by law or executive order to close in the City or the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located.

Availability of Information

In connection with its continuing disclosure agreement entered into with respect to the Bonds, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain 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 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 may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time 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 (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described in this document in compliance with the Rule, taking into account any amendments or interpretations of the rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with 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 financial information and operating data so provided.

Compliance with Prior Undertakings

Except as described in this paragraph, during the last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City did not file its unaudited or audited financial statements for the fiscal years ending September 30 in each of the years 2006, 2007, 2008 and 2011 by the required deadline of March 31 of the next succeeding year. The audited financial statements of the City for the fiscal year ending September 30, 2006 were filed on October 24, 2007. In each of the other years cited above, audited financial statements of the City were filed no later than 31 days after March 31 of the next succeeding year. Annual financial information and operating data of the City was filed by the required time in accordance with the City’s continuing disclosure agreements in the above-cited years in which the audited financial statements were filed after March 31 of the next succeeding year. The City has filed material event notices in connection with each late filing and has implemented procedures to ensure timely filing of all future financial statements.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received ratings of “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 organization 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 one or all of such rating companies, if in the judgment of one or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Registration and Qualification of Bonds

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “OTHER RELEVANT INFORMATION – Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City in accordance with their terms payable solely from and, together with the outstanding Parity Water/Wastewater Obligations and Outstanding Prior Subordinate Lien Obligations, equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water and Wastewater System in the manner provided in the Twenty-Second Supplement and the Twenty-Third Supplement and the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Series 2013A Bonds 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 MATTERS - Tax Exempt Bonds” herein, including the alternative minimum tax on corporations. The form of Bond Counsel’s opinions is attached hereto as APPENDIX E.

Bond Counsel was not requested to participate, and 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 their capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions “PLAN OF FINANCING”, “SECURITY FOR THE BONDS”, “DESCRIPTION OF THE BONDS” (except for the information under the subheading “Bondholders Remedies”), “TAX MATTERS”, “CONTINUING DISCLOSURE OF INFORMATION” (except for the information under the subheading “Compliance with Prior Undertakings”), “OTHER RELEVANT INFORMATION – Registration and Qualification of Bonds”, “OTHER RELEVANT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas” and “OTHER RELEVANT INFORMATION – Legal Opinions”, and in “APPENDIX C”, “APPENDIX D” and “APPENDIX E” to verify that the information relating to the Bonds, the Master Ordinance, the Twenty-Second Supplement and the Twenty-Third Supplement contained under such captions and in APPENDIX C and APPENDIX D in all respects accurately and fairly reflect the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of each series of the Bonds is contingent on the delivery of the Bonds occurring. The opinions of

Bond Counsel will accompany the global certificates deposited with DTC in connection with the use of the Book-Entry-Only System. Certain legal matters will be passed on for the Underwriters by their co-counsel, Bracewell & Guiliani, LLP and Darrick W. Eugene, PC. The City recommended such firms to the Underwriters based on a variety of factors, including that certain of such firms have familiarity with the affairs of the City based on prior service as counsel to the City and to underwriters in connection with City debt issues over a period of time, and other matters. The fees of such firms are contingent upon the delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

Financial Advisor

Public Financial Management, Inc. (“PFM”), Austin, Texas is employed as Financial Advisor to the City in connection with the issuance of the Bonds. PFM’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. PFM, 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.

Independent Auditors

The financial data as of and for the 12 months ended March 31, 2013 herein has been derived from the unaudited internal records of the City. The City’s independent auditors have not reviewed, examined, or performed any procedures with respect to the unaudited financial information, nor have they expressed any opinion or any other form of assurance on such information, and assume no responsibility for, and disclaim any association with the unaudited financial information. The unaudited information is preliminary and is subject to change as a result of the audit and may differ from the audited financial statements when they are released.

The financial statements of the City included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, to the extent and for the period indicated in their report.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2013A Bonds from the City at a price equal to the initial offering prices to the public, as shown on page ii of this Official Statement, less an underwriting discount of \$_____. The Series 2013A Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2013A Bonds into investment trusts) at prices lower than the public offering prices of such Series 2013A Bonds, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters have agreed, subject to certain conditions, to purchase the Series 2013B Bonds from the City at a price equal to the initial offering prices to the public, as shown on page iii of this Official Statement, less an underwriting discount of \$_____. The Series 2013B Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2013B Bonds into investment trusts) at prices lower than the public offering prices of such Series 2013B Bonds, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased.

J.P.Morgan has provided the following paragraph for inclusion in the Official Statement, but the City takes no responsibility for the accuracy thereof. J.P.Morgan Securities LLC (“JPMS”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

The Underwriters have provided the following paragraphs for inclusion in the Official Statement, but the City takes no responsibility for the accuracy thereof. The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the City and to persons and entities with relationships with the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Forward-Looking Statements

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials.

Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Verification of Arithmetical and Mathematical Calculations

The Arbitrage Group, Inc. (the "Verification Agent"), a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the City its report indicating that they have examined (a) the mathematical accuracy of computations prepared by PFM relating to the sufficiency of the proceeds of the Bonds and the City contribution deposited to the credit of the Escrow Fund to effect the defeasance of the Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

The report of the Verification Agent will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

Miscellaneous 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 ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The City approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the offering of the Bonds by the Underwriters.

Mayor
City of Austin, Texas

ATTEST:

City Clerk
City of Austin, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been presented for informational purposes only.

General Information

The City of Austin, chartered in 1839, has a Council-Manager form of government with a Mayor and six Councilmembers. The Mayor and Councilmembers are elected at large for three-year staggered terms with a maximum of two consecutive terms. The City Manager, appointed by the City Council, is responsible to them for the management of all City employees and the administration of all City affairs. Austin, the capital of Texas, is the fourth largest city in the state (behind Houston, Dallas, and San Antonio) with a September 2011 population of 805,662, according to the City's estimates. Over the past ten years (2002-2011), Austin's population has increased by approximately 134,600 residents or 20.1%. Geographically, Austin consists of approximately 308 square miles. The 2011 current estimated median household income for Austin residents is \$46,689, according to Claritas, a Nielsen company. Austin's 2011 per capita income is estimated to be \$38,484 based on analysis of the Bureau of Economic Analysis information.

Austin is nationally recognized as a great place to live due in part to its diverse and eclectic population, as well as its promotion of a year-round outdoor active lifestyle. Austin draws its special character from its physical setting along the Balcones Escarpment, a city wedged between coastal plain and dramatic cliffs, canyons and juniper carpeted rolling hills; it sits on the edge of the Chihuahuan desert existing as a physical and cultural oasis where talented, entrepreneurial, hard-working people are drawn from all over the world. Austin's quality of life has become its biggest economic development engine, and the City's diverse demographic structure serves to support and enrich its quality of life.

The City of Austin is fortunate to offer a host of broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with approximately 44 percent of adults twenty-five years or older holding a bachelor's or advanced degree, compared to 28 percent for the U.S. as a whole. Higher education is a significant aspect of life in the Austin area. The Austin metropolitan area is host to seven universities and six other institutions of higher learning. The University of Texas at Austin (UT), the fifth largest public university in the nation, is known as a world-class center of education and research and was ranked 45th nationally and 13th among public universities by *U.S. News and World Report* in 2011.

Local Economy

The City of Austin's vision of being the most livable city in the country means that Austin is a place where all residents participate in its opportunities, vibrancy and richness of culture and diversity. Austin residents share a sense of community pride and a determination that the City's vision is not just a slogan, but a reality for everyone who lives in the City. Local government plays a critical role in determining a city's quality of life. When Austin is compared to other cities, it receives high marks. For instance, the 2011 Community Survey shows that Austin residents rate Austin's city services high, especially when compared to other large cities. Among 13 cities with populations greater than 500,000, Austin had the highest overall satisfaction rating. In addition, Austin is rated at or above the national average for large cities with populations over 200,000 in 89% of the 46 service areas assessed. The City's success is attributable to the hard work, thoughtfulness, and passion of the City Council, City employees, and Austinites themselves. Austin's rankings reflect a City government that seeks to keep its vision in the forefront while planning for the future.

In December 2011, the Brookings Institution's Metropolitan Policy Program published the MetroMonitor: Tracking Economic Recession and Recovery in America's 100 Largest Metropolitan Areas, a study that ranked Austin among the strongest-performing metro areas recovering from the economic recession, noting income and employment growth, and a stable housing market. Austin's diversified economy, including employment in government, education, and a robust high tech-sector were contributing factors in their analysis. As reported in the same article, through September 2011, Austin had regained more than half of the jobs lost between the prerecession high and post-recession low. In the third quarter of 2011, only 19 large U.S. metropolitan areas, including Austin, had a quarterly output growth rate of at least 0.8% which is indicative of a sustained economic recovery. Austin's unemployment rate ended 2011 at 6.3% in December, down from 6.9% in December 2010; the State and National unemployment rates in December 2011 were 7.4% and 8.5%, respectively.

As reported to Council during the fiscal year 2012 budget process, housing sales have remained stable and median home sales prices have increased 5.1% over the past five years, a reflection of the area's positive job growth. Sales tax revenue has shown positive growth over the past two fiscal years. Fiscal year 2011 experienced a 4.4% increase over fiscal year 2010, which was a 3.5% increase over the previous fiscal year. During 2011, Austin-Bergstrom International Airport (ABIA) passenger activity experienced a record high of more than 9 million travelers, a 5% increase over 2010. For the sixth consecutive year, ABIA was highly ranked for customer service, ranking fourth among airports in North America, regardless of size, by Airport Council International's 2011 Airport Service Quality (ASQ) passenger survey. ABIA's consistently high ASQ ranking earned the airport a place in the first Airport Council International's Director General's Roll of Excellence. Only 14 airports in the world received this recognition.

Austin continues to be a destination for both business and recreational activities. The Austin metropolitan area is consistently recognized as among the most inventive, creative, wired, educated, fit, and loved cities in which to live and work. Austin is known around the world as the "Live Music Capital of the World". In March 2011, South by Southwest (SXSW) hosted its 25th annual music festival, conference, and trade show, providing a unique convergence of original music, independent films, and emerging technologies. According to economic impact analysis posted on the SXSW website and prepared by Greyhill Advisors, the festival was responsible for injecting more than \$167 million into the Austin economy.

In January 2012, Austin was named to the Top Seven List of Intelligent Communities for 2012 by the Intelligent Community Forum, a think tank that studies the economic and social development of the 21st Century community. Austin's selection came as a result of its commitment to utilize information and communication technologies in innovative ways that serve the community to address workforce challenges.

The City of Austin Economic Growth and Redevelopment Services Office received three Excellence in Economic Development Awards for communities with populations over 500,000 from the International Economic Development Council (IEDC). The awards are for the Small Business Development Program (SBDP) in the category of Entrepreneurship, Independent Business Investment Zone (IBIZ) District in the category of Neighborhood Development Initiatives, and the 2nd Street District in the category of Public-Private Partnerships.

Austin has ranked at the top of lists such as Forbes, Kiplinger's, the Milken Institute, and others in regards to career choice, income, recreation opportunities, housing, and business start-up.

10 Best Cities to Find a Job <i>Ajilon Professional Staffing – March 2011</i>	Best-Performing Cities 2011, Where America's Jobs are Created and Sustained <i>Milken Institute – December 2011</i>
America's Best Cities for Young Adults <i>Forbes – December 2010</i>	The 10 Most Popular Cities for College Grads <i>The Atlantic – January 2011</i>
America's Best and Worst Job Markets <i>Forbes – January 2011</i>	10 U.S. Cities With the Cheapest Cost of Living <i>Kiplinger's Personal Finance Magazine – June 2011</i>
Tracking Economic Recession and Recovery in America's 100 Largest Metropolitan Areas <i>The Brookings Institution – December 2011</i>	The Next Biggest Boom Towns in the U.S. <i>Forbes – July 2011</i>
Only 13 of Top 100 U.S. Metros Have Bounced Back from Recession <i>The Business Journals On Numbers – February 2012</i>	The 10 Hottest Spots to Start a Small Business (Austin ranked number 1) <i>The Fiscal Times – July 2011</i>

In 2012, Zilker Metropolitan Park received an honored designation as a Lone Star Legacy Park by the Texas Recreation and Parks Society. A Lone Star Legacy Park is classified as a park that holds special prominence in the local community and the state of Texas. To qualify for consideration, the park must have endured the test of time and become iconic to those who have visited, played, and rested on its grounds. This 351-acre park is home to a variety of recreation opportunities and special events for individuals and families.

Long-Term Financial Planning

A key City financial policy requires annual preparation of a five-year financial forecast projecting revenues and expenditures for all operating funds. This forecast is used as a planning tool to develop the following year's operating budget. The City's budgeting approach emphasizes fiscal responsibility by limiting spending in a given year to projected revenue collections.

Due to successful conservation efforts, Austin Water Utility pumps 50 gallons less water per capita per day than it did in 1995. It is projected that the typical residential customer's average monthly water usage will decrease by 6.5% in the future. With 80% of the utility's costs fixed and less than 20% of fixed revenues, this can inhibit the utility's ability to cover costs during extreme weather or economic events. To help improve the financial position, the Water and Wastewater Utility implemented a 5.1% combined water and wastewater rate increase in fiscal year 2012 and a new fixed Water Sustainability Fee that strengthens the future financial health and stability of the utility.

On November 2, 2010, Austin voters approved a \$90 million bond program designed to enhance mobility in the region. This bond program will invest in streets, sidewalks, bike paths, trails, and transit infrastructure in all parts of Austin. The City Council established the Bond Oversight Committee to ensure efficiency, equity, timeliness, and accountability in the implementation of the 2006 and 2010 bond programs, as well as all future bond programs.

In August 2011, all three major U.S. financial rating agencies reaffirmed Austin's "AAA" long-term general obligation debt rating, the highest attainable bond rating, with a stable outlook. The Standard and Poor's report noted that key factors supporting the "AAA" rating included Austin's strong and diverse economic base, strong financial management and moderate overall debt levels. Fitch Ratings noted that one of the key factors driving affirmation of the "AAA" rating was due to consistently sound financial performance, stable taxable values, a resilient regional economy and a moderate debt profile. Moody's Investors Services, Inc. described Austin's financial policies, expenditure controls, and conservative budget practices as "favorable factors considered in the rating".

In June 2012, following an 18-year period with no change in its base electric rates, City Council approved a system average 7% rate increase for Austin Energy which was reflected on electric bills beginning in October 2012. The increase is anticipated to provide Austin Energy an additional \$71 million in base revenue annually. The City Council plans to further assess rate adjustment needs in 2014. After the 2014 review, it is expected that rates will be reexamined every five years. The City Council also reaffirmed that future rate increases should not exceed 2% a year and that Austin Energy rates remain in the lower 50% among Texas electric utilities.

On November 6, 2012, voters approved six bond propositions, authorizing the City Council to issue up to \$306.6 million of general obligation bonds to finance transportation and mobility projects, open space and watershed protection projects, parks and recreation projects, public safety projects, health and human services projects, and library and cultural arts facilities projects.

Budgetary Information

The fiscal year 2013 Approved Budget totals \$3.1 billion and includes \$742.5 million for the General Fund to provide public safety, health, library, parks, and other needed services to the Austin community. It is a structurally balanced budget, maintaining the high quality core services that Austin's residents expect and contribute to its top-ranked quality of life.

The 2013 Budget was developed in a manner true to the City's unwavering commitment to openness, transparency, and public engagement. The City's Budget is organized around activities and services. The budget development process integrates the City's finances with business planning, performance measurement, and resident input, thereby elevating budget discussions to meaningful conversations about outcomes that impact our residents. Input was gathered and evaluated to address the many issues, concerns, and priorities identified by Austin's citizens, employees, and Councilmembers. Those top priorities, identified through public engagement efforts, are addressed in the fiscal year 2013 Budget and include enhanced funding for public safety, health, library, parks, water, energy, infrastructure, development and other services to the citizens of Austin.

The fiscal year 2013 Approved Budget was passed with an increase to the property tax rate of 2.18 cents, from 48.11 to 50.29 cents per \$100 of taxable value. Included in the approved budget are pay increases for employees; a 3% wage

adjustment for all civilian employees and a 3% wage adjustment for uniformed personnel. Also included in the fiscal year 2013 Budget is the addition of 22 new police officers and the annualized cost of 6 new paramedic positions. The fiscal year 2013 Budget authorizes the use of approximately \$13.5 million of the budget stabilization reserves to address capital replacement and other critical needs. The Approved Budget projects budget stabilization reserves of \$41.4 million at the end of fiscal year 2013.

Austin includes several enterprise activities, including a municipal owned electric utility, water/wastewater utility, airport, and other miscellaneous operations. The City's largest enterprise department, Austin Energy, is the eighth largest municipal-owned electric utility in the United States in terms of customers served. Austin Energy serves more than 400,000 customers with a service territory of approximately 437 square miles and an approved budget for fiscal year 2013 of \$1.28 billion in annual revenues, including transfers. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and renewable energy sources. Austin Energy's capital improvement spending plan of \$220.8 million includes projects for power production, Holly Power Plant decommissioning, alternative energy, distribution, transmission, customer billing and metering, and other utility-wide support.

The City's enterprise activities also include the Austin Water Utility, which provides water and wastewater services to nearly 212,000 customers within Austin and surrounding areas. The fiscal year 2013 Budget projects revenues from the sale of water and wastewater service and other revenue to be \$514.8 million. Other enterprise funds and their fiscal year 2013 revenue budgets include Aviation (\$86.6 million) and the Convention Center (all funds combined of \$60.9 million).

Major Initiatives

The City of Austin's vision is to be the most livable City in the country. In April 2007 and amended in 2009, the Austin City Council adopted the following policy priorities:

- Rich Social and Cultural Community
- Vibrant Urban Fabric
- Healthy, Family-Friendly, Safe City
- Sustainable Economic Development and Financial Health

PRIDE. In order to achieve Austin's vision to be the most livable City in the country, Austin's city government has made it its mission to be the best-managed city in the country. The City Manager is committed to creating an environment that fosters creative thinking and innovation by the workforce to tackle challenges today and in the future. City employees take enormous pride in their work. PRIDE reflects the City's core values of public service and how employees relate to customers and each other. Being "best managed" means everybody in the organization is providing the best service possible to the community. The elements of PRIDE are as follows:

- Public Service & Engagement – We will partner with one another and with our community to provide the best service possible.
- Responsibility & Accountability – We take responsibility for achieving results and hold ourselves accountable for our actions.
- Innovation & Sustainability – We actively seek out good ideas that have a lasting, positive impact on our work, our community and our environment.
- Diversity & Inclusion – We recognize and respect a variety of perspectives, experiences and approaches that will help us achieve our organizational goals.
- Ethics & Integrity – Our actions will maintain the trust and confidence of the public and the organization. The City's Finance and Administrative Services mission is to maintain the financial integrity of the City.

Energy Efficiency. The USEPA has awarded Austin Energy a 2012 ENERGY STAR Sustained Excellence Award in recognition of its continued leadership and achievement in the delivery of energy efficiency services to its customers. It is the eighth year in a row that Austin Energy has been recognized by ENERGY STAR for continued excellence in helping residential customers reduce their energy use and lower their bills by making their homes more energy efficient. Over the last five years, some 13,000 Austin Energy residential customers used rebates or loans to make energy efficiency improvements such as replacing air conditioners, adding insulation or sealing ducts. Combined, those customers reduced their energy use by 26 million kilowatt-hours of electricity for annual savings of \$2.6 million.

Innovative. In October 2010, the City unveiled Austin Finance Online, a one-stop web-based portal containing financial documents, Online Contract Catalog, Vendor Connection, eCheckbook, and other financial information of the City.

The Online Contract Catalog is a service that provides details on each of the City's active purchasing contracts; Vendor Connection is a public clearinghouse to view detailed information about current business opportunities with the City. eCheckbook shares the City's payment register information in an interactive, user friendly format. Through eCheckbook, citizens can search the City's payment records, download reports and drilldown into transaction-level details. Recognizing the City's efforts in achieving the highest standards in financial transparency, the Texas State Comptroller awarded this site the Gold Level Leadership Circle Award.

ARRA. In 2009, the City established a Recovery Office to coordinate the City's efforts with other entities in applying for and reporting on funding received through the American Recovery and Reinvestment Act (ARRA). The City has successfully pursued various ARRA funding opportunities in areas ranging from transportation to energy to health care. At year end, the City had been awarded \$86.6 million either directly or as pass-through funds with a total of 81% of those funds being obligated. In fiscal year 2011, the City received \$1.2 million in new funding to add solar power to the George Washington Carver Museum, establish a public computing center for job seekers at the Carver Library, convert 60 City fleet vehicles from unleaded gasoline to propane and test 14 plug-in hybrid Ram 1500 Crew Cab vehicles for three years. The City also received extra funds for on-going programs. In addition, four grants were completed, including the three S.T.O.P. Violence Against Women grants awarded to the Police Department and the Public Works grant for the Loop 360 Bike and Pedestrian Improvements.

Financial Policies

The City has adopted a comprehensive set of Financial Policies to ensure that the City's financial resources are managed in a prudent manner. These policies dictate that current revenue will be sufficient to support current expenditures (defined as "structural balance"). Assigned and unassigned fund balances in excess of what is required shall normally be used to fund capital items in the operating and capital budgets. The City maintains the goal of a structurally balanced budget to achieve long-term financial stability for the Austin community. These policies are reviewed as part of the annual budget process and are published in the Approved Budget.

Internal Controls

City management is responsible for establishing, implementing, and maintaining a framework of internal controls designed to ensure that City assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles. The system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The annual operating budget is proposed by the City Manager and approved by the City Council after public discussion. Annual updates to the Capital Improvements Program budgets follow a similar process. Primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. As demonstrated by the statements and schedules included in the City's 2012 Comprehensive Annual Financial Report ("CAFR"), the City continues to meet its responsibility for sound financial management.

Governance

On November 6, 2012, the City Charter of the City was amended to provide (1) for the election of a City Council comprised of ten single-member districts, and one at-large position to be held by the Mayor, (2) for council terms, including that of the Mayor, to be four years in length, and (3) for a permanent move of City elections from May to November in even-numbered years. It is anticipated that terms of the Mayor and Councilmembers will be staggered such that the terms of the entire City Council (including the Mayor) would not be coterminous. Additional actions will need to be taken for the City to implement the cited revisions to the City Charter, including preparing a map of the ten single-member districts and submitting the map to the United States Department of Justice for approval in accordance with the federal Voting Rights Act. It is anticipated that the first elections to be conducted to elect an eleven-member City Council (including the Mayor) will be conducted in November 2014.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to a governmental unit that publishes a CAFR that meets the GFOA program standards. GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its 2011 CAFR. A Certificate of Achievement is valid for a period of one year only. City management believes that the 2012 CAFR conforms to the Certificate of Achievement Program requirements, and the City has submitted it to GFOA for review.

Employment by Industry in the Austin Metropolitan Area (a)

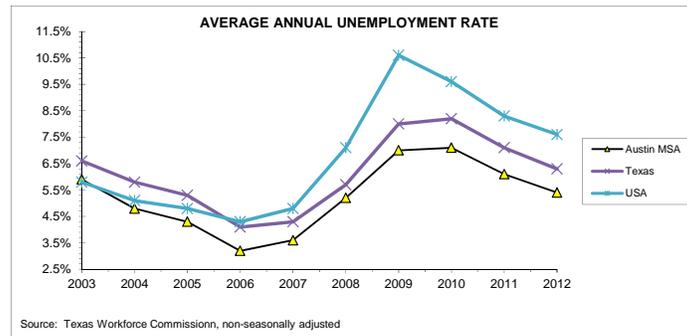
Employment Characteristics

<u>Industrial Classification</u>	<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012</u>	
		<u>% of Total</u>								
Manufacturing	55,000	7.0%	49,500	6.5%	47,300	6.2%	50,900	6.4%	51,600	6.3%
Government	163,700	21.0%	167,900	22.1%	170,500	22.2%	167,400	20.9%	170,700	20.8%
Trade, transportation & utilities	163,700	21.0%	152,500	20.1%	134,200	17.5%	142,600	17.8%	140,600	17.1%
Services and miscellaneous	300,500	38.5%	304,000	40.0%	333,200	43.5%	354,500	44.4%	371,200	45.1%
Finance, insurance and real estate	47,200	6.0%	43,900	5.8%	42,300	5.5%	45,300	5.7%	46,600	5.7%
Natural resources, mining & construction	<u>50,800</u>	<u>6.5%</u>	<u>42,000</u>	<u>5.5%</u>	<u>39,000</u>	<u>5.1%</u>	<u>38,600</u>	<u>4.8%</u>	<u>40,800</u>	<u>5.0%</u>
Total	<u>780,900</u>	<u>100.0%</u>	<u>759,800</u>	<u>100.0%</u>	<u>766,500</u>	<u>100.00%</u>	<u>782,200</u>	<u>100.00%</u>	<u>821,500</u>	<u>100.00%</u>

(a) Austin-Round Rock MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically; data contained in this document is the latest provided. Based on calendar year. Source: Texas Labor Market Review, November 2012, Texas Workforce Commission.

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Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.</u>
2003	5.9%	6.6%	5.8%
2004	4.8%	5.8%	5.1%
2005	4.3%	5.3%	4.8%
2006	3.2%	4.1%	4.3%
2007	3.6%	4.3%	4.8%
2008	5.2%	5.7%	7.1%
2009	7.0%	8.0%	10.6%
2010	7.1%	8.2%	9.6%
2011	6.1%	7.1%	8.3%
2012	5.4%	6.3%	7.6%

Note: Information is updated periodically; data contained in this document is latest provided.
 Source: Texas Labor Market Review, November 2012, Texas Workforce Commission.

City Sales Tax Collections (In Millions)

<u>Period</u>	<u>Amount</u>								
1-1-08	\$11.639	1-1-09	\$10.864	1-1-10	\$10.215	1-1-11	\$11.492	1-1-12	\$12.189
2-1-08	16.569	2-1-09	14.289	2-1-10	15.921(1)	2-1-11	16.149	2-1-12	16.923
3-1-08	12.109	3-1-09	10.528	3-1-10	10.736	3-1-11	11.117	3-1-12	11.762
4-1-08	11.355	4-1-09	9.724	4-1-10	10.290	4-1-11	10.312	4-1-12	11.838
5-1-08	13.882	5-1-09	12.612	5-1-10	14.145	5-1-11	14.022	5-1-12	15.239
6-1-08	12.185	6-1-09	11.213	6-1-10	11.533	6-1-11	11.941	6-1-12	12.949
7-1-08	12.129	7-1-09	10.752	7-1-10	11.569	7-1-11	11.924	7-1-12	13.168
8-1-08	14.486	8-1-09	13.495	8-1-10	12.799	8-1-11	14.387	8-1-12	15.371
9-1-08	12.349	9-1-09	10.673	9-1-10	11.427	9-1-11	11.307	9-1-12	14.220
10-1-08	11.781	10-1-09	11.037	10-1-10	11.562	10-1-11	13.385 (2)	10-1-12	13.960
11-1-08	13.595	11-1-09	12.419	11-1-10	13.347	11-1-11	13.873		
12-1-08	12.190	12-1-09	11.165	12-1-10	11.216	12-1-11	12.004		

(1) Includes a \$1.5 million one-time sales tax correction.

(2) Collections for 10-1-11 reflect an increase of \$1,162,541 in future period and audit collection adjustments from the prior year. A similar adjustment is not expected to occur in 2012. Sales taxes are not pledged to the payment of the Bonds.

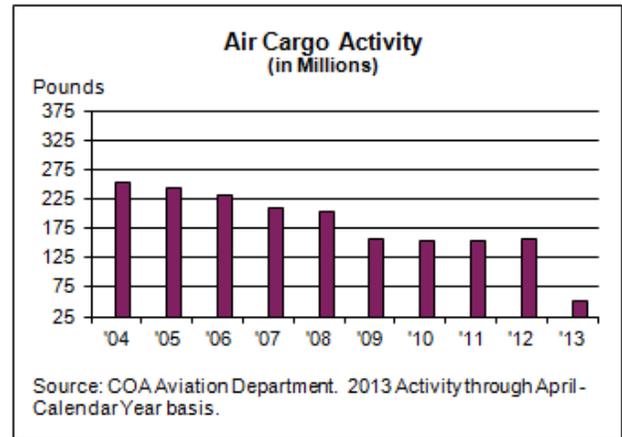
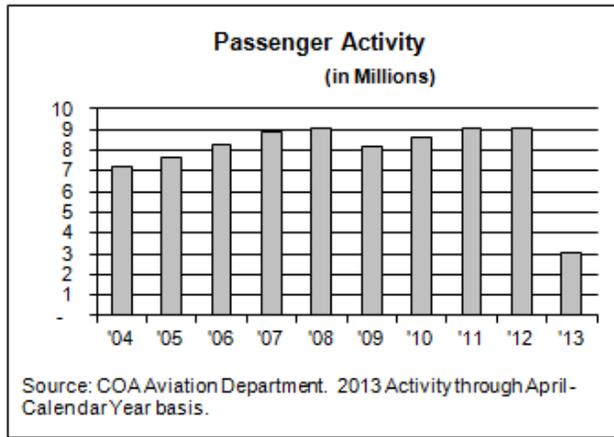
Source: City of Austin, Budget Office.

Ten Largest Employers (As of September 30, 2012)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	State Government	36,462
The University of Texas at Austin	Education	22,956
Dell Computer Corporation	Computers	14,000
Seton Healthcare Network	Healthcare	12,606
City of Austin	City Government	12,109
Federal Government	Government	11,400
Austin Independent School District	Education	11,168
HEB Grocery	Grocery/Retail	10,545
St. David's Healthcare Partnership	Healthcare	7,500
IBM Corporation	Computers	6,239

Source: 2012 Comprehensive Annual Financial Report.

Transportation



Austin-Bergstrom International Airport

The City of Austin's Austin-Bergstrom International Airport, which opened for passenger service on May 23, 1999 and replaced the Robert Mueller Municipal Airport as the City's commercial passenger service airport, is served by eight signatory airlines: American Airlines, Delta, Frontier, JetBlue, Southwest, United and US Airways. Non-stop service is available to 34 U.S. destinations.

On February 21, 2013, the City issued \$143,770,000 of its Rental Car Special Facility Revenue Bonds, Taxable Series 2013, to finance a state-of-the-art rental car facility within walking distance of the Airport terminal. Ground breaking for the facility occurred in April 2013, and completion of the facility is expected to occur in September 2015.

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 Bus-Coach USA.

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 a one quarter percent increase in the sales tax, thus returning to one percent effective October 1, 1995.

Demographic and Economic Statistics - Last Ten Years

<u>Year</u>	City of Austin <u>Population</u> (1)	Area of Incorporation (<u>Square Miles</u>) (1)	Population MSA (2)	Income (MSA) (thousands of dollars) (2)	Median Household Income MSA (3)	Capita Personal Income MSA (2)	Unemployment Rate (MSA) (4)
2003	674,719	276	1,385,723	\$43,104,097	41,909	31,106	6.0%
2004	683,551	291	1,423,161	46,134,871	39,227	32,417	5.1%
2005	695,881	294	1,464,563	51,058,588	40,335	34,863	4.5%
2006	714,237	296	1,528,958	56,105,872	40,888	36,695	4.2%
2007	732,381	297	1,577,856	59,924,200	42,263	37,978	3.7%
2008	746,105	298	1,633,870	65,153,669	46,340	39,877	4.4%
2009	770,296	302	1,682,338	63,189,292	47,520	37,560	6.8%
2010	778,560	306	1,728,307	67,320,866	48,460	38,953	7.1%
2011	805,662	308	1,783,519	72,152,395	46,689	40,455	6.8%
2012	821,012	319	1,863,311 (6)	73,423,510 (5)	46,436	39,405 (5)	5.8%
2003-2012 Change	21.68%	15.61%	34.46%	70.34%	10.80%	26.68%	

Note: Prior year statistics are subject to change as more precise numbers become available.

- (1) Source: City Demographer, City of Austin, Neighborhood Planning and Zoning Department based on full purpose area as of September 30.
- (2) Source: Bureau of Economic Analysis for all years except 2012 which will not be available until first quarter 2013.
- (3) Source: Claritas, a Nielson Company.
- (4) Source: Bureau of Labor Statistics; United State Department of Labor as of September 30.
- (5) Data not available for 2012. Figures are estimated.
- (6) Source: Claritas, a Nielson Company that historically reports less than the final numbers from the Bureau of Economic Analysis.

Connections and Permits

<u>Year</u>	<u>Utility Connections</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>
2003	363,377	184,659	199,042	1,189,489,091	17,084,652	1,206,573,743
2004	369,458	188,441	203,966	1,280,385,298	20,533,975	1,300,919,273
2005	372,735	192,511	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,511	213,009	2,353,171,746	16,526,040	2,369,697,786
2007	388,626	199,671	188,101	2,529,648,915	14,272,851	2,543,921,766
2008	396,791	206,695	198,718	1,468,699,801	4,099,000	1,472,798,801
2009	407,926	209,994	208,232	834,498,480	6,988,999	841,487,479
2010	419,355	210,901	204,823	1,413,989,503	4,252,978	1,418,242,481
2011	418,968	212,754	213,365	745,909,589	2,812,350	748,721,939
2012	412,552	214,971	217,170	1,088,133,995	23,788,268	1,111,922,263

Source: Various including the City of Austin, Texas Gas Services, Atmos Energy and Centerpoint Energy.

Housing Units

The average two-bedroom apartment in the Austin MSA was \$899 per month, with an occupancy rate of 95% for the first quarter of 2012, per Austin Investor Interests, LLC.

Residential Sales Data

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume</u>	<u>Average Price</u>
2003	19,793	\$3,899,018,519	\$197,000
2004	22,567	4,487,464,528	198,900
2005	26,905	5,660,934,916	210,400
2006	30,284	6,961,725,607	229,900
2007	28,048	6,910,962,480	246,400
2008	22,440	5,470,518,171	243,800
2009	20,747	4,924,240,373	237,300
2010	19,872	4,906,445,110	246,900
2011	21,208	5,336,642,011	251,600
2012	25,518	6,786,966,004	266,000

Note: Information is updated periodically, data contained in this document 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>
2003	76.7%
2004	80.8%
2005	84.2%
2006	87.5%
2007	85.6%
2008	80.6%
2009	77.7%
2010	80.0%
2011	82.7%
2012	86.8%

Source: Oxford Commercial.

Education

The Austin Independent School District had an enrollment of 86,724 for the 2011/2012 school year. The District includes 110 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
2003/04	77,313	73,085
2004/05	77,937	73,572
2005/06	79,500	74,860
2006/07	82,063	74,212
2007/08	82,739	74,622
2008/09	83,730	75,606
2009/10	84,996	76,658
2010/11	85,273	80,198
2011/12	86,724	79,087
2012/13	86,732	79,460

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 University, Concordia University of Texas, Austin Presbyterian Theological Seminary, Episcopal Theological Seminary of the Southwest and Austin Community College.

The University of Texas at Austin had a total enrollment of 52,261 for the fall semester of 2011 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.

Tourism

The impact of tourism on the Austin economy is significant. There are more than 257 hotels available within the Austin Metropolitan Area and year-to-date occupancy through March 2012 is 68.2%.

Existing City convention and meeting facilities include a Convention Center, which is supported by hotel/motel occupancy tax collections and revenues of the facility and the new Lester E. Palmer Events Center with 70,000 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, the Austin Music Hall, and The Long Center for the Performing Arts. The Texas Exposition and Heritage Center offers 6,000 seat arena seating and 20,000 square feet of banquet/exhibit hall facilities. The Austin Music Hall has a concert seating capacity of 3,000 and 32,000 square feet of exhibit space. The Long Center for the Performing Arts, a \$77 million venue, opened in March 2008. The Center contains two theaters: the 2,300-seat Michael and Susan Dell Hall and the flexible 240-seat Debra and Kevin Rollins Studio Theater. This venue belongs to the City, while a private nonprofit entity operates the building. The Austin City Limits Live at The Moody Theater is a state-of-the-art, 2,700+ person capacity live music venue that also serves as the home of the KLRU-TV produced PBS program Austin City Limits, the longest running music series in American television history. The venue hosts 60-100 concerts a year. Additionally, the University of Texas Darrel K. Royal-Texas Memorial Stadium was recently expanded to a seating capacity of 100,119.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS

APPENDIX C

SUMMARY OF CERTAIN MASTER ORDINANCE PROVISIONS

ORDINANCE NO. 0006008-56A

AN ORDINANCE providing for the issuance WATER AND WASTEWATER SYSTEM revenue obligations; making provision for the payment of such obligations from the revenues of the City's Water and Wastewater System; enacting provisions incident and related to the issuance, payment and security of such Obligations, including covenants and agreements relating to the operation and management of the Water and Wastewater System, the revenues derived from its operation and ownership, the establishment and maintenance of funds and accounts for the payment of such obligations, specifying the terms and conditions for the issuance of parity revenue obligations and other matters incident and related to their issuance and security; suspending the rule requiring ordinances be read on three separate days; and declaring an emergency.

WHEREAS, the City of Austin, Texas (the "City" or the "Issuer"), a "home-rule" city operating under a home-rule charter adopted pursuant to Section 5 of Article XI of the Texas Constitution has heretofore financed improvements and extensions to the City's Water and Wastewater System (the "System") by the issuance and sale of revenue obligations payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Water and Wastewater System and the City's Electric Light and Power System; and

WHEREAS, the revenue obligations currently outstanding payable from and secured by a joint and several lien on and pledge of the Net Revenues of the City's Water and Wastewater System and the City's Electric Light and Power System include:

(a) "Prior First Lien Obligations" more particularly identified as follows : (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1986", dated March 1, 1986, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986A", dated April 15, 1986, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1986C", dated November 15, 1986, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1987", dated May 15, 1987, (v) "City of Austin, Texas, Combined Utility Systems Revenue Bonds, Series 1989", dated July 15, 1989, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990A", dated February 1, 1990, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1991-A", dated June 1, 1991, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993, (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (xiii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (xiv) "City of Austin, Texas, Combined Utility

Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (xv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A", dated August 1, 1996, (xvi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B", dated August 1, 1996, (xvii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997", dated August 1, 1997, (xviii)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998", dated July 1, 1996, (xix)"City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A", dated August 1, 1997,

(b) "Prior Subordinate Lien Obligations" more particularly described as follows: (i) "City of Austin, Texas, Water, Sewer and Electric Refunding Revenue Bonds, Series 1982", dated March 15, 1982, (ii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1990", dated June 1, 1990, (iii) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994", dated March 1, 1994, (iv) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998", dated August 1, 1998, (v)"City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998", dated October 1, 1998 and (vi) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A", dated October 1, 1998, and

(c) "Commercial Paper Obligations" more particularly described as follows: (i) City of Austin, Texas Combined Utility Systems Commercial Paper Notes, Series A", authorized for issuance pursuant to Ordinance No. 930318-A, as amended by Ordinance No. 961121-A and Ordinance No. 980513-A currently authorized up to an aggregate principal amount of \$350,000,000 and (ii) "City of Austin, Texas Combined Utility Systems Taxable Commercial Paper Notes", authorized for issuance pursuant to Ordinance No. 980513-B currently authorized up to an aggregate principal amount of \$60,000,000, and in such aggregate principal amounts as hereinafter provided by amendments to either Ordinance No. 930318-A, as amended, or Ordinance No. 980513-B; and

AND WHEREAS, in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations, the City retained the authority to issue "Separate Lien Obligations" payable solely from either the Net Revenues of the Water and Wastewater System or the Net Revenues of the Electric Light and Power System , but not both, without specifying any terms or limitations on the issuance of such "Separate Lien Obligations"; and

WHEREAS, the City has determined future financing of capital improvements for the City's Water and Wastewater System and the City's Electric Light and Power System should be undertaken and accomplished through the issuance of "Separate Lien Obligations" which will enable the City to restructure provisions governing the issuance of such obligations and relating to the operations of such systems and provide financing flexibility to both systems, particularly the Electric Light and Power System in a more competitive market resulting from a change in laws affecting the regulation, generation, distribution and sale of electric energy, and

WHEREAS, in furtherance of its determination that future financing of capital improvements to the City's Water and Wastewater System shall be undertaken through the issuance of revenue obligations payable solely from and secured by a lien on and pledge of the Net Revenues of the City's Water and Wastewater System, the Council hereby finds a master ordinance governing and pertaining to their issuance should be adopted and enacted; and

WHEREAS, the terms used in this Ordinance and not otherwise defined shall have the meaning given Exhibit A to this Ordinance attached hereto and made a part hereof;

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN, TEXAS:

Section 1. REVENUE OBLIGATION FINANCING FOR THE CITY'S WATER AND WASTEWATER SYSTEM. From and after the date hereof, all revenue obligations, other than Commercial Paper Obligations, to finance capital improvements for the Water/Wastewater System shall be payable from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and from the funds and accounts hereinafter provided in this Ordinance and in any Supplement. This Ordinance is intended to provide for and govern the issuance of such Parity Water/Wastewater Obligations and establish the security for their payment, the agreements and covenants with the holders or owners of such obligations in regard to the management and operation of the Water/Wastewater System, the application and disbursement of revenues derived from its operation and ownership and other matters incident and related to the issuance of such revenue obligations. Each issue or series of Parity Water/Wastewater Obligations shall be issued, incurred or assumed pursuant to the terms of a Supplement, and each such Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, terms of payment and redemption, and any other related matters not inconsistent with the Constitution and laws of the State of Texas or the provisions of this Ordinance.

Section 2. PLEDGE OF REVENUES/SECURITY FOR PAYMENT. Subject to the prior claim on and lien on the Net Revenues of the Water/Wastewater System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations, the Net Revenues of the Water/Wastewater System are hereby pledged to the payment of the Parity Water/Wastewater Obligations and such Parity Water/Wastewater Obligations, together with the Prior Subordinate Lien Obligations and Previously Issued Separate Lien Obligations currently Outstanding, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Water/Wastewater System in accordance with the terms of this Ordinance and any Supplement. Additionally, Parity Water/Wastewater Obligations shall be secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, Reserve Fund and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Water/Wastewater Obligations pending expenditure in accordance with the terms of this Ordinance and any Supplement. Parity Water/Wastewater Obligations are and will be secured by and payable only from the Net Revenues of the Water/Wastewater System, and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, of the Water/Wastewater System. The owners of the Parity Water/Wastewater Obligations shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in this Ordinance or any Supplement.

Section 3. NO ADDITIONAL PRIOR FIRST LIEN /PRIOR SUBORDINATE LIEN COMBINED UTILITY SYSTEMS REVENUE OBLIGATIONS. From and after the date of the adoption of this Ordinance, the City hereby provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations and at such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations currently Outstanding and the Commercial Paper Obligations have been fully paid and discharged in a manner such obligations are no longer deemed to be Outstanding under the terms of their respective ordinances and by law, all revenue obligations of the Water/Wastewater System then Outstanding shall be Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations, or obligations subordinate to the Parity Water/Wastewater Obligations then Outstanding, and payable only from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance, including this Ordinance with respect to Parity Water/Wastewater Obligations and any Supplement.

Section 4. RATE COVENANT. The City will fix, establish, maintain and collect such rates, charges and fees for water and wastewater services furnished by the Water/Wastewater System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient:

(i) to pay all current Operating Expenses,

(ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Water/Wastewater System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, equal to the greater of either (x) an amount to pay the actual annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations or (y) an amount, when added to Other Available Water/Wastewater System Revenues, that would pay 125% of Annual Debt Service Requirements due and payable in such Fiscal Year of the then Outstanding Parity Water/Wastewater Obligations and Previously Issued Separate Lien Obligations, and

(iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Water/Wastewater System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates and charges to be revised and adjusted to comply with this Section or obtain a written report from an Utility System Consultant after a review and study of the operations of the Water/Wastewater System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with this Section and such adjustments and revisions to water and wastewater rates and charges are promptly implemented and enacted in accordance with such Utility System Consultant's report. Notwithstanding anything herein to the contrary, the City shall be deemed to be in compliance herewith if either of the actions mentioned in the preceding

sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Section 5. GENERAL COVENANTS. Subject to the provisions contained in the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations which may be in conflict herewith and control to the extent of any conflict, the City hereby covenants and agrees with the Holders of the Parity Water/Wastewater Obligations to the extent permitted by law as follows:

(a) **PERFORMANCE.** All covenants, undertakings, stipulations, and provisions contained in this Ordinance and any Supplement shall be duly performed and honored at all times; the principal amount of and interest on Parity Water/Wastewater Obligations shall be timely paid as the same shall become due and payable on the dates, at the places and in the manner prescribed in each Supplement and such Parity Water/Wastewater Obligations; and all deposits to the credit of the Funds and Accounts shall be made at the times, in the amounts and in the manner specified by this Ordinance and in any Supplement; and any Holder may require the City, its officials and employees to perform, honor or enforce the covenants and obligations of this Ordinance, or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the City, its officials and employees.

(b) **CITY'S LEGAL AUTHORITY.** The City is a duly created and existing home rule municipality of the State of Texas, and is duly authorized under the laws of the State of Texas to issue the Parity Water/Wastewater Obligations; with the adoption of each Supplement, all action on the City's part for the issuance of the Parity Water/Wastewater Obligations shall have been duly and effectively taken; and the Parity Water/Wastewater Obligations upon issuance and delivery to the Holders shall and will be valid and enforceable special obligations of the City in accordance with their terms.

(c) **OPERATION AND MAINTENANCE.** The Water/Wastewater System shall be operated in an efficient manner consistent with Prudent Utility Practice, and the plants, facilities and properties of the Water/Wastewater System shall be maintained, preserved and kept in good repair, working order and condition, and proper maintenance, repairs and replacements of such property, facilities and plants shall occur to preserve and keep the Water/Wastewater System operating in a business like manner.

(d) **TITLE.** The City has or will have lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures and facilities constituting the Water/Wastewater System; the City warrants it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof against the claims and demands of all persons whomsoever; and the City is lawfully qualified to pledge the Net Revenues to the payment of the Parity Water/Wastewater Obligations in the manner prescribed herein, and has lawfully exercised such rights.

(e) **LIENS.** All taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon the Water/Wastewater System, its properties or revenues, shall be paid before the same become delinquent; all lawful claims for rents, royalties, labor, materials and

supplies shall be paid in a timely manner, which if unpaid might by law become a lien or charge on the revenues of the Water/Wastewater System or the Water/Wastewater System's properties prior to or interfere with the liens hereof, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the lien on and pledge of the Net Revenues of the Water/Wastewater System for the Parity Water/Wastewater Obligations granted by this Ordinance or any Supplement might or could be impaired; provided however, that no such tax, assessment or charge, and no such claims that might result in a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the City.

(f) **NO FREE SERVICE.** Save and except as provided by V.T.C.A., Government Code, Section 1502.057, as amended, no free service of the Water/Wastewater System shall be allowed.

(g) **FURTHER ENCUMBRANCE.** Save and except for the issuance of Parity Water/Wastewater Obligations, the Net Revenues of the Water/Wastewater System shall not hereafter be encumbered in any manner unless such encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants and agreements of this Ordinance and any Supplement; but the right to issue Subordinated Debt payable in whole or in part from a subordinate lien on the Net Revenues is specifically recognized and retained.

(h) **SALE, LEASE OR DISPOSAL OF SYSTEM PROPERTY.** To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the Water/Wastewater System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the Water/Wastewater System. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Water/Wastewater System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the Water/Wastewater System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used to acquire other property necessary or desirable for the safe or efficient operation of the Water/Wastewater System, to redeem or purchase Prior First Lien Obligations, Prior Subordinate Lien Obligations, Parity Water/Wastewater Obligations, Previously Issued Separate Lien Obligations or for any other Water/Wastewater System purpose..

(i) **BOOKS, RECORDS AND ACCOUNTS.** Proper books, records and accounts pertaining to the operation and ownership of the Water/Wastewater System shall be established and maintained in accordance with generally accepted accounting principles, and such books, records and accounts shall be kept and maintained separate and apart from all other records and accounts of the City. Accurate and complete entries of all transactions relating to the Water/Wastewater System shall be recorded in such books, records and accounts, and such books and records relating to the financial operations of the Water/Wastewater System shall be kept current on a month to month basis.

(j) **INSURANCE.** Except as otherwise permitted below, insurance shall be obtained and maintained on the properties of the Water/Wastewater System in a manner and to the extent municipal corporations operating like properties carry and maintain such insurance, and such insurance shall be maintained with one or more responsible insurance companies and cover such risks, accidents or casualties customarily carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage caused by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Holders and their representatives at all reasonable times during regular business hours. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds available for such purpose as the City in its sole desecration shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance Account or Fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the Water/Wastewater System.

In lieu of obtaining policies for insurance as provided above, the City may self-insure against risks, accidents, claims or casualties described above, or such risks, accidents, claims or casualties may be covered under one or more blanket insurance policies maintained by the City. The annual audit hereinafter required shall contain a section commenting on whether the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing the areas of insurance for which the City is self-insuring, all policies carried, and whether all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(k) **AUDITS.** After the close of each Fiscal Year while any of the Parity Water/Wastewater Obligations are Outstanding, an annual audit of the books, records and accounts relating to the operations of the Water/Wastewater System shall be made by an Accountant as part of the City's overall annual comprehensive audit. After such annual audit has been completed and approved by the City, a copy thereof shall be sent to the Municipal Advisory Council of Texas and to any owner of \$100,000 or more in Outstanding Principal Amount of Parity Water/Wastewater Obligations who shall request a copy of such annual audit in writing. A copy of such annual audit shall be available for the inspection at the administrative offices of the Water/Wastewater System by the owners of the Parity Water/Wastewater Obligations and their agents and representatives at all reasonable times during regular business hours.

(l) **GOVERNMENTAL AGENCIES.** Any and all franchises, licences, permits and authorizations received or obtained from any governmental agency or department and applicable to or necessary with respect to the operations of the Water/Wastewater System shall be kept current and in effect, and no franchise, permit, license or authorization required or necessary for the acquisition, construction, equipment, operation and maintenance of the Water/Wastewater System shall be allowed to expire or terminate by a failure of the City to act or shall the City fail to comply with any terms or conditions that results in a forfeiture or early termination of any such franchise, permit, license, or authorization.

(m) **NO COMPETITION.** To the extent it legally possible, the City will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a material substitute for the Water/Wastewater System's facilities, and, to the extent that it legally may, the City will prohibit any such competing facilities.

(n) **RIGHTS OF INSPECTION.** Subject to public safety and other restrictions as may be reasonably imposed, the owner of Parity Water/Wastewater Obligations shall have the right at all reasonable times during regular business hours to inspect properties of the Water/Wastewater System and all records, accounts and data relating thereto, and copies of such records, accounts and data will be furnished to such owner from time to time, upon the written request and at the payment of the cost of making such copies by the owner making such request.

Section 6. SYSTEM FUND. In accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Water/Wastewater Obligations are Outstanding a separate fund or account known and designated as the "Water and Sewer System Fund" (herein called the "Water and Wastewater System Fund" or "System Fund"). All funds deposited to the credit of the System Fund and disbursements from such Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of Water/Wastewater System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the

same becomes due and payable (ii) the funds maintained for the payment of Previously Issued Separate Lien Obligations currently Outstanding and (iii) the special Funds and Accounts for the payment of the Parity Water/Wastewater Obligations.

FOURTH: To pay Subordinated Debt, including amounts for the payment of the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

FIFTH: To the payment of the amount, if any, approved and authorized by action of the governing body of the City, to be deposited to the credit of the Water/Wastewater System's Surplus Revenue Account

Any Net Revenues remaining in the Water and Sewer Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

Section 7. DEBT SERVICE FUND. For the sole purpose of paying the principal amount of, premium, if any, and interest on, and other payments (other than Operating Expenses) incurred in connection with Parity Water/Wastewater Obligations, there is hereby created and there shall be established and maintained on the books of the City a separate fund designated as the "Water/Wastewater Revenue Obligation Debt Service Fund" (the "Debt Service Fund") and moneys to the credit of such Debt Service Fund shall be placed in a special fund or account maintained at an official depository of funds of the City.

The amount of the deposits to be made to the credit of the Debt Service Fund to pay the principal of and interest on the Parity Water/Wastewater Obligations as the same shall become due and payable and the manner for making such deposits shall be addressed and contained in each Supplement. In addition, the City reserves the right in any Supplement to establish within the Debt Service Fund various Accounts to facilitate the timely payment of Parity Water/Wastewater Obligations as the same become due and owing.

Section 8. RESERVE FUND. (a) Establishment. There is hereby created and there shall be established and maintained on the books of the City a separate fund or account designated as the "Water/Wastewater System Revenue Obligation Reserve Fund" (the "Reserve Fund"). Except as provided in subsection (f) below, the Reserve Fund shall be maintained for the benefit of the owners of the Parity Water/Wastewater Obligations. There shall be deposited into the Reserve Fund any Reserve Fund Obligations so designated by the City. The amounts deposited to the credit of the Reserve Fund shall be deposited in a special fund maintained at an official depository of City. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the Parity Water/Wastewater Obligations as they become due or paying principal of and interest on the Parity Water/Wastewater Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The amount to be accumulated and maintained in the Reserve Fund shall be an amount equal to the Required Reserve Amount. The City may, at its option, withdraw and transfer to the Debt Service Fund all surplus in the Reserve Fund over the Required Reserve Amount.

(b) Credit Facility. The City may replace or substitute a Credit Facility for cash or Eligible Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, the cash or Eligible Investments on deposit in the Reserve Fund, taken together with the face amount of any existing Credit Facilities, in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the System Fund unless such excess was funded with the proceeds of sale of Parity Water/Wastewater Obligations in which case such excess shall be deposited to the credit of the Debt Service Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer.

(c) Priority of Draws. If the City is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the City shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys and cash resulting from the sale or liquidation of Eligible Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency.

In the event of a draw on a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subject to the provisions of Section 8(d) below and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Water/Wastewater Obligations.

(d) Reserve Amount Deficiency. In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, subject to satisfying or making provision for the uses having a priority on the Gross Revenues before any deposits for the payment and security of the Parity Water/Wastewater Obligations and after making required deposits to the Debt Service Fund in accordance with the terms of this Ordinance and any Supplement, cause the aggregate Required Reserve Amount then required to be on deposit in the Reserve Fund to be fully restored within 12 months from the date such deficiency, termination or expiration occurred by (i) making substantially equal cash deposits to the Reserve Fund on or before the last day of each month from the available Net Revenues, (ii) depositing Eligible Investments or Credit Facility to the credit of the Reserve Fund or (iii) a combination of (i) and (ii).

(e) Excess Required Reserve. As Parity Water/Wastewater Obligation secured by the Reserve Fund are paid, redeemed or defeased and cease to be Outstanding under the terms of the Ordinance or a Supplement, the Required Reserve Amount may be recalculated and redetermined, and any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to (i) the System Fund, if an amount equal to such excess was funded with Net Revenues, or (ii) the Debt Service Fund.

(f) Application to Commercial Paper/Credit Agreements For the purpose of this Section, the Reserve Fund shall not secure Parity Water/Wastewater Obligations issued in the form of

commercial paper, or any Credit Agreement issued in support of such Parity Water/Wastewater Obligations issued in the form of commercial paper, except as otherwise may be provided in any Supplement.

Section 9. SYSTEM SURPLUS REVENUE ACCOUNT. At the end of each Fiscal Year and after satisfying all payments and transfers having a priority on the revenues deposited to the credit of the System Fund, an amount approved and authorized by action of the governing body of the City may be transferred from the System Fund and deposited to the credit of a "Water/Wastewater System Surplus Revenue Account" to be established and maintained on the books and records of the City. The amounts deposited to the credit of the Water/Wastewater System Surplus Revenue Account may be used to make capital improvements to the Water/Wastewater System, to pay Operating Expenses or for any other lawful purpose. Prior to the beginning of each Fiscal Year, an amount deposited to the credit of the Water/Wastewater System Surplus Revenue Account may by action of the governing body of the City in the approval of the annual budget, or by a separate action, be designated as "Other Available Water/Wastewater Funds". The amount so designated as "Other Available Water/Wastewater Fund" shall be transferred on the books of the City to the credit of the System Fund as of the beginning of such Fiscal Year.

Section 10. ISSUANCE OF ADDITIONAL OBLIGATIONS. (a) Parity Water/Wastewater Obligations. The City reserves and shall have the right and power to issue or incur Parity Water/Wastewater Obligations for any purpose authorized by law pursuant to the provisions of this Ordinance and a Supplement hereafter adopted. The City may issue, incur, or otherwise become liable in respect of any Parity Water/Wastewater Obligations if:

(i) a Designated Financial Officer shall execute a certificate stating that, to his or her knowledge, the City is in compliance with all covenants contained in this Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions hereof and thereof, and the Funds and Accounts securing the Parity Water/Wastewater Obligations then Outstanding as established in accordance with the terms of this Ordinance and any Supplement contain the amounts then required to be therein or the proceeds of sale of the Parity Water/Wastewater Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any; and

(ii) an Accountant shall certify or render an opinion to the effect that, for the last completed Fiscal Year preceding the date of the then proposed Parity Water/Wastewater Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Water/Wastewater Obligations, the Net Revenues of the Water/Wastewater System, after deducting amounts expended from the Water/Wastewater System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, together with Other Available Water/Wastewater Revenues, are equal to 1.25 times the average Annual Debt Service Requirements of the Parity

Water/Wastewater Obligations to be Outstanding after giving effect to the issuance of the then proposed Parity Water/Wastewater Obligations.

For purposes of paragraph (a) (ii), if Parity Water/Wastewater Obligations are issued to refund less than all of the Parity Water/Wastewater Obligations then Outstanding, the certificate, report or opinion of the Accountant required above shall give effect to the issuance of the proposed refunding Parity Water/Wastewater Obligations (and shall not give effect to the Parity Water/Wastewater Obligations being refunded following their cancellation or provision being made for their payment).

(b) Short-Term Parity Water/Wastewater Obligations. The City may issue or incur Parity Water/Wastewater Obligations issued in the form of commercial paper and for purposes of this subsection, the term "Outstanding Funded Debt" shall include Subordinated Debt that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Water/Wastewater Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

(c) Special Facilities Debt and Subordinated Debt. Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

(d) Credit Agreements. Payments to be made under a Credit Agreement may be treated as Parity Water/Wastewater Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Water/Wastewater System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Water/Wastewater Obligations then Outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

(e) Determination of Net Revenues. In making a determination of Net Revenues for any of the purposes described in this Section, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the Water/Wastewater System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Water/Wastewater System for the period of time covered by the Accountant's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

Section 11. FINAL DEPOSITS; GOVERNMENT OBLIGATIONS. (a) Any Parity Water/Wastewater Obligation shall be deemed to be paid, retired and cease to be Outstanding within the meaning of this Ordinance, and the Supplement pursuant to which it was issued, when payment of the principal amount of, redemption premium, if any, on such Parity Water/Wastewater Obligation, plus interest thereon to the due date thereof (whether such due date be by reason of

maturity, upon redemption, or otherwise) either shall have been (i) made in accordance with the terms thereof or (ii) provided by irrevocably depositing with, or making available to, a Paying Agent (or escrow agent) therefor, in trust and set aside exclusively for such payment, in accordance with the terms and conditions of an agreement between the City and said Paying Agent (or escrow agent), (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such Paying Agent pertaining to the Parity Water/Wastewater Obligation with respect to which such deposit is made shall have been paid or the payment thereof duly provided (and irrevocable instructions shall have been given by the City to such Paying Agent to give notice of such redemption in the manner required by the Supplement authorizing the issuance of such Parity Water/Wastewater Obligation) to the satisfaction of such Paying Agent. Such Paying Agent shall give notice to each owner of any Parity Water/Wastewater Obligation that such deposit as described above has been made, in the same manner as required with respect to the redemption of such Parity Water/Wastewater Obligation, all in accordance with the terms of the Supplement pursuant to which such Parity Water/Wastewater Obligation was issued. In addition, in connection with a defeasance, such Paying Agent shall give notice of redemption, if necessary, to the owners of any Parity Water/Wastewater Obligation in the manner provided in the Supplement for such Parity Water/Wastewater Obligation and as directed in the redemption instructions delivered by the City to such Paying Agent. At such time as a Parity Water/Wastewater Obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or the Supplement pursuant to which it was issued or a lien on and pledge of the Net Revenues, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys deposited with a Paying Agent (or escrow agent) may, at the direction of the City, also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Paying Agent pursuant to this Section which is not required for the payment of the principal of the Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City for deposit to the credit of the Debt Service Fund.

(c) Except as provided in clause (b) of this Section, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon, shall be applied solely to and used solely for the payment of such Parity Water/Wastewater Obligations, the redemption premium, if any, and interest thereon.

Section 12. AMENDMENT OF ORDINANCE. (a) Required Owner Consent for Amendments. The owners of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City, provided, however, that nothing contained herein shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Water/Wastewater Obligations so as to:

- (1) Make any change in the maturity of any of the Outstanding Parity Water/Wastewater Obligations;
- (2) Reduce the rate of interest borne by any of the Outstanding Parity Water/Wastewater Obligations;
- (3) Reduce the amount of the principal payable on the Outstanding Parity Water/Wastewater Obligations;
- (4) Modify the terms of payment of principal of, premium, if any, or interest on the Outstanding Parity Water/Wastewater Obligations or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all of the Parity Water/Wastewater Obligations then Outstanding;
- (6) Amend this subsection (a) of this Section; or
- (7) Change the minimum percentage of the principal amount of Parity Water/Wastewater Obligations necessary for consent to any amendment;

unless such amendment or amendments be approved by the owners of all of the Parity Water/Wastewater Obligations affected by the change or amendment then Outstanding.

(b) Notice of Amendment Requiring Consent. If at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the City, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations for inspection by all Holders of Parity Water/Wastewater Obligations. Such publication is not required, however, if notice in writing is given by mail, first class postage prepaid, to each Holder of Parity Water/Wastewater Obligations.

(c) Time Period for Obtaining Consent If within one year from (i) the date of the first publication of said notice or (ii) the date of the mailing by the Paying Agent of written notice to the owners of the Parity Water/Wastewater Obligations, whichever date first occurs if both methods of giving notice are used, the City shall receive an instrument or instruments executed by the owners of at least a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations consenting to and approving such amendment in substantially the form of the copy thereof on file with each Paying Agent or Registrar, as the case may be, for the Parity Water/Wastewater Obligations, the governing body of the City may pass the amendatory ordinance in substantially the same form.

(d) Revocation of Consent. Any consent given by the owner of a Parity Water/Wastewater Obligation pursuant to the provisions of this Section shall be irrevocable for a period of six months

from the date for measuring the one year period to obtain consents noted in paragraph (c) above, and shall be conclusive and binding upon all future owners of the same Parity Water/Wastewater Obligation during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (c) above, such consent may be revoked by the owner who gave such consent, or by a successor in title, by filing written notice thereof with the Paying Agent or Registrar, as the case may be, for such Parity Water/Wastewater Obligation and the City, but such revocation shall not be effective if the owners of at least a majority in Outstanding Principal Amount of the then Outstanding Parity Water/Wastewater Obligations as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(e) Implementation of Amendment. Upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations of the City under this Ordinance and all the owners of then Outstanding Parity Water/Wastewater Obligations and all future Parity Water/Wastewater Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.

(f) Amendment without Consent. The foregoing provisions of this Section notwithstanding, the City by action of its governing body may amend this Ordinance for any one or more of the following purposes:

(1) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the owners of the Parity Water/Wastewater Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;

(2) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations then outstanding;

(3) To modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after all Parity Water/Wastewater Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(4) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;

(5) To make such changes, modifications or amendments as may be necessary or desirable in order to allow the owners of the Parity Water/Wastewater Obligations to thereafter avail themselves of a book-entry system for payments, transfers and other matters relating to the Parity Water/Wastewater Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations;

(6) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Parity Water/Wastewater Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and

(7) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Water/Wastewater Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Water/Wastewater Obligations. Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Parity Water/Wastewater Obligations may be determined as provided in each Supplement and unless otherwise provided in a Supplement, the owners of the Parity Water/Wastewater Obligations insured as to the payment of principal of and interest thereon shall be deemed to be the insurance company providing the insurance coverage on such Parity Water/Wastewater Obligations; provided such amendment to this Ordinance is an amendment that can be made with the consent of a majority in Outstanding Principal Amount of the Parity Water/Wastewater Obligations and such insurance company is not in default with respect to its obligations under its insurance policy.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Parity Water/Wastewater Obligations then Outstanding under such Supplement a priority over the owners of any other Parity Water/Wastewater Obligations then Outstanding.

Section 13. DEFICIENCIES; EXCESS NET REVENUES. (a) Revenue Deficiency. If on any occasion there shall not be sufficient Net Revenues to make the required deposits into the Funds and Accounts established in accordance with this Ordinance and any Supplement, then such deficiency shall be made up as soon as possible from the next available Net Revenues, or from any other source available for such purpose.

(b) Excess Revenue. Subject to making the required deposits to the credit of the Funds and Accounts established in accordance with this Ordinance and any Supplement, when and as required by this Ordinance and any Supplement, the excess Net Revenues may be used by the City for any lawful purpose.

Section 14. FUNDS SECURED. Moneys in all Funds and Accounts created in accordance with this Ordinance and any Supplement shall be secured in the manner prescribed by law for securing funds of the City.

Section 15. INVESTMENTS. Moneys in any Fund or Account established pursuant to this Ordinance and any Supplement may, at the option of the City, be placed or invested in Eligible Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually during the last month of each Fiscal Year. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Fund or Account from which moneys used to acquire such investment shall have come.

Section 16. BENEFITS OF ORDINANCE. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

Section 17. GOVERNING LAW. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 18. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 19. CONSTRUCTION OF TERMS. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

Section 20. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

Section 21. PUBLIC MEETING. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given; all as required by V.T.C.A., Government Code, Chapter 551, as amended.

Section 22. EMERGENCY. The public importance of this measure and the fact that there is an urgent public need for the City to obtain the funds from the sale of the Bonds as soon as possible and without delay for the immediate preservation of the public peace, health and safety of the citizens of the City constitute and create an emergency requiring the suspension of the rule providing for ordinances to be read on three separate days; and such rule relating to the passage of ordinances and the Charter provision relating to the effective date of ordinances are hereby suspended and this ordinance is hereby passed as an emergency measure and shall be effective immediately upon its passage and adoption as provided by the Charter of the City.

PASSED AND ADOPTED, this June 8, 2000.

CITY OF AUSTIN, TEXAS

KIRK WATSON
Mayor

ATTEST:


SHIRLEY A. BROWN
City Clerk

APPROVED:


ANDREW MARTIN
City Attorney

(City Seal)

EXHIBIT "A"

DEFINITIONS

As used in the Ordinance, the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Account" means any account created, established and maintained on the books and records of the City under the terms of any Supplement.

"Accountant" means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants.

"Annual Debt Service Requirements" means, for any Fiscal Year, the principal of and interest on all Parity Water/Wastewater Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(i) Committed Take Out. If the City has entered into a Credit Agreement with a Credit Provider to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced under the Credit Agreement for the discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased by the Credit Provider shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(ii) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable by reason of any required purchase of such Funded Debt by the City) in any Fiscal Year is either (a) equal to 25%, or more, of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or (b) exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein and throughout this Exhibit A as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue

on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(iii) Consent Sinking Fund. In the case of Balloon Debt, if a Designated Financial Officer executes a certificate to the effect that such Balloon Debt (a) may be treated as being retired in installments (and the instrument creating such Balloon Debt expressly permits such Debt to be treated as being retired in installments), or (b) paid from the funding and accumulation of a sinking fund (and the instrument creating such Balloon Debt expressly permits the funding and accumulation of a sinking fund) according to a fixed schedule stated in such certificate, then the principal of (and, in the case of retirement, or to the extent provided for the funding and accumulation of a sinking fund, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such fixed schedule, provided this clause (iii) shall apply only to Balloon Debt when installments due and payable prior to such certificate have been duly paid or all deposits to the sinking fund established for such Debt have been duly credited to the sinking fund on or before the times required by such schedule; and provided further this clause (iii) shall not apply when the City has elected to apply the rule set forth in clause (ii) above;

(iv) Prepaid Debt. Principal of and interest on Parity Water/Wastewater Obligations, or portions thereof, payable from capitalized interest, accrued interest and amounts deposited or set aside in trust for the payment thereof with a financial institution shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year;

(v) Variable Rate. As to any Parity Water/Wastewater Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement then, at the option of the City, either (a) an interest rate equal to the average rate borne by such Parity Water/Wastewater Obligations (or by comparable debt in the event that such Parity Water/Wastewater Obligations has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, or (b) an interest rate equal to the 30-year Tax-Exempt Revenue Bond Index (as most recently published in The Bond Buyer), shall be presumed to apply for all future dates, unless such index is no longer published in The Bond Buyer, in which case an index of tax-exempt revenue bonds with maturities of 20 years, or more, published in a financial newspaper or journal with national circulation may be used for this purpose;

(vi) Commercial Paper. Any Parity Water/Wastewater Obligations issued in the form of commercial paper shall use an interest rate for such Parity Water/Wastewater Obligations calculated in the manner provided in clause (v) of this definition and the maturity schedule shall be calculated in the manner provided in clause (ii) of this definition; and

(vii) **Credit Agreement Payments.** If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement, from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (i) through (vi) above and any payments otherwise included above under (i) through (vi) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation. For any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, for prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

"Bond Counsel" means Messrs. Fulbright & Jaworski L.L.P. or other firm engaged by the City with legal experience and expertise in the issuance and sale of obligations by municipalities in the State of Texas and with respect to the exclusion of interest on obligations from federal income taxation under Section 103(a) of the Code.

"City" and **"Issuer"** mean the City of Austin, Texas.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor thereto.

"Commercial Paper Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Credit Agreement" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Water/Wastewater Obligations, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City in connection with the authorization, issuance, security, or payment of Parity Water/Wastewater Obligations and on a parity therewith.

"Credit Facility" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Water/Wastewater Obligations would rate the Parity Water/Wastewater Obligations fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Water/Wastewater Obligations would assign a rating to the Parity Water/Wastewater Obligations of one of its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Water/Wastewater Obligations and the interest thereon.

"Credit Provider" means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

"Debt" of the City payable from Net Revenues means all:

(i) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the Water/Wastewater System that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and

(ii) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining the "Debt" payable from the Net Revenues of the Water/Wastewater System, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (A) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (B) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

"Debt Service Fund" means the "Water/Wastewater System Revenue Obligation Debt Service Payment Fund" established pursuant to Section 7 of the Ordinance.

"Designated Financial Officer" shall mean the Director of Finance, Treasurer or such other financial or accounting official of the City so designated by the governing body of the City.

"Eligible Investments" means those investments in which the City is now or hereafter authorized by law, including, but not limited to, the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), as amended, to purchase, sell and invest its funds and funds under its control.

"Fiscal Year" means the twelve month financial accounting period for the Water/Wastewater System which currently ends on September 30 of each calendar year.

"Fund" means any fund created, established and maintained under the terms of the Ordinance and any Supplement.

"Funded Debt" of the Water/Wastewater System means all Parity Water/Wastewater Obligations (and, for purposes of Section 10(b) of the Ordinance, all Subordinated Debt) created or assumed by the City and payable from Net Revenues maturing by their terms (in the absence of the exercise of any earlier right of demand), or renewable at the option of the City to a date, more than one year after the original creation or assumption of such Debt by the City.

"Government Obligations" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

"Gross Revenues" means all revenues, income, and receipts derived or received by the City from the operation and ownership of the Water/Wastewater System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or a Supplement or maintained by the City in connection with the Water/Wastewater System, other than those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code, and Other Available Water/Wastewater System Revenues . The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts and grants in aid of construction or impact fees charged under authority of Chapter 395, Texas Local Government Code, which by law are restricted as to use.

"Holder" or **"Bondholder"** or **"owner"** means the registered owner appearing on the books and records of the Registrar of any Parity Water/Wastewater Obligation registered as to ownership and the holder of any Parity Water/Wastewater Obligation payable to bearer.

"Maturity" when used with respect to any Debt means the date the principal of such Debt or any installment thereof becomes due and payable, whether at its Stated Maturity or by declaration of acceleration, call for redemption, or otherwise.

"Net Revenues" and **"Net Revenues of the Water/Wastewater System"** with respect to any period of time means the Gross Revenues for such period less Operating Expenses incurred during such period.

"Operating Expenses" means the expenses of operation and maintenance of the Water/Wastewater System, including all salaries, labor, materials repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances, are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Parity Water/Wastewater Obligations. Operating Expenses shall include the purchase of water, the treatment and disposal of wastewater,

and, to the extent permitted by law Operating Expenses may include payments made on or in respect of obtaining and maintaining any Credit Agreement or Credit Facility. Depreciation shall not be considered as expenses of operation and maintenance.

"Opinion of Counsel" means a written opinion of counsel acceptable to the City.

"Ordinance" means this Ordinance No. 000608-56A pertaining to the issuance Parity Water/Wastewater Obligations, and any amendments thereto.

"Other Available Water/Wastewater System Revenues" means an amount of unencumbered funds accumulated in the Water/Wastewater System Surplus Revenue Account designated as Other Available Water/Wastewater Funds and deposited to the credit of the System Fund as provided in Section 9 hereof; provided, the maximum amount which may be so designated in any Fiscal Year for purposes of complying with the provisions of Sections 4 and 10 of this Ordinance cannot exceed twenty-five per cent (25%) of the Debt Service Requirements for the Parity Water/Wastewater Obligations for such Fiscal Year.

"Outstanding" when used with respect to Parity Water/Wastewater Obligations means, as of the date of determination, all Parity Water/Wastewater Obligations theretofore delivered under this Ordinance and any Supplement, except:

- (i) Parity Water/Wastewater Obligations theretofore canceled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;
- (ii) Parity Water/Wastewater Obligations deemed paid pursuant to the provisions of Section 11 of the Ordinance or any comparable section of any Supplement;
- (iii) Parity Water/Wastewater Obligations upon transfer of or in exchange for and in lieu of which other Parity Water/Wastewater Obligations have been authenticated and delivered pursuant to the Ordinance and any Supplement; and
- (iv) Parity Water/Wastewater Obligations under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, that, unless acquired for purposes of cancellation, Parity Water/Wastewater Obligations owned by the City shall be deemed to be Outstanding as though owned by any other owner.

"Outstanding Principal Amount" means, with respect to all Parity Water/Wastewater Obligations or to a series of Parity Water/Wastewater Obligations, the outstanding and unpaid principal amount of such Parity Water/Wastewater Obligations paying interest on a current basis and the accreted value as of each compounding date for Parity Water/Wastewater Obligations paying accrued, accreted, or compounded interest only at maturity and as determined and established in the Supplement authorizing the issuance of such Parity Water/Wastewater Obligations

"Prior First Lien Obligations" means those obligations identified and described in the preamble of the Ordinance.

"Prior Subordinate Lien Obligations" means to obligations identified and described in the preamble of the Ordinance.

"Parity Water/Wastewater Obligations" means all Debt of the City, except Previously Issued Separate Lien Obligations, issued or incurred in accordance with the terms of the Ordinance and a Supplement, and secured by a lien on and pledge of the Net Revenues.

"Paying Agent" means bank, trust company or other entity selected by the City in a Supplement undertaking the duties and responsibilities for the payment to the Holders of the principal of and interest on the series or issue of Parity Water/Wastewater Obligations.

"Previously Issued Separate Lien Obligations" means those obligations payable, in whole or in part under a contract with the City, from and secured only by a lien on and pledge of the Net Revenues of the Water/Wastewater System and more particularly described as follows: (i) Circle C MUD#4 City of Austin, Texas Contract Revenue Bonds, Series 1990, dated date February 1, 1990 and currently outstanding in the principal amount of \$2,745,000, (ii) Circle C MUD #3 City of Austin, Texas Contract Revenue Bonds, Series 1991, dated date June 15, 1991, and currently outstanding in the principal amount of \$26,835,000, (iii) Village at Western Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of \$17,570,000, (iv) Southland Oaks MUD City of Austin, Texas Contract Revenue Bonds, Series 1991, dated August 15, 1991, and currently outstanding in the principal amount of \$20,525,000, (v) Maple Run at Austin MUD City of Austin, Texas Contract Revenue Bonds, Series 1992, dated February 1, 1992, and currently outstanding in the principal amount of \$13,255,000, and (vi) North Austin MUD#1 City of Austin, Texas Refunding Contract Revenue Bonds, Series 1994, dated February 1, 1994, and currently outstanding in the principal amount of \$13,035,000.

"Prudent Utility Practice" means any of the practices, methods and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act at the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. In the case of any facility included in the Water/Wastewater System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

"Rating Agency" means a nationally recognized securities rating agency which has assigned a rating to the Parity Water/Wastewater Obligations.

"Required Reserve Amount" means an amount equal to 50% of the average Annual Debt Service Requirements of the Parity Water/Wastewater Obligations then Outstanding, to the extent such Parity Water/Wastewater Obligations are to be secured by the Reserve Fund in accordance with the terms and provisions of Section 8 of the Ordinance and the provisions of any Supplement.

"Reserve Fund" means the "Water/Wastewater System Revenue Obligation Reserve Fund" established pursuant to Section 8 of the Ordinance.

"Reserve Fund Obligations" means cash, Eligible Investments, any Credit Facility, or any combination of the foregoing.

"Registrar" means bank, trust company or other entity selected by the City in a Supplement to serve as the registrar for the registration and transfer of a series or issue of Parity Water/Wastewater Obligations issued in fully registered form as to the payment of principal of and interest thereon.

"Stated Maturity" when used with respect to Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

"Subordinated Debt" means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Water/Wastewater Obligations then Outstanding or subsequently issued.

"Supplement" or **"Supplemental Ordinance"** means an ordinance supplemental to, and authorized and adopted by the governing body of the City pursuant to the terms of, the Ordinance.

"System Fund" means the **"Water and Sewer System Fund"** affirmed in Section 6 of the Ordinance.

"Term of Issue" means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the "maximum maturity date" in the case of commercial paper ("maximum maturity date" having the meaning given to said term in any Supplement authorizing the issuance of commercial paper) or (ii) twenty-five years.

"Utility System Consultant" means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal water and wastewater facilities and systems similar in size to the Water/Wastewater System.

"Value of Investment Securities" and words of like import shall mean the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are

then redeemable. The computations made under this paragraph shall include accrued interest on the investment securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security.

"Water/Wastewater System" means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of water and the collection, treatment and disposal or reuse/reclaim of wastewater, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Water/Wastewater System shall not include facilities of any kind which are declared not to be a part of the Water/Wastewater System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Debt", which term is defined as being special revenue obligations of the City not secured by or payable from the Net Revenues but which are secured by and payable solely from special contract revenues, or payments received from the City or any other legal entity, or any combination thereof, in connection with such facilities.

APPENDIX D

SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS

SECTION : Definitions. The following definitions are provided:

City-shall mean the City of Austin, Texas, located in the Counties of Travis and Williamson.

Electric Light and Power System-shall mean all facilities and plants currently owned, operated and maintained by the City, wholly or partially in participation with others, for the generation, transmission, supply and distribution of electrical energy and power, together with all future extensions, improvements, replacements and additions thereto, and all replacements thereof; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Electric Light and Power System" shall not include facilities of any kind (including any electric power generating and transmission facilities) which are declared not to be a part of the Electric Light and Power System and which are acquired or constructed by the City, or in participation with others, with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments not pledged to the payment of the Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

Fiscal Year-shall mean the twelve month period used by the City in connection with the operation of the Systems which may be any twelve consecutive month period established by the City.

Government Obligations-shall mean direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

Gross Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants and proceeds derived from the sale or other disposition of all or part of the City's participating interest in the South Texas Project and revenues, sources or payment from facilities acquired or constructed with "Special Facilities Bonds") of the respective system, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of the Prior Lien Bonds or the Subordinate Lien Bonds or Separate Lien Obligations.

Maintenance and Operating Expenses-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, all current expenses of operating and maintaining the respective system, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the Prior Lien Bonds or the Subordinate Lien Bonds shall be deducted in determining "Net Revenues." Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of power and energy, water supply or other materials, goods or services for the Systems to the extent authorized by law and the provisions of such contract.

Net Revenues-shall mean, with respect to the Electric Light and Power System or the Waterworks and Sewer System, Gross Revenues of the respective system after deducting the system's Maintenance and Operating Expenses.

Outstanding-shall mean with respect to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:(i) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Bonds for which payment has been duly provided by the City in

accordance with the provisions of Section 27 hereof; and (iii) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

Prior Lien Bonds shall mean the outstanding revenue bonds of those issues or series identified as follows: (i) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1990B", dated February 1, 1990, (ii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992", dated March 1, 1992, (iii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1992A", dated May 15, 1992, (iv) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993", dated January 15, 1993, (v) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1993A", dated June 1, 1993, (vi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1994", dated September 1, 1994, (vii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1995", dated June 1, 1995, (viii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996A," dated August 1, 1996, (ix) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1996B," dated August 1, 1996, (x) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1997," dated August 1, 1997, (xi) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998," dated July 1, 1996, and (xii) "City of Austin, Texas, Combined Utility Systems Revenue Refunding Bonds, Series 1998A," dated August 1, 1997.

Subordinate Lien Bonds shall mean the outstanding revenue bonds of those series designated (i) "City of Austin, Texas, Subordinate Lien Revenue Bonds, Series 1994," dated March 1, 1994, (ii) "City of Austin, Texas, Combined Utility System Subordinate Lien Revenue Bonds, Series 1998," dated August 1, 1998, (iii) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998," dated October 1, 1998 and (iv) "City of Austin, Texas, Subordinate Lien Revenue Refunding Bonds, Series 1998A," dated October 1, 1998.

Required Reserve shall mean the amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 15 hereof.

Separate Lien Obligations shall mean (a) those obligations hereafter (i) issued or incurred by the City payable solely from the Net Revenues of either the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, (ii) incurred pursuant to express charter or statutory authority heretofore or hereafter adopted or enacted and (iii) which by the terms of the ordinance authorizing their issuance or the incurring of the obligation provide for payments to be made by the City for the retirement or payment thereof to be secured solely by a lien on and pledge of the Net Revenues of the Electric Light and Power System or the Net Revenues of the Waterworks and Sewer System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Subordinate Lien Bonds and (b) those contractual obligations of the City heretofore incurred payable solely from and secured by a lien on and pledge of the Net Revenues of the Water and Sewer System and securing the payment of certain outstanding contract revenue bonds more specifically identified in Exhibit B.

South Texas Project shall mean the City's ownership interest in two nuclear steam electric generating units and related land and facilities, as more particularly defined in the South Texas Project Participation Agreement effective as of December 1, 1973, as amended.

Systems shall mean collectively the Electric Light and Power System and the Waterworks and Sewer System.

Waterworks and Sewer System means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "Waterworks and Sewer System" shall not include facilities of any kind which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds," which are hereby defined as being special revenue obligations of the City which are not Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of Prior Lien Bonds, the Subordinate Lien Bonds or Separate Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION : Pledge. (a) Electric Light and Power System. Subject only to the prior lien on and pledge of the Net Revenues of the Electric Light and Power System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Electric Light and Power System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations, if issued or incurred, and the pledge of the Net Revenues of the Electric Light and Power System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations, if issued, shall constitute a lien on the Net Revenues of the Electric Light and Power System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

(b) Waterworks and Sewer System. Subject only to the prior lien on and pledge of the Net Revenues of the Waterworks and Sewer System for the payment and security of the Prior Lien Bonds, the City hereby covenants and agrees that the Net Revenues of the Waterworks and Sewer System, with the exception of those in excess of the amounts required for the payment and security of the Subordinate Lien Bonds and the Separate Lien Obligations, shall be and are hereby irrevocably pledged, equally and ratably, to the payment of the principal of and interest on the Subordinate Lien Bonds and Additional Subordinate Lien Bonds, if issued, and to satisfy amounts required for the payment of Separate Lien Obligations now outstanding and hereafter issued or incurred, and the pledge of the Net Revenues of the Waterworks and Sewer System herein affirmed and made for the payment and security of the Subordinate Lien Bonds and Separate Lien Obligations now outstanding and hereafter issued, shall constitute a lien on the Net Revenues of the Waterworks and Sewer System in accordance with the terms and provisions hereof, subject and subordinate only to the lien and pledge securing the payment of the Prior Lien Bonds.

SECTION : Rates and Charges. For the benefit of the Holders and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Subordinate Lien Bonds are outstanding, to establish and maintain rates and charges for facilities and services afforded by the Electric Light and Power System and the Waterworks and Sewer System to provide Gross Revenues in each Fiscal Year from each System sufficient:

- (1) To pay the respective Maintenance and Operating Expenses thereof,
- (2) To provide amounts required to establish, maintain or restore, as the case may be, a required balance in any reserve or contingency fund created for the payment and security of Separate Lien Obligations,
- (3) To produce combined Net Revenues of the Systems sufficient to pay the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, the Subordinate Lien Bonds, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and
- (4) To produce combined Net Revenues of the Systems (after satisfaction of the amounts required to be paid in 2 and 3 above) equal to at least the sum of (i) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations and (ii) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness (except Prior Lien Bonds and Separate Lien Obligations) payable only from and secured solely by lien on and pledge of the Net Revenues of the Systems, either or both.

SECTION : Electric Light and Power System Fund. The City hereby covenants and agrees that the Gross Revenues of the Electric Light and Power System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Electric Light and Power System Fund" (herein called the "Electric Fund") and such revenues of the Electric Light and Power System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Electric Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Electric Light and Power System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Electric Light and Power System.

Any Net Revenues remaining in the Electric Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

SECTION : Water and Sewer System Fund. The City hereby covenants and agrees that Gross Revenues of the Waterworks and Sewer System shall be deposited, as collected, into a separate account maintained with a depository bank of the City and known as the "Water and Sewer System Fund" (herein called the "Water and Sewer Fund") and such revenues of the Waterworks and Sewer System shall be kept separate and apart from all other funds of the City. All revenues deposited in the Water and Sewer Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the Waterworks and Sewer System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior Lien Bonds.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay.

FOURTH: To the payment of the amounts required to be deposited in the Interest and Redemption Fund created and established for the payment of principal of and interest on the Subordinate Lien Bonds as the same becomes due and payable and the payment of Separate Lien Obligations secured by a lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

Any Net Revenues remaining in the Water and Sewer Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

SECTION : Reserve Fund. (a) In connection with the issuance of the Prior Lien Bonds and Subordinate Lien Bonds, the City agrees and covenants to keep and maintain with its depository bank a separate and special fund known as the "Combined Pledge Revenue Bond Common Reserve Fund" (the "Reserve Fund") for the purpose of accumulating and maintaining funds as a reserve for the payment of the Prior Lien Bonds and Subordinate Lien Bonds in an amount (the "Required Reserve") equal to the average annual requirement (calculated on a calendar year basis) for

the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds, as determined on (i) the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement noted below, whichever date is the last to occur. All funds deposited in the Reserve Fund (excluding earnings and income derived or received from deposits or investments which, subject to the limitations hereinafter specified, may be withdrawn and transferred from the Reserve Fund) shall be used solely for the payment of the principal of and interest on the Prior Lien Bonds and the Subordinate Lien Bonds on a pro rata basis, when (whether at maturity, upon mandatory redemption prior to maturity or any interest payment date) and to the extent other funds available for such purpose are insufficient, and, in addition, may be used to retire the last of the Prior Lien Bonds or Subordinate Lien Bonds outstanding.

The total amount required to be accumulated and maintained in the Reserve Fund is \$106,790,235.15 (the Required Reserve), which amount is equal to or greater than the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior Lien Bonds and Subordinate Lien Bonds as determined on the date of the initial deposit of a Financial Commitment (hereinafter defined) to the Reserve Fund.

Currently, the Required Reserve is fully funded with Financial Commitments of Financial Security Assurance Inc. in the amounts of \$30,000,000 (the Initial Financial Commitment acquired) and \$76,790,325.15 (an additional Financial Commitment acquired on or about August 31, 2004).

When and so long as the money and investments, or Financial Commitments, are on deposit to the credit of the Reserve Fund in an amount equal to or exceeding the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than the Required Reserve, the City covenants and agrees to cure the deficiency in the Required Reserve within twelve (12) months from the date the Required Reserve deficiency occurred with available Net Revenues in the Electric Fund and the Water and Sewer Fund, and the City hereby covenants and agrees that, subject only to payments required for the payment of principal of and interest on the Prior Lien Bonds and the establishment and maintenance of the special funds (other than the Reserve Fund) created for the payment and security thereof, all Net Revenues remaining in the Electric Fund and the Water and Sewer Fund shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amount as required by the terms of this Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve. During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the "Interest and Redemption Fund" created and established for the payment and redemption of the Subordinate Lien Bonds while the same remain outstanding and, at such time as the Subordinate Lien Bonds are no longer outstanding, such surplus may be deposited in the Bond Fund.

Notwithstanding any provision contained herein to the contrary, the Required Reserve may be funded, in whole or in part, by depositing to the credit of the Reserve Fund (i) cash, (ii) investments, and (iii) one or more Financial Commitments. The term Financial Commitments means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength meeting the requirements below. Such insurance policy or surety bond shall provide for payment thereunder of moneys when other funds available to the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, in the interest and sinking fund maintained for the payment of the Prior Lien Bonds or Subordinate Lien Bonds, or both, is insufficient on a payment date when interest or principal, or both, is due and payable for such obligations.

The financial strength of the insurance company or association providing the Financial Commitment must be rated on the date of the deposit of the Financial Commitment to be credit of the Reserve Fund in the highest rating category by Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings and, if rated, by A.M. Best. In the event the rating of the financial strength of a provider of a Financial Commitment falls below (i) "Aa2" by Moody's Investors Service, Inc., (ii) "AA" by Standard & Poor's Ratings Services, (iii) "AA" by Fitch Ratings or (iv) if applicable, "A+" by A.M. Best, the City will be required to replace the Financial Commitment with (a) cash and Authorized Securities or (b) a substitute Financial Commitment issued by an insurance company or association that satisfies the ratings requirements summarized above in this paragraph (but in no event less than the ratings described in clauses (i), (ii), (iii) and (iv) of this sentence).

Notwithstanding any provision herein to the contrary, the City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following the substitution of one or more Financial Commitments for cash and securities held in the Reserve Fund, the cash and securities released from the Reserve Fund, net of costs incurred with respect to the initial substitution of the Financial Commitment, shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior Lien Bonds and Subordinate Lien Bonds in a manner that reduces the principal amount and Maturity Amount of outstanding Prior Lien Bonds and Subordinate Lien Bonds.

(b) Initial Financial Commitment. As permitted in paragraph (a) above, the City has determined to acquire initially a Financial Commitment for the Reserve Fund with coverage in the maximum amount of \$30,000,000 to fund in part the Required Reserve from Financial Security Assurance Inc., a New York domiciled insurance company (hereinafter referred to as "FSA"). In accordance with FSA's terms for the issuance of a "Municipal Bond Debt Service Reserve Insurance Policy" (the "Reserve Policy"), an Insurance Agreement by and between the City and FSA has been submitted to the City for approval and execution, and such Insurance Agreement, substantially in the form and content of Exhibit A attached hereto, is hereby approved and authorized to be executed by the City Manager and such Insurance Agreement, as executed and delivered by the City Manager, shall be deemed the Insurance Agreement herein approved by the City Council and authorized for execution.

To the extent the City should make a draw under the Reserve Policy, the City acknowledges and agrees the repayment of "Policy Costs," as defined in the Insurance Agreement, shall constitute a payment of an amount required to be deposited in the Reserve Fund to establish and maintained the Required Reserve, and insofar as the priority of uses of the revenues of (i) Electric Light and Power System and (ii) the Waterworks and Sewer System, such Policy Costs shall be entitled to the same priority of payment identified in the Prior Lien Bond Ordinances for payments required to be deposited in the Reserve Fund to establish and maintain the Required Reserve.

SECTION : Interest and Redemption Funds. For purposes of providing funds to pay the principal of and interest on the Prior Lien Bond or the Subordinate Lien Bonds, as the case may be, as the same becomes due and payable (whether at maturity or upon redemption), the City agrees to maintain at a depository bank of the City a separate and special account or fund known as the "City of Austin Interest and Redemption Fund" (the "Interest and Redemption Fund").

The City covenants that there shall be deposited into said Fund prior to each interest and principal payment date for the Prior Lien Bonds and for the Subordinate Lien Bonds from the Net Revenues in the Electric Fund and the Water and Sewer Fund amounts equal to one hundred per centum (100%) of the amount required to fully pay the interest on and principal then due and payable on the Prior Lien Bonds and the Subordinate Lien Bonds, as the case may be, such deposits to pay principal at maturity or redemption, as the case may be, and accrued interest to be made in substantially equal monthly installments on or before the 14th day of each month, beginning on or before the 14th day of the month. If the Net Revenues in the Electric Fund and the Water and Sewer Fund in any month are then insufficient to make the required payments into the Interest and Redemption Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Redemption Fund in the next month.

The monthly deposits to the Interest and Redemption Fund for the payment of principal and interest on the Prior Lien Bonds and the Subordinate Lien Bonds shall continue to be made as hereinabove provided until such time as (i) the total amounts on deposit in the respective Interest and Redemption Fund and Reserve Funds is equal to the amount required to pay all outstanding indebtedness (principal and interest) for which said Funds were created and established or (ii) the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, are no longer Outstanding.

Accrued interest and premium, if any, received from the purchasers of the Bonds shall be deposited to the credit of the Interest and Redemption Fund and taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited in the Interest and Redemption Fund from the Net Revenues of the Systems.

SECTION : Investment of Certain Funds. (a) Money in any Fund required to be maintained pursuant to this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion

of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Interest and Redemption Fund immediately shall be credited to, and any losses debited to, the Interest and Redemption Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the Interest and Redemption Fund.

All such investments with respect to the Interest and Redemption Fund and Reserve Fund shall be sold promptly when necessary to prevent any default in connection with the Subordinate Lien Bonds and, with respect to the Reserve Fund, to prevent any default in connection with the Prior Lien Bonds.

(b) Money in all Funds required to be maintained by this Ordinance, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the City.

SECTION : Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, junior and subordinate to the lien and pledge securing the payment of the Subordinate Lien Bonds, as may be authorized by the laws of the State of Texas.

SECTION : Maintenance and Operation-Insurance. The City shall maintain the Systems in good condition and operate each in an efficient manner and at reasonable cost. So long as any Bonds are Outstanding, the City agrees to maintain insurance, for the benefit of the Holders of the Bonds, on the Systems of a kind and in an amount which usually would be carried by municipal corporations engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Systems, but nothing herein shall be construed as preventing the City from doing so.

SECTION : Sale, Lease or Disposal of System Property. To the extent and in the manner provided by law, the City can sell, exchange or otherwise dispose of property and facilities constituting part of the System at any time and from time to time, provided such sale or exchange of property or facilities does not impede the operations of the System. In the event the property, facilities or assets of the System sold or exchanged represents more than 5% of the total assets of the System, the City agrees to notify the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations and bond insurance companies insuring the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations of such sale, exchange or disposal of property and facilities. Prior to the sale or exchange of any assets or properties representing more than 5% of the total assets of the System being completed, a written response shall be obtained from the rating agencies then rating the Prior Lien Bonds, Subordinate Lien Bonds and Separate Lien Obligations to the effect that such sale or exchange of such assets or properties in and of itself will not result in a rating category change of the ratings then assigned on such obligations. Furthermore, the City to the extent and in the manner provided by law may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the System, provided such lease, contract, license, arrangement, easement or right does not impede or disrupt the operations of the System. The proceeds of any such sale, exchange or disposal of property or facilities shall be deposited to the credit of a special Fund or Account, and funds deposited to the credit of such Fund or Account shall be used either (i) to acquire other property necessary or desirable for the safe or efficient operation of the System, or (ii) to redeem, defease or retire Prior Lien Bonds, Subordinate Lien Bonds or Separate Lien Obligations.

SECTION : Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remains Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the Waterworks and Sewer System and the Electric Light and Power System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Article 1113,

V.A.T.C.S. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the respective Systems and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the Electric Light and Power System and of the Waterworks and Sewer System for such Fiscal Year.

(b) A balance sheet for the Electric Light and Power System and the Waterworks and Sewer System as of the end of such Fiscal Year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Prior Lien Bonds or Subordinate Lien Bonds and his recommendations for any changes or improvements in the operations, records and accounts of the respective Systems.

(d) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the respective Systems, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the Systems are to be regarded as Maintenance and Operating Expenses of the respective Systems and paid on a pro rata basis or as otherwise determined by the City from available revenues in the Electric Fund and Water and Sewer Fund, either or both. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the Texas Water Development Board, Attention: Executive Administrator, State Water Pollution Control Revolving Fund and, upon request, to the original purchaser of any series of Subordinate Lien Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

SECTION : Deficiencies; Excess Net Revenues. (a) If on any occasion there shall not be sufficient Net Revenues of the Systems to make the required deposits into the Interest and Redemption Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the Systems, or from any other sources available for such purpose.

(b) Subject to making the required deposits to (i) all special funds created for the payment and security of the Prior Lien Bonds (including the Reserve Fund) (ii) all special funds created for the payment and security of the Subordinate Lien Bonds (including the Interest and Redemption Fund) and (iii) all funds or accounts created for the benefit of Separate Lien Obligations, the excess Net Revenues of the Systems, either or both, may be used by the City for any lawful purpose.

SECTION : Final Deposits; Governmental Obligations. (a) All or any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be deemed to be paid, retired and no longer outstanding within the meaning of their respective ordinances when payment of the principal of, and redemption premium, if any, on such obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, the Paying Agent/Registrar, in trust and irrevocably set aside exclusively for such payment, (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the Paying Agent/Registrar with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Paying Agent/Registrar. At such time as an obligation shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefit of this Ordinance or a lien on and pledge of the Net Revenues of the Systems, and shall be entitled to payment solely from such money or Government Obligations.

(b) Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, may at the

direction of the City also be invested in Government Obligations, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Government Obligations not required for the payment of the obligations, the redemption premium, if any, and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City or deposited as directed by the City.

(c) The City covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the obligations to be treated as arbitrage bonds within the meaning of Section 103 of the Internal Revenue Code of 1986, as amended.

(d) Notwithstanding any other provisions of the ordinances, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of the obligations, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such obligations, the redemption premium, if any, and interest thereon and the income on such money or Government Obligations shall not be considered to be "Gross Revenues" under this Ordinance.

SECTION : Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Redemption Fund or the Reserve Fund as required by the ordinances authorizing the issuance of the Prior Lien Bonds or the Subordinate Lien Bonds, as the case may be, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in such ordinances, the Holders of any of the Prior Lien Bonds or Subordinate Lien Bonds, as the case may be, shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance authorizing their issuance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION : Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the Systems and the Holders shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

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APPENDIX E

FORM OF BOND COUNSEL'S OPINIONS

Proposed Form of Opinion of Co-Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel,
upon the delivery of the Bonds, assuming no material changes in facts or law.*

CITY OF AUSTIN, TEXAS
WATER AND WASTEWATER SYSTEM
REVENUE REFUNDING BONDS, SERIES 2013A
\$_____

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the record of proceedings relating to the issuance of the Bonds. The Bonds bear interest from the date and mature on the dates specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the master ordinance establishing the Water and Wastewater System revenue financing system (the "Master Ordinance"), and the twenty-second supplemental ordinance to the Master Ordinance of the City authorizing the issuance of the Bonds (the "Twenty-Second Supplement", and together with the Master Ordinance, the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the Constitution and statutes of the State of Texas, the Charter of said City, certified copies of the proceedings of the City Council of the City, and other proofs authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond No. R-1).

IN OUR OPINION, under existing laws, such record of proceedings shows lawful authority for the issuance and sale of the Bonds in accordance with the provisions, terms and conditions of the Ordinance, which was duly adopted by the City. We are further of the opinion that, under existing laws, the Ordinance and the Bonds constitute valid and legally binding special obligations of the City, and, except as may be limited by laws applicable to the City relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights, that the interest on and principal of the Bonds, together with outstanding Previously Issued Parity Water/Wastewater Obligations and Prior Subordinate Lien Obligations, are payable from, and secured by a parity lien on and pledge of, the Net Revenues of the System in the manner provided in the Ordinance. The Bonds are secured ratably by such pledge of revenues in such manner that no one Bond shall have priority of lien over any other Bond so secured. The holder or holders of the Bonds shall never have the right to demand payment out of money raised or to be raised by taxation.

THE CITY has reserved the right, subject to certain restrictions, to issue additional revenue obligations in all things on parity with the Bonds and payable from and equally secured

by a lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In addition, we have relied upon the report of The Arbitrage Group, Inc., independent certified public accountants, with respect to certain arithmetical and mathematical computations relating to the Bonds and the obligations refunded with the proceeds of the Bonds. In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City 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 from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment

with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the availability and sufficiency of the Net Revenues of the System.

OUR OPINIONS 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 our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

Proposed Form of Opinion of Co-Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel,
upon the delivery of the Bonds, assuming no material changes in facts or law.*

CITY OF AUSTIN, TEXAS
WATER AND WASTEWATER SYSTEM
REVENUE REFUNDING BONDS, TAXABLE SERIES 2013B
\$_____

AS BOND COUNSEL for the City of Austin, Texas (the "City"), the issuer of the bonds described above (the "Bonds"), we have examined into the record of proceedings relating to the issuance of the Bonds. The Bonds bear interest from the date and mature on the dates specified on the face of the Bonds, and are subject to redemption prior to maturity on the dates and in the manner specified in the Bonds, all in accordance with the master ordinance establishing the Water and Wastewater System revenue financing system (the "Master Ordinance"), and the twenty-third supplemental ordinance to the Master Ordinance of the City authorizing the issuance of the Bonds (the "Twenty-Third Supplement", and together with the Master Ordinance, the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the Constitution and statutes of the State of Texas, the Charter of said City, certified copies of the proceedings of the City Council of the City, and other proofs authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond No. R-1).

IN OUR OPINION, under existing laws, such record of proceedings shows lawful authority for the issuance and sale of the Bonds in accordance with the provisions, terms and conditions of the Ordinance, which was duly adopted by the City. We are further of the opinion that, under existing laws, the Ordinance and the Bonds constitute valid and legally binding special obligations of the City, and, except as may be limited by laws applicable to the City relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights, that the interest on and principal of the Bonds, together with outstanding Previously Issued Parity Water/Wastewater Obligations and Prior Subordinate Lien Obligations, are payable from, and secured by a parity lien on and pledge of, the Net Revenues of the System in the manner provided in the Ordinance. The Bonds are secured ratably by such pledge of revenues in such manner that no one Bond shall have priority of lien over any other Bond so secured. The holder or holders of the Bonds shall never have the right to demand payment out of money raised or to be raised by taxation.

THE CITY has reserved the right, subject to certain restrictions, to issue additional revenue obligations in all things on parity with the Bonds and payable from and equally secured

by a lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Bonds.

IT IS OUR OPINION THAT THE BONDS ARE NOT OBLIGATIONS DESCRIBED IN SECTION 103(a) OF THE INTERNAL REVENUE CODE OF 1986.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City 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 for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the availability and sufficiency of the Net Revenues of the System.

OUR OPINIONS 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 our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective.

Respectfully,

APPENDIX F

SUMMARY OF REFUNDED BONDS

Obligations to be Refunded with Proceeds of the Series 2013A Bonds (1)

Water and Wastewater System Revenue Refunding Bonds, Series 2004A

<u>Maturity Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
SERIAL	11/15/13	5.000%	\$ 5,340,000		
SERIAL	11/15/14	5.000%	5,605,000		
SERIAL	11/15/15	5.000%	5,885,000	11/15/14	(2)
SERIAL	11/15/16	5.000%	6,180,000	11/15/14	(2)
SERIAL	11/15/17	5.000%	6,490,000	11/15/14	(2)
SERIAL	11/15/20	5.000%	7,515,000	11/15/14	(2)
SERIAL	11/15/21	5.000%	7,890,000	11/15/14	(2)
SERIAL	11/15/22	5.000%	8,285,000	11/15/14	(2)
SERIAL	11/15/23	5.000%	8,700,000	11/15/14	(2)
SERIAL	11/15/24	5.000%	9,135,000	11/15/14	(2)
SERIAL	11/15/25	5.000%	9,590,000	11/15/14	(2)
SERIAL	11/15/26	5.000%	10,070,000	11/15/14	(2)
SERIAL	11/15/27	5.000%	10,575,000	11/15/14	(2)
SERIAL	11/15/28	5.000%	11,105,000	11/15/14	(2)
SERIAL	11/15/29	5.000%	11,660,000	11/15/14	(2)
			<u>\$ 124,025,000</u>		

Water and Wastewater System Revenue Refunding Bonds, Series 2005A

<u>Maturity Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
SERIAL	05/15/15	5.000%	\$ 3,355,000		
SERIAL	05/15/16	5.000%	3,485,000	05/15/15	(2)
SERIAL	05/15/17	5.000%	3,620,000	05/15/15	(2)
SERIAL	05/15/18	4.300%	3,765,000	05/15/15	(2)
SERIAL	05/15/19	4.350%	3,915,000	05/15/15	(2)
SERIAL	05/15/20	4.400%	4,075,000	05/15/15	(2)
SERIAL	05/15/21	4.450%	4,245,000	05/15/15	(2)
SERIAL	05/15/22	4.500%	4,420,000	05/15/15	(2)
SERIAL	05/15/23	5.000%	4,600,000	05/15/15	(2)
SERIAL	05/15/24	5.000%	4,795,000	05/15/15	(2)
SERIAL	05/15/25	4.375%	5,000,000	05/15/15	(2)
SERIAL	05/15/26	5.000%	5,215,000	05/15/15	(2)
SERIAL	05/15/27	5.000%	5,445,000	05/15/15	(2)
SERIAL	05/15/28	5.000%	5,685,000	05/15/15	(2)
SERIAL	05/15/29	5.000%	5,930,000	05/15/15	(2)
SERIAL	05/15/30	5.000%	6,200,000	05/15/15	(2)
SERIAL	05/15/31	5.000%	6,475,000	05/15/15	(2)
TERM 2033	05/15/32	4.500%	6,765,000	05/15/15	(2)
TERM 2033	05/15/33	4.500%	7,070,000	05/15/15	(2)
TERM 2035	05/15/34	5.000%	7,395,000	05/15/15	(2)
TERM 2035	05/15/35	5.000%	7,730,000	05/15/15	(2)
			<u>\$ 109,185,000</u>		

Obligations to be Refunded with Proceeds of the Taxable Series 2013B Bonds (1)

Water and Wastewater System Revenue Refunding Bonds, Series 2005

<u>Maturity Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
SERIAL	05/15/16	5.000%	\$ 10,190,000	11/15/15	(2)
SERIAL	11/15/16	5.000%	5,100,000	11/15/15	(2)
SERIAL	05/15/17	5.000%	10,665,000	11/15/15	(2)
SERIAL	11/15/17	5.000%	5,270,000	11/15/15	(2)
SERIAL	05/15/18	5.000%	11,330,000	11/15/15	(2)
SERIAL	11/15/18	5.000%	5,540,000	11/15/15	(2)
SERIAL	05/15/19	5.000%	11,895,000	11/15/15	(2)
SERIAL	11/15/19	5.000%	5,800,000	11/15/15	(2)
SERIAL	05/15/20	5.000%	12,455,000	11/15/15	(2)
SERIAL	05/15/21	5.000%	13,310,000	11/15/15	(2)
SERIAL	05/15/22	5.000%	13,975,000	11/15/15	(2)
SERIAL	05/15/23	5.000%	5,065,000	11/15/15	(2)
SERIAL	05/15/24	5.000%	5,355,000	11/15/15	(2)
SERIAL	05/15/25	5.000%	5,645,000	11/15/15	(2)
SERIAL	05/15/26	5.000%	5,930,000	11/15/15	(2)
SERIAL	05/15/27	5.000%	6,310,000	11/15/15	(2)
SERIAL	05/15/28	5.000%	6,665,000	11/15/15	(2)
SERIAL	05/15/29	5.000%	7,015,000	11/15/15	(2)
SERIAL	05/15/30	5.000%	7,360,000	11/15/15	(2)
			<u>\$ 154,875,000</u>		

Water and Wastewater System Revenue Refunding Bonds, Series 2005A

<u>Maturity Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
SERIAL	05/15/15	5.000%	\$ 165,000		
SERIAL	05/15/16	5.000%	170,000	05/15/15	(2)
SERIAL	05/15/17	5.000%	175,000	05/15/15	(2)
SERIAL	05/15/18	4.300%	185,000	05/15/15	(2)
SERIAL	05/15/19	4.350%	190,000	05/15/15	(2)
SERIAL	05/15/20	4.400%	200,000	05/15/15	(2)
SERIAL	05/15/21	4.450%	205,000	05/15/15	(2)
SERIAL	05/15/22	4.500%	215,000	05/15/15	(2)
SERIAL	05/15/23	5.000%	225,000	05/15/15	(2)
SERIAL	05/15/24	5.000%	235,000	05/15/15	(2)
SERIAL	05/15/25	4.375%	245,000	05/15/15	(2)
SERIAL	05/15/26	5.000%	255,000	05/15/15	(2)
SERIAL	05/15/27	5.000%	265,000	05/15/15	(2)
SERIAL	05/15/28	5.000%	275,000	05/15/15	(2)
SERIAL	05/15/29	5.000%	290,000	05/15/15	(2)
SERIAL	05/15/30	5.000%	300,000	05/15/15	(2)
SERIAL	05/15/31	5.000%	315,000	05/15/15	(2)
TERM 2033	05/15/32	4.500%	330,000	05/15/15	(2)
TERM 2033	05/15/33	4.500%	345,000	05/15/15	(2)
TERM 2035	05/15/34	5.000%	360,000	05/15/15	(2)
TERM 2035	05/15/35	5.000%	375,000	05/15/15	(2)
			<u>\$ 5,320,000</u>		

Total - Obligations to be Refunded with Proceeds of the 2013A and 2013B Bonds

\$ 393,405,000

(1) Preliminary, subject to change.

(2) Bonds are subject to redemption at a price equal to the principal amount thereof, plus accrued interest to the redemption date.