

PRELIMINARY OFFICIAL STATEMENT

Dated: May 3, 2016

Ratings: Moody's: "____"
 Standard & Poor's: "____"
 Fitch: "____"

(See "OTHER RELEVANT INFORMATION – Ratings" in this document)

NEW ISSUE – Book-Entry-Only

Delivery of the Bonds (as defined below) is subject to the receipt of the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, to the effect that, assuming continuing compliance by the City (as defined below) with certain covenants contained in the Twenty-Sixth Supplement described in this document, interest on the Bonds will be excludable from gross income for purposes of federal income taxation, subject to the matters described under "TAX MATTERS" in this document, including the alternative minimum tax on corporations.

\$ _____

CITY OF AUSTIN, TEXAS

(Travis, Williamson and Hays Counties)

Water and Wastewater System Revenue Refunding Bonds, Series 2016

Dated: Date of Delivery

Due: As shown on page ii of this document

The bonds offered in this document are the \$ _____ * City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2016 (the "Bonds"). The Bonds represent the twenty-sixth encumbrance 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 a supplemental ordinance adopted by the City Council of the City on April 21, 2016 (the "Twenty-Sixth Supplement"). The Master Ordinance and Twenty-Sixth Supplement are collectively referred to in this document as the "Bond Ordinance." The Twenty-Sixth Supplement delegated to a designated "Pricing Officer" the authority to effect the sale of the Bonds, subject to the terms of the Twenty-Sixth Supplement. See "INTRODUCTION" in this document. 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 solely 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 and the Twenty-Sixth 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 and Wastewater System, except with respect to the Net Revenues. The holders of the Bonds do not have any right to moneys or other Reserve Fund Obligations held in the Reserve Fund. See "SECURITY FOR THE BONDS – Reserve Fund for Parity Water/Wastewater Obligations" in this document. **Neither the taxing power of the City nor the taxing power of the State of Texas (the "State") is pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" in this document.

MATURITY SCHEDULE

See "Maturity Schedule" on page ii

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 date of delivery of the Bonds and shall be payable on November 15, 2016 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" in this document.

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 opinion of Bond Counsel will be printed on or attached to the Bonds. (See APPENDIX E - "Form of Bond Counsel's Opinion" in this document). Certain legal matters will be passed on for the Underwriters by their co-counsel, Haynes & Boone, LLP and Kassahn & Ortiz, P.C. The Bonds are expected to be available for delivery on or about June 1, 2016.

Ramirez & Co., Inc.

Coastal Securities, Inc.
 Morgan Stanley

Fidelity Capital Markets

Goldman, Sachs & Co.
 Raymond James

*Preliminary; subject to change.

CITY OF AUSTIN, TEXAS

\$_____ * Water and Wastewater System Revenue Refunding Bonds, Series 2016
Base CUSIP No. 052416 (1)

MATURITY SCHEDULE*

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix (1)</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix (1)</u>
11-15-2019					11-15-2034	\$			
11-15-2020					11-15-2035				
11-15-2021					11-15-2036				
***	***				11-15-2037				
11-15-2025					11-15-2038				
11-15-2026					11-15-2039				
11-15-2027					11-15-2040				
11-15-2028					11-15-2041				
11-15-2029					11-15-2042				
11-15-2030					11-15-2043				
11-15-2031					11-15-2044				
11-15-2032					11-15-2045				
11-15-2033									

(Interest to accrue from Date of Initial Delivery)

Optional Redemption of the Bonds

The City reserves the right, at its option, to redeem Bonds pursuant to the terms stated in this document under “DESCRIPTION OF THE BONDS – Optional Redemption of the Bonds.”

Mandatory Sinking Fund Redemption of the Bonds*

The Bonds having stated maturities of _____, 20__ and _____, 20__, respectively, are subject to mandatory redemption prior to maturity in part, in the manner described in this document under “DESCRIPTION OF THE BONDS - Mandatory Sinking Fund Redemption of the Bonds.”

*Preliminary; subject to change.

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data in this document is provided by CUSIP Global Services, managed by S&P Capital IQ 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.
- (2) Initial yield calculated based upon the assumption that the Bonds maturing on or after _____, 20__ will be called on the first optional call date (_____, 20__) at a redemption price of par plus accrued interest to the redemption date.

CITY OF AUSTIN

Elected Officials

	<u>Term Expires Jan. 5</u>
Steve Adler	Mayor 2019
Ora Houston	Councilmember District 1 2019
Delia Garza	Councilmember District 2 2017
Sabino “Pio” Renteria	Councilmember District 3 2019
Gregorio “Greg” Casar	Councilmember District 4 2017
Ann Kitchen	Councilmember District 5 2019
Don Zimmerman	Councilmember District 6 2017
Leslie Pool	Councilmember District 7 2017
Ellen Troxclair	Councilmember District 8 2019
Kathryne B. Tovo, Mayor Pro Tem	Councilmember District 9 2019
Sheri Gallo	Councilmember District 10 2017

Appointed Officials

Marc A. Ott.....	City Manager
Robert Goode	Assistant City Manager
Sue Edwards	Assistant City Manager
Bert Lumbreras	Assistant City Manager
Ray Arellano	Assistant City Manager
Mark Washington	Acting Assistant City Manager
Elaine Hart, CPA	Chief Financial Officer
Greg Canally	Deputy Chief Financial Officer
Ed Van Eenoo	Deputy Chief Financial Officer
Anne Morgan.....	City Attorney
Jannette S. Goodall.....	City Clerk

BOND COUNSEL

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

DISCLOSURE COUNSEL FOR THE CITY

Norton Rose Fulbright US LLP
Austin and Dallas, Texas

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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, 2012 through 2015 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

		(000's)			
		Fiscal Year Ended September 30 (2)			
	<u>12 Months</u> <u>Ended</u> <u>12-31-2015(2)</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Combined Gross Revenues	\$ 1,897,342	\$1,876,512	\$1,848,012	\$1,772,129	\$1,633,826
Combined Maintenance and Operating Expenses	1,204,286	1,186,590	1,246,865	1,137,184	1,054,566
Combined Net Revenues	<u>\$ 693,056</u>	<u>\$ 689,760</u>	<u>\$ 601,147</u>	<u>\$ 634,945</u>	<u>\$ 579,260</u>
Principal and Interest on Revenue Bonds (1)	\$ 33,027	\$ 33,112	\$ 16,137	\$ 76,067	\$ 116,773
Debt Service Coverage on Revenue Bonds (1)	20.98x	20.83x	37.25x	8.35x	4.96x

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

(2) See "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

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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, 2012 through 2015 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

	(000's)				
	Fiscal Year Ended September 30 (3)				
	<u>12 Months</u>				
	<u>Ended</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>12-31-2015(3)</u>				
Gross Revenues	\$ 533,105	\$ 517,253	\$ 472,717	\$ 477,013	\$ 443,028
Maintenance and Operating Expenditures	<u>212,711</u>	<u>208,307</u>	<u>218,071</u>	<u>209,890</u>	<u>178,891</u>
Net Revenues	<u>320,394</u>	<u>308,946</u>	<u>\$ 254,646</u>	<u>\$ 267,123</u>	<u>\$ 264,137</u>
Principal and Interest on Prior First Lien/Prior Subordinate Lien Obligations (1)	<u>\$ 22,344</u>	<u>\$ 22,366</u>	<u>\$ 8,473</u>	<u>\$ 30,718</u>	<u>\$ 44,386</u>
Net Revenues Available for Water and Wastewater System Separate Lien Obligations	<u>\$ 298,050</u>	<u>\$ 286,580</u>	<u>\$ 246,173</u>	<u>\$ 236,405</u>	<u>\$ 219,751</u>
Principal and Interest on Water and Wastewater System Separate Lien Obligations	182,558	198,944	\$ 195,673	\$ 158,294	\$ 133,781
Debt Service Coverage (Separate Lien Obligations) (2)	1.63x	1.44x	1.26x	1.49x	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) See "OTHER RELEVANT INFORMATION – Independent Auditors" in this document.

[The remainder of this page is intentionally left blank.]

For purposes of compliance with Rule 15c2-12 of the United States 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.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED TO THIS OFFICIAL STATEMENT, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

No dealer, salesman or any other person has been authorized by the City or by the Underwriters to give any information or to make any representations, other than the information and representations contained in this document, 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.

The information and expressions of opinion contained in this document are subject to change without notice and neither the delivery of this Official Statement nor any sale made that references this document shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date of this document. The delivery of this Official Statement at any time does not imply that the information in this document is correct as to any time subsequent to its date. See “CONTINUING DISCLOSURE OF INFORMATION” in this document for a description of the City’s undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (“SEC”) AND CONSEQUENTLY HAVE NOT BEEN REGISTERED WITH THE SEC. 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 FOR THE PURCHASE OF THE BONDS.

CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau, and none of the City, Public Financial Management, Inc. or the Underwriters are responsible for the selection or correctness of CUSIP numbers.

None of the City, Public Financial Management, Inc., or the Underwriters make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system, as such information has been furnished by DTC. Neither the City nor Public Financial Management, Inc. make any representations regarding the information concerning the Underwriters contained in this document in “OTHER RELEVANT INFORMATION – UNDERWRITING.”

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” in this document.

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 part of their responsibilities 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.

IN CONNECTION WITH THIS OFFERING, 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 PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

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OFFICIAL STATEMENT

Relating to

\$ _____ *

CITY OF AUSTIN, TEXAS

(Travis, Williamson and Hays Counties)

Water and Wastewater System Revenue Refunding Bonds, Series 2016

INTRODUCTION

This Official Statement, which includes the cover page and the appendices, is being furnished in connection with the proposed issuance by the City of Austin, Texas (the “City”), of its \$ _____* City of Austin, Texas Water and Wastewater System Revenue Refunding Bonds, Series 2016 (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 of the City on June 8, 2000 (the “Master Ordinance”) providing the terms upon which Parity Water/Wastewater Obligations (as defined in the Master Ordinance) are to be issued and the covenants and security provisions related thereto, and a supplemental ordinance adopted by the City Council of the City on April 21, 2016 (the “Twenty-Sixth Supplement”). The Master Ordinance and the Twenty-Sixth Supplement are collectively referred to in this document as the “Bond Ordinance.” The Twenty-Sixth Supplement delegated to a designated “Pricing Officer” the authority to effect the sale of the Bonds, subject to the terms of the Twenty-Sixth Supplement. **Capitalized terms not otherwise defined in this document have the meanings assigned in the Bond Ordinance, or the Prior Lien Ordinance (hereinafter defined), as applicable (see APPENDICES C and D in this document).** 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 copy of the Master Ordinance is attached to this document as APPENDIX C, and a summary of certain provisions of the Prior Lien Ordinance is attached to this document as APPENDIX D. All descriptions of documents contained in this document are only summaries and are qualified in their entirety by reference to each such document.

References to website addresses presented in this document are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless otherwise specified in this document, references to websites and the information or links contained therein are not incorporated into, and are not part of, this document.

The Bonds represent the twenty-sixth encumbrance 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 or 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, 2016, there will be \$ _____ 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, 2016, there will be \$ _____ 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, 2025. See “DEBT PAYABLE FROM SYSTEMS REVENUES” in this document. In the Prior Lien Ordinance, 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” in this document.

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

*Preliminary; subject to change.

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. No assurances can be given as to when or if such obligations will be defeased or paid prior to their stated maturities so as to allow the Parity Water/Wastewater Obligations (including the Bonds) to be secured by and payable from a first lien on the Net Revenues of the Water and Wastewater System. See “SECURITY FOR THE BONDS – Credit Agreement” in this document for a discussion of the treatment of the City’s obligations under an interest rate swap agreement as Parity Water/Wastewater Obligation.

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

Refunding

The Bonds are being issued in part to refund \$190,000,000* in aggregate principal amount 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 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 Bonds are being issued in part to refund \$110,960,000* in aggregate principal amount of the City’s currently outstanding Parity Water/Wastewater Obligations described in APPENDIX F – “SUMMARY OF REFUNDED BONDS” in this document. The remaining proceeds of the Bonds will be used to pay the costs of issuance of the Bonds.

The Parity Water/Wastewater Obligations to be refunded with proceeds of the 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” in this document.

The Refunded Bonds, and interest due on the Refunded Bonds, are to be paid on their 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, (the “Escrow Agent”). The Twenty-Sixth Supplement provides that a portion of the proceeds of the sale of the Bonds, together with other lawfully available funds of 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 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. (the “Verification Agent”), a nationally recognized accounting firm, will verify at the time of delivery of the Bonds 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 debt service on the Bonds. See “OTHER RELEVANT INFORMATION – Verification of Arithmetical and Mathematical Calculations” in this document.

*Preliminary; subject to change.

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have entered into firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds, in accordance with applicable law. As a result of such firm banking and financial arrangements, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed outstanding for the purpose of any limitation on debt or the pledge of Net Revenues.

SOURCES AND USES OF FUNDS

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

Sources

Par Amount
Premium
City Contribution
Total

Uses:

Deposit with Paying Agent for Refunded Notes
Deposit to Escrow Fund for Refunded Bonds (1)
Cost of Issuance
Underwriters' Discount
Total

-
- (1) Amount, together investment earnings thereon, to pay principal and interest on the Refunded Bonds payable at maturity or prior redemption.

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DEBT PAYABLE FROM SYSTEMS REVENUES

(As of May 31, 2016)

<u>Combined Utility Systems Obligations</u>	
Prior First Lien Obligations	\$ 28,594,668
Prior Subordinate Lien Obligations	119,001,511
Sub-Total	<u>\$ 147,596,179</u>
<u>Parity Electric Utility Obligations (a)</u>	\$1,169,050,000
<u>Water and Wastewater System Separate Lien Obligations</u>	
Parity Water and Wastewater Obligations (b)	\$ _____
<u>Commercial Paper (c)</u>	\$ 49,662,000(f)
<u>General Obligation Debt (d)</u>	\$ 10,331,579
<u>Assumed Bonds and Obligations</u>	
Assumed District Bonds (e)	\$ 5,153,606
TOTAL	<u><u>\$ _____</u></u>

See "SECURITY FOR THE BONDS" in this document.

- (a) The Parity Electric Utility Obligations are payable from the net revenues of the Electric Utility System only.
- (b) Includes the Bonds, but excludes the Refunded Bonds. Preliminary, subject to change.
- (c) The City has a Tax-Exempt Commercial Paper Program in place for the combined utility systems in an amount not to exceed \$400,000,000 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, the Parity Electric Utility Obligations and the Water and Wastewater System Separate Lien Obligations. Austin Water's current Financial Policy provides that the proceeds of Commercial Paper Obligation issued for the Water and Wastewater System can only be utilized to finance (i) new water and wastewater plans, (ii) capital expansions, (iii) growth-related projects, (iv) routine capital improvements required for normal business operation, and/or (v) improvements to comply with local, state and federal mandates or regulations. The Electric Utility System may utilize proceeds of Commercial Paper Obligations for all improvements, excluding major nuclear and coal needs.
- (d) Contractual Obligations and Public Improvement Bonds are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.
- (e) Such bonds are secured by City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.
- (f) Preliminary, subject to change. Excludes the refunded commercial paper.

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DEBT SERVICE REQUIREMENTS (a)

-
- (a) Debt outstanding as of May 31, 2016. While not reflected in the debt service requirements, the City has additionally taken action to authorize the use of \$18.2 million in available funds, accumulated from the collection of Impact Fees/Capital Recovery Fees, to defease certain outstanding bonds during fiscal year 2016.
- (b) Excludes the Refunded Bonds.
- (c) Assumed municipal utility district obligations are secured by 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, 2025. In 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-sixth encumbrance 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 a credit agreement executed in support of bonds issued as Parity Water/Wastewater Obligations. See "SECURITY FOR THE BONDS - Credit Agreement" in this document. The Master Ordinance and the Twenty-Sixth 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.

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.

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" in this document.

Federal Subsidy on Build America Bonds . . . Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act, 2 U.S.C. 901a, as amended, certain automatic reductions took place as of March 1, 2013. The required reductions included a reduction to refundable credits under section 6341 of the Internal Revenue Code applicable to certain qualified bonds, including Build America Bonds. The sequester reduction applied to any section 6431 amounts claimed by an issuer on any Form 8038-CP filed with the U.S. Treasury which results in a payment to such issuer on or after March 1, 2013. According to the Office of Tax Exempt Bonds within the Internal Revenue Service (IRS-TEB), direct pay bond subsidy payments processed from and after October 1, 2013 through September 30, 2014 were reduced by a federal fiscal year 2014 sequestration rate of 7.2 percent. The sequestration rate for federal fiscal years 2015 through 2023 will be set from time to time in the future, unless Congress takes additional action to change or eliminate the

sequestration percentage. 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 Bond” program. Such subsidy payment for the Taxable Series 2010B Bonds was reduced by approximately 6.8 percent in federal fiscal year 2016. The City 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. The City makes no representation as to if the federal subsidy payments will be restored to the levels prior to the reduction of the subsidy described in this section, or whether future reductions in the subsidy may occur at any time while the Taxable Series 2010B Bonds are outstanding.

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 solely 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 solely 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 current 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. The City determined not to fund the Reserve Fund in connection with the issuance of its Water and Wastewater System

Revenue Refunding Bonds, Series 2013A (the "Series 2013A Bonds"), issued in the aggregate principal amount of \$282,460,000 on July 25, 2013, its Water and Wastewater System Revenue Refunding Bonds, Series 2014 (the "Series 2014 Bonds"), issued in the aggregate principal amount of \$282,205,000 on June 6, 2014, its Water and Wastewater System Revenue Refunding Bonds, Series 2015A (the "Series 2015A Bonds"), issued in the aggregate principal amount of \$249,145,000 on August 18, 2015, and its Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2015B (the "Series 2015B Taxable Bonds"), issued in the aggregate principal amount of \$40,000,000 on August 18, 2015. **Pursuant to the terms of the Twenty-Sixth Supplement, the City has determined not to fund the Reserve Fund in connection with the issuance of the Bonds, and therefore, the holders of the Bonds do not 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, obligations of the City incurred under certain Credit Agreements, the Series 2013A Bonds, the Series 2014 Bonds, the Series 2015A Bonds, the Series 2015B Taxable Bonds, and the Bonds, 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 secured by the Reserve Fund 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 secured by the Reserve Fund, the Required Reserve Amount currently on deposit in the Reserve Fund (without giving effect to the refunding of the Refunded Bonds), as of March 31, 2016, is funded with a combination of cash (\$_____) and surety bonds originally issued by MBIA Insurance Corporation (\$_____), Financial Security Assurance Inc. (\$_____), Ambac Assurance Corporation (\$_____) and XL Capital Assurance Inc. (\$_____).

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, the Series 2013A Bonds, the Series 2014 Bonds, the Series 2015A Bonds, the Series 2015B Taxable Bonds, 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 was 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 March 31, 2016, is \$27,058,763.31 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 a parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations.

Separate Lien Obligations

In the Prior Lien Ordinance, the City 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 (see "SECURITY FOR THE BONDS – Surplus Revenue Account" in this document), 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 clause (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.

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" (as defined in APPENDIX C) shall include Subordinated Debt (as defined in APPENDIX C) 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 Agreement

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 for which the City has executed a Credit Agreement and treated its obligations under the Credit Agreement 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 – “AUDITED FINANCIAL STATEMENTS—Note 9b—Variable Rate Debt Management Program” in this document for a discussion relating to the valuation of and risks associated with the 2008 Swap Agreement. As of March 31, 2016, the net aggregate monthly payments the City has made under the 2008 Swap Agreement equal \$37,833,723.08.

If either party to the 2008 Swap Agreement commits an event of default, suffers a reduction in creditworthiness, 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.

The City has established the "Revenue Stability Reserve Fund" as an account within the System Fund, and, therefore, the Revenue Stability Reserve Fund is separate and distinct from the Reserve Fund established by the Master Ordinance and described in "SECURITY FOR THE BONDS – Reserve Fund for Parity Water/Wastewater Obligations" in this document. The Revenue Stability Reserve Fund is funded by the "Water Revenue Stability Reserve Fund Surcharge" described in "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates Effective as of November 1, 2015 – TABLE SEVEN" in this document. Moneys in the Revenue Stability Reserve Fund are Gross Revenues under the Master Ordinance. The City Council of the City has established certain policy restrictions with respect to the use of moneys in the Revenue Stability Reserve Fund, which are described in "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document. Notwithstanding these policy restrictions, the provisions of the Master Ordinance regarding the use of moneys on deposit in the System Fund (including the Revenue Stability Reserve Fund therein) that are described above in this "SECURITY FOR THE BONDS – System Fund" caption, govern and control. For additional information regarding the Revenue Stability Reserve Fund, see "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.

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

General

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, 2016, and 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 page ii of this document. 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 of the Bonds as described in this document.

Optional Redemption of the Bonds

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

Upon any optional redemption of the Bonds, if less than all of the Bonds are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity are to be redeemed, the Bonds, or portion of the Bonds, within such maturity will be selected at random, by lot or other customary method selected by the Paying Agent/Registrar.

Mandatory Sinking Fund Redemption of the Bonds*

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

Term Bond due _____, 20__		Term Bond due _____, 20__	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
*		*	

*Preliminary, subject to change.

**Stated maturity.

Approximately 45 days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the 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 Term Bonds not selected for prior redemption shall be paid on the date of their stated maturity.

The principal amount of the 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 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 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 previously credited against a mandatory redemption requirement.

Notice of Redemption

Not less than thirty (30) days before 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 the registered owner of a Bond to be redeemed in whole or in part at the address of the bondholder appearing on the registration books 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 before the notice of redemption is mailed, such notice may state that redemption may, at the option of the City, be conditional upon the receipt of such moneys by the Paying Agent/Registrar on or before the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of 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 the defeased 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 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 (see “BOOK-ENTRY-ONLY SYSTEM” in this document), 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

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 either the Master Ordinance or the Twenty-Sixth 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 or the Twenty-Sixth 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. Neither the Master Ordinance nor the Twenty-Sixth 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-Sixth 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 the Master Ordinance or the Twenty-Sixth 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 opinions 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, Public Financial Management, Inc. and the Underwriters each believes to be reliable, but neither the City, Public Financial Management, Inc. nor the Underwriters takes any 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 “Water and Wastewater Utility” or “Austin Water”) 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. As of September 30, 2015, the Electric Utility System had approximately 1,672.5 full-time regular employees and the Water and Wastewater System had approximately 1,148.5 full-time regular employees.

THE WATER AND WASTEWATER SYSTEM

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City*</u>
Greg Meszaros	Director	8 Years
David Anders	Assistant Director, Financial Services	28 Years
Jane Burazer	Assistant Director, Treatment	22 Years
Rick Coronado, P.E.	Assistant Director, Pipeline Operations	21 Years
Chris Chen, P.E.	Assistant Director, Engineering Services	3 Years
Kevin Critendon, P.E.	Assistant Director, Water Resources Management	4 Years
Daryl Slusher	Assistant Director, Environmental Affairs and Conservation	19 Years**

*As of January 1, 2016.

**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 544 square miles. The City also has contracted to supply treated water on a wholesale basis to five municipal utility districts (individually, a “MUD”; collectively “MUDs”); two water control and improvement districts (individually, a “WCID”; collectively “WCIDs”); several water supply corporations and private utilities; the cities of Manor, Rollingwood, Sunset Valley, West Lake Hills; and the Village of San Leanna. In addition, the City has had a Water Reclamation Initiative for more than twenty years to develop facilities and processes to make treated wastewater effluent available for irrigation and cooling processes. The City established operating and capital funds for a Reclaimed Water Utility in addition to the Water and Wastewater operating and capital funds during fiscal year 2013. 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 utilities a certificate of convenience and necessity to provide water and wastewater service to retail customers. Since Austin Water is not defined by state statute as a “utility,” and instead is considered a “municipality,” it is not required to obtain such a certificate. References to the TCEQ in this document 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 and was reported to be the largest dam in the world when originally constructed. 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 Buchanan Dam—which is 150 feet high and 11,000 feet long—in 1938; the lake it forms (Lake Buchanan) is thirty-two miles long and two miles wide, covering 22,137 surface acres at the full conservation

pool elevation of 1,020.5 feet mean sea level (“MSL”).

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 Highland Lakes system 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 is 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 the City and managed by LCRA, is approximately 2 million acre-feet.

The City 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	1997 – 3,013,512 Acre-Feet	2007 – 2,156,000 Acre-Feet
1988 – 834,000 Acre-Feet	1998 – 1,313,831 Acre-Feet	2008 – 623,200 Acre-Feet
1989 – 667,900 Acre-Feet	1999 – 803,240 Acre-Feet	2009 – 584,800 Acre-Feet
1990 – 692,300 Acre-Feet	2000 – 627,370 Acre-Feet	2010 – 798,500 Acre-Feet
1991 – 829,700 Acre-Feet	2001 – 1,371,435 Acre-Feet	2011 – 670,000 Acre-Feet
1992 – 5,419,000 Acre-Feet	2002 – 1,674,985 Acre-Feet	2012 – 212,800 Acre-Feet
1993 – 978,000 Acre-Feet	2003 – 1,017,294 Acre-Feet	2013 – 210,600 Acre-Feet
1994 – 708,200 Acre-Feet	2004 – 928,065 Acre-Feet	2014 – 219,200 Acre-Feet
1995 – 896,700 Acre-Feet	2005 – 1,077,031 Acre-Feet	2015 – 201,700 Acre-Feet
1996 – 758,300 Acre-Feet	2006 – 553,200 Acre-Feet	

* Data from 2006 to 2015 is referenced from USGS Water-Year Summary Statistics.

Using the last twenty-nine years from 1987-2015, the average flow was 1,173,600 acre-feet per year. (As a result of recent drought conditions, the flows in water years 2012 through 2015 were lower, in accordance with TCEQ approval, due to LCRA cutting off most Highland Lakes interruptible stored water releases for agricultural irrigation operations). The gauging station referenced above is located on the Colorado River downstream of Longhorn Dam and downstream of the City’s intakes.

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 long as consumptive use does not exceed 24,000 acre-feet per year; the right to divert and circulate water from Lake Walter E. Long for industrial (cooling) purposes so long as consumptive use does not 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 an assured water supply throughout its term 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 LCRA as part of the First Amendment contract provisions. The \$100.0 million payment to LCRA included compensation for the following terms: (a) 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 per year for the additional 50-year period, with an option to renew for another additional 50-year period; and (b) 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 2030. 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 has three water treatment plants (Davis, Ullrich, and WTP No. 4), which have a combined rated capacity of 335 million gallons per day ("mgd"). These water treatment plants have a combined clear well storage capacity of 45 million gallons on site.

Austin Water's water distribution system includes approximately 3,807 miles of water mains of varying diameters, 31 major storage facilities with a storage capacity of approximately 170 million gallons, 27,405 City maintained fire hydrants, and 21 major pump stations.

The City receives its water supply from the Colorado River through the three water treatment plants. The Davis Water Treatment Plant and the Ullrich Water Treatment Plant both draw water from Lake Austin. WTP No. 4 draws water from Lake Travis.

The Davis Water Treatment 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 Water Treatment 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 reservoirs, high service and medium service pumping stations, 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 began delivering potable water in November 2014. Located in northwest Austin, WTP No. 4 draws its water from Lake Travis. The construction of WTP No. 4 added an initial capacity of 50 mgd with expansion capability up to 300 mgd with future phases to meet projected needs. Funding for the construction of WTP No. 4 came from a combination of cash transferred from the operating fund and Commercial Paper Obligations.

Water Use Management Plan and LCRA Water Management Plan

Austin Water has both a water conservation plan and a drought contingency plan, as required in Texas for large municipal water suppliers. The City's Water Conservation Plan details incentive programs, educational efforts and regulations designed to reduce both peak and average day water use. The City's Drought Contingency Plan ("DCP") 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 for outdoor irrigation no more than twice per week, the plan calls for more restrictive stages if combined storage levels in the Highland Lakes fall below certain levels, or if daily pumpage exceeds limits established by Austin Water's 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 the City Charter, Chapter 6-4, which was revised by the City Council on August 16, 2012. Through these strategies, the Water and Wastewater Utility is striving to continue strengthening conservation efforts while also protecting the City's urban landscape and tree canopy.

For the majority of time since September 2011, the City has been in Stage 2 watering restrictions, which resulted in lower than forecasted Gross Revenues in fiscal years 2012 through 2014. Among other measures, Stage 2 watering restrictions limit lawn watering to no more than one day per week. In accordance with the DCP, Stage 2 implementation was triggered in response to the combined storage of water supply in Lakes Travis and Buchanan dropping to 900,000 acre-feet in late summer 2011. Water use restrictions have achieved their intended effect, as water use has declined significantly since their imposition; however, water use declined more than forecasted by the Water and Wastewater Utility for fiscal years 2012 through 2014. Rainfall throughout fiscal year 2015 significantly increased the combined storage of Lakes Travis and Buchanan to 1.83 million acre-feet, as of March 2016. However, the City currently is considering a modified one-day-per-week watering on a permanent basis. Public input meetings were conducted in early 2016; based on community input and City management feedback a final determination regarding watering schedules is expected to be made in May 2016. See "COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates" in this document.

Inclining block rates, implemented April 1, 1994, are designed to promote water conservation by single family residential customers. 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.

The City has senior water rights and also firm water supply agreements with the LCRA that provide the City with firm water supplies of up to 325,000 acre-feet per year. LCRA's operations and management of the water stored in Lakes Travis and Buchanan, the region's major water supply reservoirs, is guided by the LCRA Water Management Plan ("WMP"), a document approved by the "TCEQ". In November 2015, TCEQ approved an updated WMP that will govern LCRA's operation and management of the lakes during the 2016 crop irrigation season, which began in March 2016. LCRA supplies water to firm customers like the City, industries, power plants and other cities. Also, when interruptible water is available, in accordance with LCRA's WMP, LCRA also supplies interruptible water to downstream agricultural irrigation operations in the lower three counties in the lower Colorado River Basin. The updated LCRA WMP better protects the water supply for firm customers, including the City, and allows LCRA to more quickly adapt its operations as drought conditions change. Revisions include incorporating procedures for curtailing interruptible water such that combined storage in Lakes Travis and Buchanan is maintained above 600,000 acre-feet through a repeat of historic drought

conditions through 2013. The revised plan also incorporates a three-tier regime that considers inflows, current storage, and modeled future storage conditions in determining water availability given to interruptible agricultural customers. Additionally, availability of interruptible stored water will be determined separately for each of the two crop seasons, rather than having the determination made once for both crop seasons, as was the case in the previous WMP. The revised WMP also places volumetric limits on interruptible stored water. City representatives worked diligently through the critical LCRA WMP revision process to proactively ensure reservoir management of Lakes Travis and Buchanan is consistent with the City's firm water interests and with LCRA's lake permit duties and firm customer agreements.

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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>North System</u>	Total Storage Capacity (Millions of Gallons)	Firm Pumping Capacity (Gallons per Minute)
Anderson Mill	3	7,600
Anderson Mill NWC (1)	1.5	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>		
Allen Road	n/a	Lost Creek – 2,000 Barclay – 3,000
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
Lost Creek	1.25	890
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.

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Historical Water Pumpage - TABLE ONE

The following table summarizes historical demand and maximum day water pumpage from fiscal years 2006 through 2015.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Percent Change</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2006	56,603	---	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	45,902	(2.5)%	183
2014	43,239	(5.8)%	184
2015	43,481	0.6%	207

Source: Austin Water.

Projected Water Pumpage - TABLE TWO

The following table, based on actual operating experience, summarizes the annual treated water pumpage and maximum day pumpage projected by Austin Water. The figures in the following table include projected savings from the water conservation plan implementation; maximum day pumpage estimates include a 10% dry condition variation factor. Figures are subject to change pending adjustments by Austin Water. Austin Water only provides projections for five years.

<u>Fiscal Year</u>	<u>Total Pumpage (Millions of Gallons)</u>	<u>Maximum Day Pumpage (Millions of Gallons)</u>
2016	43,253	206
2017	43,207	206
2018	43,120	206
2019	43,012	205
2020	42,919	204

Source: Austin Water.

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Information Concerning Water Sales - TABLE THREE

Fiscal Year Ended September 30										
	<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015</u>	
	Average # of <u>Customers</u>	Thousand Gallons	Average # of <u>Customers</u>	Thousand Gallons	Average # of <u>Customers</u>	Thousand Gallons	Average # of <u>Customers</u>	Thousand Gallons	Average # of <u>Customers</u>	Thousand Gallons
Thousand Gallons Pumped		52,823,662		47,094,082		45,901,736		43,239,355		43,480,893
Less: Sales to Other Water Utilities (1)		<u>3,572,029</u>		<u>3,071,606</u>		<u>2,974,131</u>		<u>2,574,163</u>		<u>2,296,977</u>
Thousand Gallons to System		<u>49,251,633</u>		<u>44,022,476</u>		<u>42,927,605</u>		<u>40,665,192</u>		<u>41,183,916</u>
Water Sales:										
Retail (2)	211,185	44,502,550	212,466	38,974,582	215,328	38,531,557	216,348	35,523,917	220,946	35,043,691
City Departments	<u>575</u>	<u>1,410,791</u>	<u>498</u>	<u>725,182</u>	<u>554</u>	<u>671,997</u>	<u>549</u>	<u>589,856</u>	<u>560</u>	<u>602,121</u>
Total Sales to Ultimate Consumer	<u>211,760</u>	<u>45,913,341</u>	<u>212,964</u>	<u>39,699,764</u>	<u>215,882</u>	<u>39,203,554</u>	<u>216,897</u>	<u>36,113,773</u>	<u>221,506</u>	<u>35,645,812</u>
Used by Water Utility		69,262		55,685		56,242		52,023		52,483
Other Unmetered Usage		1,553,016		1,384,566		1,349,511		1,271,237		1,278,338
Loss and Unaccounted For		<u>1,716,014</u>		<u>2,882,461</u>		<u>2,318,298</u>		<u>3,228,159</u>		<u>4,207,283</u>
Thousand Gallons to System		<u>49,251,633</u>		<u>44,022,476</u>		<u>42,927,605</u>		<u>40,665,192</u>		<u>41,183,916</u>
Maximum Daily Consumption		220,552		202,544		182,907		183,990		206,966
Average Daily Consumption		135,532		117,182		115,555		105,994		103,953

(1) Includes sales to all wholesale customers.

(2) Includes residential, multifamily, commercial, and industrial customers.

Source: Austin Water.

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Large Water Customers - TABLE FOUR

**Water and Wastewater Utility
Large Water Customers (1)
Five Year Comparative Data (2011-2015)**

Fiscal Year Ended September 30 (Gallons and Dollars in Thousands)										
	<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015</u>	
	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>	<u>Gallons</u>	<u>Revenue</u>
Samsung	1,212,413	\$5,346	1,614,098	\$7,608	1,436,772	\$7,034	1,547,938	\$8,382	1,558,196	\$10,010
The University of Texas (2)	1,147,002	\$4,424	821,457	\$4,395	849,204	\$4,867	827,424	\$5,022	746,252	\$5,517
Freescall, Inc. (3)	690,252	\$3,044	599,530	\$2,767	648,085	\$3,116	689,059	\$3,544	708,784	\$4,164
Water District 10	977,849	\$3,427	856,658	\$3,350	850,565	\$3,432	753,777	\$3,183	708,235	\$3,374
Wells Branch MUD	554,683	\$1,697	518,536	\$1,777	469,564	\$1,798	423,443	\$1,641	420,508	\$1,937
North Austin MUD	479,142	\$1,884	402,928	\$1,490	387,759	\$1,405	299,028	\$1,232	391,524	\$1,796
Austin Independent School District (4)	440,017	\$2,441	393,177	\$2,191	362,688	\$2,208	351,478	\$2,397	313,672	\$2,461
Spanion	578,465	\$1,884	384,288	\$1,823	389,113	\$1,919	329,313	\$1,801	299,686	\$1,868
Northtown MUD	310,965	\$1,029	304,387	\$1,086	289,610	\$1,117	276,343	\$1,081	267,479	\$1,193
Texas Facilities Commission (4)	198,206	\$1,044	238,646	\$1,268	231,552	\$1,309	210,128	\$1,345	207,324	\$1,495
Total:	<u>6,588,994</u>	<u>\$26,220</u>	<u>6,133,705</u>	<u>\$27,755</u>	<u>5,914,912</u>	<u>\$28,205</u>	<u>5,707,931</u>	<u>\$29,629</u>	<u>5,621,660</u>	<u>\$33,814</u>

(1) Reflects the ten largest water customers from the most recent fiscal year; previous fiscal years' totals are based on the current list of ten largest customers.

(2) Includes all accounts.

(3) Includes east Austin and west Austin plant sites.

(4) Includes all locations.

Source: Austin Water.

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WASTEWATER SYSTEM

Service Area

Austin Water provides wastewater service to customers within the corporate limits of the City and portions of Travis and Williamson Counties outside of the City. 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.

Facilities

Austin Water has two main wastewater treatment plants with a total permitted capacity of 150 mgd, one biosolids treatment and disposal facility, over 2,776 miles of sanitary wastewater mains and lines, and 134 city-owned, in-service 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. The Hornsby Bend Biosolids Management Plant permit was renewed by TCEQ in October 2012 and will be renewable again in 2017. The Walnut Creek Wastewater Treatment Plant permit was renewed in January 2015 and is renewable again in 2019. The South Austin Regional Wastewater Treatment Plant permit was renewed in May 2015 and is renewable again in 2019.

The Walnut Creek Wastewater Treatment Plant is permitted to discharge an average flow of 75 mgd. During fiscal year 2015, average flows to the plant were approximately 62 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 2015, average flows to the plant were approximately 50 mgd. 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 it is used 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 was 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 "Brushy Creek Project") serving the upper Brushy Creek watershed. In 1994, the Brushy Creek Project participants terminated the agreement. The City and the City of Round Rock subsequently entered into an interlocal agreement whereby the two cities assumed the obligations and divided the Project assets and entered into an interim operations and maintenance agreement. LCRA and the Brazos River Authority ("BRA") purchased Round Rock's share in the Brushy Creek 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. Effective October 1, 2000, final negotiations were complete, resulting in the City selling its remaining assets to the LCRA, and in 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, Austin Water owns and operates numerous lift stations. The following table shows the capacity of the five largest lift stations.

<u>Name</u>	<u>Firm Capacity (Gallons per Minute)</u>
Boggy Creek East	22,500
SAR Transfer	10,000
Lake Creek	6,460
Tracor	5,580
Four Points #2	3,740

Source: Austin Water.

Historical Wastewater Flows – TABLE FIVE

The following table summarizes the historical influent wastewater flows to the City's wastewater treatment facilities from fiscal years 2006 through 2015.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>	<u>Percent Change</u>
2006	30,324	----%
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	34,813	(7.8)%
2014	37,298	7.1%
2015	40,711	9.2%

Source: Austin Water.

Projected Wastewater Flows – TABLE SIX

The following table, based on actual operating experience, summarizes the annual influent wastewater flows projected to be received at Austin Water's wastewater treatment plants. Figures are subject to change pending adjustments by Austin Water. Austin Water only provides projections for five years.

<u>Fiscal Year</u>	<u>Total Wastewater Flow (Millions of Gallons)</u>
2016	36,291
2017	36,422
2018	36,654
2019	36,885
2020	37,217

Source: Austin Water.

COMBINED WATER AND WASTEWATER SYSTEM INFORMATION

Future Capital Improvements for Water and Wastewater System

Based on the proposed FY 2017-2021 capital spending plan, it is anticipated that the Water and Wastewater System will require approximately \$884.4 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 \$607.9 million additional Parity Water/Wastewater Obligations (including refunding of commercial paper issued to provide interim financing for such improvements) and (2) the application of \$276.5 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 district (e.g., a MUD, WCID or fresh water supply 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, over time, by the City's enactment of its Land Development Code, which contains provisions relating to the City's consent to the creation of districts.

Districts use ad valorem taxes, fees and charges, and water and/or wastewater revenues 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, strategic partnership agreement, and if necessary, a utility construction agreement. These agreements 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 that district.

Under the consent agreement with the district, the district may be annexed separately and dissolved by the City. Upon annexation and dissolution of a district, 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, water and/or wastewater utility revenues and, in some cases, 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 types of districts may be annexed, but not dissolved. In those instances, 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 MUDs. The policy states that the City 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 a consent agreement. These nine new 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" (to operate and maintain certain assets such as parks or enforce deed restrictions) after full-purpose annexation by the City if the district and the City enter into a strategic partnership agreement. 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 nine MUDs. In April 2012, the City Council conducted public hearings regarding a strategic partnership agreement with each of the MUDs, and subsequently executed those agreements.

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 4.0 MG in storage, and 51.2 miles of mains. A water storage tank, on which construction just concluded, holds 1.5 MG of the 4.0 MG. Additionally, a 4.0 MG water storage tank with associated pump station is in the final stages of design. An additional 5.3 miles of mains are in design or under construction. The water reuse facilities presently serve a total of 76 metered customers. City codes were recently revised to facilitate new customer connections and a mandatory connection ordinance was implemented effective as of May 1, 2015.

Customer demand is highly dependent on weather conditions. In 2015, customers used 1.26 billion gallons (BG) of reclaimed water. Efforts to promote the use of reclaimed water focus 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

As a result of persistent drought conditions affecting the service area of the Water and Wastewater Utility, significant water use restrictions were imposed on the customers served by the Water and Wastewater Utility beginning in September 2011. These water use restrictions achieved their intended effect, as water use has declined significantly since their imposition; however, water use declined more than forecasted by the Water and Wastewater Utility for fiscal years 2012 through 2014, which resulted in lower than forecasted Gross Revenues during this same period. See “WATER SYSTEM – Water Use Management Plan and LCRA Water Management Plan” in this document.

In fiscal year 2014, the Water and Wastewater Utility implemented a fixed revenue goal of 20%, new volumetric rates and block intervals. A Revenue Stability Reserve Fund (“Stability Fund”) was established to help cover costs during extreme weather or economic events. The Stability Fund is an account within the System Fund that is funded by a volumetric surcharge applied both to retail and wholesale monthly bills, which became effective in February 2013. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water Service Rates Effective as of November 1, 2015 – TABLE SEVEN” in this document. The Stability Fund exists separate and distinct from the Reserve Fund established by the Master Ordinance. See “SECURITY FOR THE BONDS – Reserve Fund for Parity Water/Wastewater Obligations” in this document. Monthly transfers to the Stability Fund are anticipated to continue until the Stability Fund’s balance is at least equal to 120 days of budgeted Operating Expense requirements. Moneys in the Stability Fund are Gross Revenues under the Master Ordinance. The Stability Fund cannot be used for purposes other than for Water and Wastewater Utility purposes, is primarily intended to pay Operating Expenses or debt service on Parity Water/Wastewater Obligations, and may only be used to offset current year shortfalls in Gross Revenues that exceed 10% of budgeted levels. The City Council must approve any use of funds in the Stability Fund, no more than 50% of the balance would be used in any one year, and, if used, the Stability Fund balance would be replenished to the 120-day level within a five-year period. As of March 31, 2016, the balance of the Stability Fund was nearly \$24.14 million; the balance of the Stability Fund is forecast to be \$26.5 million by September 30, 2016; it is forecast to be fully funded to the 120-day goal by fiscal year 2018, which is currently anticipated to be approximately \$43 million. No assurance can be given that these forecasted balances will be achieved. Once the 120-day level goal is met, the volumetric surcharge for the Stability Fund is anticipated to be reduced to a level to maintain the 120-days of Operating Expenses funding goal. As of the date of this document, the Water and Wastewater Utility has not drawn any moneys from the Stability Fund. Notwithstanding the foregoing policy restrictions of the City currently in effect with respect to the use of moneys within the Stability Fund, the provisions of the Master Ordinance regarding the use of moneys on deposit in the System Fund (including the Stability Fund therein) govern and control. See “SECURITY FOR THE BONDS – System Fund” in this document.

To continue improving the financial position, the Water and Wastewater Utility implemented a 4.9% combined rate increase for the fiscal year ending September 30, 2016. Additionally, a refunding bond sale transacted during fiscal year 2015 allowed the Water and Wastewater Utility to realize approximately \$70 million in debt service savings between fiscal years 2015 and 2020. Although the approved budget for fiscal year 2016 reflected increased requirements over fiscal year 2015, it was still lower than the fiscal year 2014 budget. That is because the fiscal year 2015 budget reduced budgeted Operating Expenses and transfers to the City’s general fund by \$30 million as compared to fiscal year 2014.

While projected Gross Revenues have declined since the imposition of the water use restrictions in September 2011, there has not been an unanticipated increase in debt service on Parity Water/Wastewater Obligations or in Operating Expenses of the Water and Wastewater System since fiscal year 2012, when the water use restrictions were imposed. The Water and Wastewater Utility prepares a five-year financial forecast each year as part of the City's forecast and budget development process, which includes a City Council-approved policy to forecast Gross Revenues and Operating Expenses that will provide for at least 1.5 times debt service coverage for the Parity Water/Wastewater Obligations by Net Revenues of the Water and Wastewater System. The forecast prepared by the Water and Wastewater Utility in April 2016 projects debt service coverage levels in fiscal year 2017 of 1.69 times debt service coverage, increasing to 1.81 times debt service coverage by fiscal year 2020; the forecasted coverage levels assume that rate increases will be implemented at various times during the forecast period. No assurance can be given that these debt service coverage levels will be achieved.

Any increase in the rates, charges or fees for water and wastewater services furnished by the Water and Wastewater System must be approved by the City Council. As a result of the Water and Wastewater Utility's annual budgeting process for the 2016 fiscal year, the City Council approved the Water and Wastewater Utility's requested 4.9% combined rate increase. These rates went into effect on November 1, 2015. If any rate increase is approved by City Council as part of the fiscal year 2017 approved budget the rates would not take effect prior to November 1, 2016. No assurance can be given that the City Council will approve any rate increase, or that the City Council will approve rate increases in the amounts proposed by the Water and Wastewater Utility; however, the City is committed to complying with the agreements and covenants of the City in the Prior Lien Ordinance and the Master Ordinance with respect to establishing, maintaining and collecting rates, charges and fees for water and wastewater services furnished by the Water and Wastewater System. See "DESCRIPTION OF THE BONDS – Bondholders' Remedies," "SECURITY FOR THE BONDS – Rate Covenant Required by Prior Lien Ordinance" and "– Rate Covenant Required by Master Ordinance" in this document. See also, Section 4 of "APPENDIX C – COPY OF MASTER ORDINANCE" and "Rates and Charges" in "APPENDIX D – SELECTED MODIFIED PROVISIONS FROM ORDINANCES RELATING TO PRIOR FIRST LIEN OBLIGATIONS AND PRIOR SUBORDINATE LIEN OBLIGATIONS" in this document.

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

Water Service Rates Effective as of November 1, 2015 – TABLE SEVEN

Monthly Customer Charges

<u>Customer Account Charge</u>	<u>Meter Size</u>	<u>Retail Equivalent Meter Charge per Month (1)</u>	<u>Multifamily Charge per Month (2)</u>	<u>Commercial Charge per Month (2)</u>
Retail Customer Account Charge(\$/Month)	5/8	\$ 7.10	\$ 18.60	10.85
	3/4	13.00	28.00	16.00
	1	15.00	47.00	27.00
	1¼	17.00	65.00	41.00
	1½	25.00	93.00	54.00
	2	41.00	149.00	87.00
	3	68.00	298.00	174.00
	4	139.00	465.00	271.00
	6	283.00	930.00	543.00
	8	1,046.00	1,488.00	868.00
	10	1,236.00	2,139.00	1,248.00
	12	1,466.00	3,162.00	1,845.00

Volumetric Surcharge

	<u>Retail per 1,000 Gals. (3)</u>	<u>Wholesale per 1,000 Gals. (3)</u>
Water Revenue Stability Reserve Fund Surcharge	\$0.19	\$0.10

Residential Monthly Tiered Minimum Charge

	<u>Min. Charge per Month (4)</u>
0 – 2,000 Gallons	\$ 1.20
2,001 – 6,000 Gallons	3.45
6,001 – 11,000 Gallons	8.75
11,001 – 20,000 Gallons	27.35
20,001 – Over Gallons	27.35

Large Volume Fixed Minimum Charge

	<u>Min. Charge per Month (5)</u>
Freescall	\$ 46,500
Samsung	111,000
Novati (formerly Sematech)	3,700
Spansion	22,000
University of Texas	20,000

- (1) Charge is applied to all customer classes.
- (2) Fee is charged in addition to the Retail Equivalent Meter Charge.
- (3) Surcharge is assessed to all water customers per 1,000 gallons of water billed for the billing period to fund the Water Revenue Stability Reserve Fund. See “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates” in this document.
- (4) 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.
- (5) Fee is charged in addition to the Retail Equivalent Meter Charge.

Source: Austin Water.

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Volume Unit Charge (1)

	Charge per <u>1,000 Gals.</u>
Single-Family Residential (2)	
0 – 2,000 Gallons	\$ 3.16
2,001 – 6,000 Gallons	4.84
6,001 – 11,000 Gallons	7.88
11,001 – 20,000 Gallons	11.90
20,001 – Over Gallons	14.16
Multifamily (3)	
Off Peak	4.90
Peak	5.39
Commercial (3)	
Off Peak	5.82
Peak	6.40
Large Volume (3)	
Freescall	
Off Peak	5.17
Peak	5.69
Samsung	
Off Peak	5.30
Peak	5.83
Novati (formerly Sematech)	
Off Peak	5.48
Peak	6.03
Spansion	
Off Peak	5.22
Peak	5.75
University of Texas	
Off Peak	5.82
Peak	6.40

(1) Wholesale unit charges vary between \$3.46 and \$5.09 per 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.

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Wastewater Service Rates Effective as of November 1, 2015 – TABLE EIGHT

Customer Account Charge

	<u>Retail Customers</u>	<u>Wholesale Customers</u>
Customer Account Charge (\$/month)	\$10.30	\$10.30

Volume Unit Charge (1)

	<u>Unit Cost per 1,000 Gallons (2)</u>
Retail	
Single-Family	
0 - 2,000 Gallons	4.90
2,001 - Over Gallons	9.94
Multifamily	9.20
Commercial	9.26
Large Volume:	
Freescall	8.52
Samsung	7.89
Novati (formerly Sematech)	7.63
Spanion	7.95
University of Texas	9.08

(1) Wholesale unit charges vary between \$3.80 and \$5.73 per 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.

The combined water and wastewater minimum charge and volumetric service rates effective as of November 1, 2015 reflect a 4.9% increase over the rates charged in the prior year.

Wholesale and Outside City Rate Challenges

On September 1, 2014, all appellate jurisdiction to determine municipal water and wastewater rates outside the City's boundaries was transferred from TCEQ to the Public Utilities Commission of Texas ("PUC"). The City is not subject to regulation by the PUC (or any other State regulatory entity) with regard to the rates charged for water and wastewater services to customers within the boundaries of the City. State law, however, does allow water districts to appeal the City's water and wastewater rates to the PUC.

On April 12, 2013, four of the Water and Wastewater Utility's eighteen wholesale water customers submitted a water rate petition challenging the City's wholesale water rates to the TCEQ. In their petition, the four wholesale customers (North Austin MUD, Northtown MUD, Travis County 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 reviewed the petition and recommended referral to the State Office of Administrative Hearings. The hearing concluded in February 2015 and the City received a final ruling from the PUC in November 2015, which found in favor of the petitioners. The City filed a Motion for Rehearing with the PUC, which was denied in February 2016. Subsequently, the City filed an appeal in Travis County District Court in March 2016, which is pending.

The four wholesale water customers represented \$8.2 million, or 3.0%, of the approximate \$276.7 million annual water revenue for fiscal year 2015. The petition only challenges a small portion of their revenue or how the Water and Wastewater Utility has designed its rates, and therefore would not be a significant revenue impact to the Water and Wastewater Utility if the appeal was upheld.

On December 22, 2014, outside city residents of newly acquired and former River Place MUD submitted a water and wastewater rate petition to the PUCT. The petition alleges the rates adopted by the City are unjust, unreasonable and unfairly burden customers to pay for City charges unrelated to the cost of service for these customers. The case was settled and dismissed in October 2015.

The City can make no predication as to whether any additional wholesale water or outside city customers will petition or challenge the City's water rates.

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 January 1, 2014. The revised fees are shown below, and under the terms of the Master Ordinance, such fees do not constitute Gross Revenues. 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).

Fees for lots that were platted between October 1, 2007 and December 31, 2013.

	<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 City's extraterritorial jurisdiction	2,500	1,400	3,900

Fees for lots that were platted on or after January 1, 2014.

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
All Areas	\$5,400	\$2,200	\$7,600

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Analysis of Water Bills - TABLE NINE A

	Fiscal Year Ended September 30				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Average Monthly Bill Per Customer - Water</u>					
Residential (1)	\$ 46.56	\$ 45.04	\$ 41.89	\$ 38.97	\$ 43.16
Multifamily (1)	554.14	591.68	660.89	701.04	820.44
Commercial (1)	302.33	303.72	306.23	324.91	343.17
Large Volume	187,302.62	216,445.74	211,176.57	228,692.44	260,155.12
City Departments	697.92	738.96	598.67	641.05	683.60
Average Monthly Bill – Above Customers	\$ 86.42	\$ 87.09	\$ 85.53	\$ 85.65	\$ 94.84
Sales to Other Water Utilities (2)	\$ 55,663.29	\$ 55,877.81	\$ 55,207.74	\$ 53,960.56	\$ 42,146.05
Average Monthly Bill – All Customers	\$ 91.14	\$ 91.80	\$ 90.12	\$ 89.87	\$ 98.26
<u>Average Monthly Use in 1,000 Gallons – Water</u>					
Residential (1)	8.81	7.62	6.92	6.10	5.77
Multifamily (1)	133.75	126.46	131.78	127.52	128.84
Commercial (1)	60.14	54.87	54.76	48.99	45.45
Large Volume	41,983.88	45,339.01	33,551.21	42,919.67	42,053.37
City Departments	201.22	124.96	100.44	89.81	89.16
Average Monthly Use – Above Customers	17.75	15.96	15.01	13.89	13.33
Sales to Other Water Utilities (2)	16,270.57	14,634.11	13,677.20	12,651.94	10,588.02
Average Monthly Use – All Customers	19.13	17.20	16.15	14.88	14.19
<u>Average Revenue Per 1,000 Gallons – Water</u>					
Residential (1)	\$ 5.28	\$ 5.91	\$ 6.05	\$ 6.39	\$ 7.48
Multifamily (1)	4.14	4.68	5.02	5.50	6.37
Commercial (1)	5.03	5.54	5.59	6.63	7.55
Large Volume	4.46	4.77	6.29	5.33	6.19
City Departments	3.47	5.91	5.96	7.14	7.67
Average Revenue – Above Customers	\$ 4.87	\$ 5.46	\$ 5.70	\$ 6.17	\$ 7.11
Sales to Other Water Utilities (2)	\$ 3.42	\$ 3.82	\$ 4.04	\$ 4.27	\$ 3.98
Average Revenue – All Customers	\$ 4.76	\$ 5.34	\$ 5.58	\$ 6.04	\$ 6.92

(1) Inside and Outside City-limit customers combined.

(2) Includes all Wholesale customers.

Source: Austin Water.

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Analysis of Wastewater Bills - TABLE NINE B

	Fiscal Year Ended September 30				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Average Monthly Bill Per Customer – Wastewater</u>					
Residential (1)	\$ 35.16	\$ 36.79	\$ 40.94	\$ 37.90	\$ 36.35
Multifamily (1)	847.28	895.83	1,058.16	1,096.47	1,172.57
Commercial (1)	322.84	350.13	367.56	383.79	395.74
Large Volume	196,261.93	219,013.24	216,581.48	231,555.45	224,832.98
City Departments	371.53	352.98	387.69	397.24	450.32
Average Monthly Bill – Above Customers	\$ 79.46	\$ 83.42	\$ 91.05	\$ 89.91	\$ 89.62
Sales to Other Utilities (2)	\$ 49,363.10	\$ 50,635.47	\$ 54,488.52	\$ 58,764.29	55,611.39
Average Monthly Bill – All Customers	\$ 81.94	\$ 85.94	\$ 93.73	\$ 92.78	\$ 92.27
<u>Average Monthly Use in 1,000 Gallons – Wastewater</u>					
Residential (1)	4.28	4.33	4.53	4.15	3.88
Multifamily (1)	112.22	115.40	128.20	126.49	132.58
Commercial (1)	42.47	43.78	43.58	43.85	43.79
Large Volume	29,344.27	31,493.39	29,857.14	30,354.38	29,135.26
City Departments	47.05	45.07	46.45	45.43	47.91
Average Monthly Use – Above Customers	10.26	10.39	10.69	10.25	9.97
Sales to Other Utilities (2)	9,911.86	9,868.40	10,128.19	10,691.69	10,020.74
Average Monthly Use – All Customers	10.76	10.88	11.19	10.78	10.45
<u>Average Revenue Per 1,000 Gallons – Wastewater</u>					
Residential (1)	\$ 8.21	\$ 8.50	\$ 9.03	\$ 9.13	9.36
Multifamily (1)	7.55	7.76	8.25	8.67	8.84
Commercial (1)	7.60	8.00	8.43	8.75	9.04
Large Volume	6.69	6.95	7.25	7.63	7.72
City Departments	7.90	7.83	8.35	8.74	9.40
Average Revenue – Above Customers	\$ 7.74	\$ 8.03	\$ 8.52	\$ 8.77	\$ 8.99
Sales to Other Utilities (2)	\$ 4.98	\$ 5.13	\$ 5.38	\$ 5.50	\$ 5.55
Average Revenue – All Customers	\$ 7.61	\$ 7.90	\$ 8.38	\$ 8.61	\$ 8.83

(1) Inside and Outside City-limit customers combined.

(2) Includes all Wholesale customers.

Source: Austin Water.

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**ELECTRIC SYSTEM
“AUSTIN ENERGY”**

Management (as of March 31, 2016)

	<u>Years at City</u>	<u>Additional Years of Experience</u>	<u>Total</u>
Interim General Manager			
Mark Dombroski, <i>Chief Financial Officer</i> (1)	1	22	23
Deputy General Managers			
Elaina Ball, <i>Interim Chief Operating Officer</i>	3	12	15.5
Kerry Overton, <i>Chief Administrative Officer</i>	16	11	27
Vice Presidents			
Mark Dreyfus, Ph.D., <i>Regulatory Affairs and Corporate Communications</i>	16.5	12	28.5
Jawana Gutierrez, PMP, <i>Customer Care Services</i>	24	5	29
Elaine Kelly-Diaz, <i>Customer Account Management</i>	8	12	20
Debbie Kimberly, <i>Customer Energy Solutions</i>	3	30	33
Khalil Shalabi, <i>Market Operations and Resources Planning</i>	2	20	22
Dan Smith, PE, <i>Electric Service Delivery</i>	12	15	<u>27.5</u>
John Wester, Interim VP, <i>Power Production</i>	15	18	<u>33</u>
Executive Team Years of Experience			<u>258.5</u>

- (1) Mark Dombroski became Interim General Manager on February 1, 2016, following the resignation of former General Manager Larry Weis.

Service Area

The service area for Austin Energy was established by 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, or payments in lieu of taxes with respect to Austin Energy.

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Customer Base – Average Monthly Number of Customers

<u>For Period ended September 30, 2015</u>	<u>Average Monthly Number of Customers</u>	<u>Percent</u>
Residential	401,556	89.15
Commercial	46,286	10.27
Industrial	132	0.03
Public Street & Highway	6	0
Governmental Authorities	<u>2,499</u>	<u>0.55</u>
Total Service Area Customers	<u>450,479</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 2025: An Update of the 2020 Plan” in this document.

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Generation Facilities – TABLE TEN

As of January 1, 2016, 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):			
Infigen Sweetwater Wind	2005	126.0	Wind
RES North America Whirlwind Energy LLC	2007	59.8	Wind
RES North America Hackberry Wind LLC	2008	165.6	Wind
Exelon Whitetail Wind Energy	2012	92.3	Wind
Duke Energy Los Vientos IB	2012	201.6	Wind
Longsol LLC Webberville Solar	2011	30.0	Solar
Duke Energy Los Vientos III	2015	200.0	Wind
TX Jumbo Road Wind, LLC	2015	300.0	Wind
Sunset Farms Energy, LLC	1994-2003	4.0	Landfill Methane
Energy Developments, Inc.	2002-2003	7.8	Landfill Methane
Nacogdoches Power LLC	2012	<u>100.0</u>	Biomass
Total Capacity from Purchased Power		<u>1,287.1</u>	
Total Capacity including Purchased Power		3,357.7	

(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 TWELVE" in this document for more information on peak demand and generation capacity. 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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Coal	28.9%	27.0%	25.9%	27.5%	24.4%
Natural Gas & Oil (1)	25.8	20.5	15.7	13.1	16.1
Nuclear	21.3	21.9	22.8	23.1	26.0
Renewable Energy	9.5	14.9	20.7	22.0	23.1
Purchased Power	<u>14.5</u>	<u>15.7</u>	<u>14.9</u>	<u>14.3</u>	<u>10.4</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) No fuel oil since FY 2013.

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 share was 128 days as of March 31, 2016. Austin Energy's coal inventory is targeted to be 40-70 days. The above target inventory is due to a combination of factors including an extended unplanned outage on one unit, improved transportation delivery, and impacts from low natural gas prices. Inventory is carefully managed and will move back toward normal levels in 2016.

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 is responsible for the supply of nuclear fuel and for the disposal of spent fuel for the South Texas Project Electric Generating Station ("STP"). (See "DESCRIPTION OF PHYSICAL PROPERTY - South Texas Project" in this document). 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 LCRA and Austin Energy. Austin Energy is a 50% owner in Units 1 and 2 of the FPP. A third unit, also at the facility, is 100% owned by LCRA. Pursuant to the Participation Agreement between the City and LCRA, LCRA was appointed Project Manager and a Management Committee was established, supported by four Subcommittees (Environmental, Fiscal/Budget, Fuels, and Technical) composed of representatives from each participant to direct the operation of the project. 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. For additional information regarding FPP, see "STRATEGIC PLANS, GOALS AND POLICIES – 2014 Plan Summary" in this document.

Austin Energy Gas Generation Facilities

Austin Energy owns three 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

STP is a two-unit pressurized water reactor nuclear power plant with Unit 1 and Unit 2 (or Units 1 and 2) having a nominal output of approximately 1,350 MW each. It is located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles southeast of the City. Participant Ownership ("Participants") in STP Units 1 and 2 and their percentage of ownership are as follows:

	Ownership	
	Effective February 2, 2006 (1)	
	%	MW (Approximate)
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 for Units 1 and 2 is in process and the 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. In 2012, the NRC voted that no final licensing decisions would be made until burial waste issues (Waste Confidence Rule) were resolved. In August 2014, the NRC adopted the final Continued Storage Rule (resolving the Waste Confidence Rule issues) and lifted suspension on all final licensing decisions for affected applications as of the effective date of the final rule. Several activities and confirmatory items are remaining before the final decision and granting of an extended license. The NRC approval timeline is forecasted to be the fourth quarter of 2017.

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 then proposed. Nuclear Innovation North America ("NINA"), operating as a subsidiary of NRG Energy, Inc., became the lead applicant for the license and assumed responsibility for design, construction, and licensing prior to operation of STP 3 and 4 on January 24, 2011. The NRC issued the Combined License for Units 3 and 4 on February 12, 2016. A press release from NINA at the time of the license issuance stated "NINA plans to hold these licenses until market economics support construction."

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.

CUSTOMER RATES

Retail Service Rates

The City Council has original jurisdiction over Austin Energy's retail electric rates. Ratepayers living outside of Austin can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act (Title 2 (Chapters 11 through 66) of the Texas Utilities Code, and referred to herein as "PURA").

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.

In June 2012, following a 17-year period with no change in its base electric rates, the City Council approved a system average 7% rate increase for Austin Energy, which was reflected on electric bills beginning in October 2012. 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 City Council in 2012 also include several line item charges that are reviewed and updated annually:

- Power Supply Adjustment: 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 ERCOT Administrative Fees. Congestion Revenue Rights are netted against the system regulatory costs.
- Customer Assistance Program: funds utility bill discounts for low income customers (more than 40,000 customers assisted as of September 2015).
- Service Area Streetlights: maintains and powers the streetlights and traffic signals in the City (outside-the-city customers are not assessed this fee).
- Energy Efficiency Services: funds energy efficiency programs, the least expensive offset to new generation.

Residential rates and structure: Residential base rates consist of a Customer Charge and an Energy Charge (tiered). Residential customers also pay the pass-through charges for Power Supply Adjustment (fuel and other power supply costs), Regulatory Charge (primarily ERCOT transmission costs), and the Community Benefit Charge (low income programs, energy efficiency programs, and street lights).

Residential ratepayers taking service outside the City's corporate limits appealed the 2012 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 set rates for the outside City customers and became effective June 1, 2013.

Commercial rates: Commercial rates generally include a customer charge, demand and electric delivery charges (based on demand), energy charges, and the pass-through charges for the Power Supply Adjustment, Regulatory Charge, and the Community Benefit Charge (see "Residential Rates and Structure" above).

Industrial rates: Industrial rates were approved by the City Council in the 2012 rate review. At the time, most industrial

customers were served under long-term contracts which have since expired. In December of 2014, the State of Texas contract was extended through May 2017; the new contract replaced the Fuel Adjustment Clause with the Power Supply Adjustment. The City Council approved a new tariff in May 2015 for Austin Energy's largest transmission customer that replaced their prior long-term contract. Austin Energy's two largest customers are served under a tariff that requires the customer to sign a new long-term contract. All remaining industrial customers, following the expiration of their contracts, are billed under the approved tariffs.

Power Supply Adjustment

During the annual budget process, the City Council reviews Austin Energy's proposal for updating the Power Supply Adjustment ("PSA"), which recovers ERCOT Settlements, fuel costs, and purchased power agreement costs, plus an adjustment for the prior year over/under-recovery.

Typical Residential Electric Bills of Large Texas Cities

<u>City</u>	<u>Electric Bill*</u>
Dallas/Fort Worth	\$91.83
Houston	100.06
San Antonio	105.21
AUSTIN	107.67
Corpus Christi	108.03
El Paso	113.33

* Average residential bill for 1,000 KWh during the period October 2014 – September 2015, including fuel costs. The cities shown, other than the City 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 ELEVEN

TABLE ELEVEN shows service area billed customer sales for fiscal years 2011 through 2015. 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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Revenue (000's)</u>					
Residential	\$ 457,263	\$ 422,195	\$ 458,657	\$ 488,625	\$ 466,598
Commercial	433,887	409,330	474,659	496,085	483,536
Industrial	145,553	158,727	184,517	200,340	185,646
Public Street & Highway	8,591	7,881	4,625	3,047	2,405
Sales to Government Authorities	<u>85,447</u>	<u>83,476</u>	<u>61,407</u>	<u>66,990</u>	<u>63,700</u>
Total	\$1,130,741	\$1,081,609	\$1,183,865	\$1,255,087	\$1,201,885
<u>MWH</u>					
Residential	4,561,858	4,381,194	4,162,387	4,314,699	4,320,492
Commercial	4,675,615	4,633,557	4,475,629	4,512,469	4,645,752
Industrial	2,342,538	2,648,487	2,735,012	2,850,111	2,795,815
Public Street & Highway	48,327	46,949	40,549	50,816	50,315
Sales to Government Authorities	<u>1,094,965</u>	<u>1,005,961</u>	<u>857,156</u>	<u>871,591</u>	<u>877,904</u>
Total	12,723,303	12,716,148	12,270,733	12,599,686	12,690,278
<u>Average Monthly Number of Customers</u>					
Residential	372,329	376,614	383,257	391,410	401,556
Commercial	43,814	44,006	44,857	45,436	46,286
Industrial	82	82	138	151	132
Public Street & Highway	4	4	5	5	6
Sales to Government Authorities	<u>1,636</u>	<u>1,664</u>	<u>2,325</u>	<u>2,401</u>	<u>2,499</u>
Total	417,865	422,370	430,582	439,403	450,479
<u>Average Monthly KWH per Customer</u>					
Residential	1,021	969	905	919	897
Commercial	8,893	8,774	8,315	8,276	8,364
Industrial	2,380,628	2,688,273	1,651,577	1,575,518	1,761,698
Public Street & Highway	1,006,813	978,104	422,388	846,926	653,436
Sales to Government Authorities	55,775	50,376	30,722	30,249	29,280
<u>Average Monthly Bill per Customer</u>					
Residential	\$ 102.34	\$ 93.42	\$ 99.73	\$ 104.03	\$ 96.83
Commercial	825.24	775.14	881.86	909.85	870.56
Industrial	147,919.72	161,111.45	111,423.40	110,746.49	116,979.21
Public Street & Highway	178,979.17	164,187.50	48,173.89	50,784.01	31,234.97
Sales to Government Authorities	4,352.43	4,180.24	2,200.98	2,324.92	2,124.53
<u>Average Revenues per KWH</u>					
Residential	\$0.10024	\$0.09637	\$0.11019	\$0.11325	\$0.10800
Commercial	0.09280	0.08834	0.10605	0.10994	0.10408
Industrial	0.06213	0.05993	0.06746	0.07029	0.06640
Public Street & Highway	0.17777	0.16786	0.11405	0.05996	0.04780
Sales to Government Authorities	0.07804	0.08298	0.07164	0.07686	0.07256

Source: Austin Energy.

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Electric Rates

The PSA, Regulatory Charge, and Community Benefit Charge are updated each year and the new rate is effective as of November 1. Austin Energy's approved rates schedules are contained in the City's annual continuing disclosure filing for the fiscal year ending September 30, 2015 for the City's outstanding Parity Water/Wastewater Obligations, which filing is available on the MSRB's Electronic Municipal Market Access system Internet website (see "CONTINUING DISCLOSURE OF INFORMATION – Availability of Information" in this document), and such rate schedules are incorporated into this document by reference.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On June 3, 2014, the PUCT approved the City's most recent wholesale transmission rate of \$1.160111/kWh. Transmission revenues totaled \$74 million in fiscal year 2015 and are expected to total approximately \$76 million in fiscal year 2016. 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

GreenChoice® is Austin Energy's renewable energy program that allows residential and commercial customers to meet their electricity needs by purchasing 100% renewable Texas wind power. Customers who subscribe to the GreenChoice program will pay, in lieu of the PSA, 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 over the past decade of operation, as ranked by the National Renewable Energy Laboratory. Subscribers see the PSA charge replaced with a GreenChoice charge on their electric bill. 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

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
2013	863,956,193
2014	683,986,607
2015	637,462,000

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. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ERCOT Wholesale Market Design" in this document.

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Generation and Use Data – TABLE TWELVE

	Fiscal Year Ended September 30									
	2011		2012		2013		2014		2015	
	Average Customer	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		10,142,406,000		9,060,948,000		8,271,499,000		10,784,975,000		11,610,500,640
kWh Received from ERCOT		3,433,333,000		4,299,061,000		4,916,439,000		2,496,345,000		1,990,108,990
Less: kWh Delivered to ERCOT		(184,992,000)		(155,105,000)		(160,812,000)		(134,287,000)		(215,343,640)
Less: kWh Delivered to Other Utilities		<u>(30,221,000)</u>		<u>(112,900,000)</u>		<u>(143,496,000)</u>		<u>-</u>		<u>-</u>
Total kWh Delivered to Service Area		<u>13,360,526,000</u>		<u>13,092,004,000</u>		<u>12,883,630,000</u>		<u>13,147,033,000</u>		<u>13,385,265,990</u>
Service Area Energy Use:										
Residential	372,329	4,561,857,688	376,614	4,381,193,546	383,257	4,162,387,287	391,410	4,314,699,441	401,556	4,320,491,678
General Service (Less UT & ENW)	<u>44,660</u>	<u>7,766,695,257</u>	<u>44,863</u>	<u>7,957,928,155</u>	<u>46,290</u>	<u>7,682,153,871</u>	<u>46,886</u>	<u>7,847,048,954</u>	<u>47,850</u>	<u>7,930,287,974</u>
	<u>416,989</u>	<u>12,328,552,945</u>	<u>421,477</u>	<u>12,339,121,701</u>	<u>429,547</u>	<u>11,844,541,158</u>	<u>438,296</u>	<u>12,161,748,395</u>	<u>449,406</u>	<u>12,250,779,652</u>
Public Street Lighting	4	48,327,221	4	46,948,693	8	40,549,265	5	50,815,562	6	50,314,561
City Utility Departments (*)	235	219,180,770	191	198,728,570	345	264,950,503	352	265,731,532	349	265,271,198
Other City Departments (*)	<u>636</u>	<u>113,612,914</u>	<u>697</u>	<u>117,686,130</u>	<u>681</u>	<u>108,493,578</u>	<u>749</u>	<u>105,998,996</u>	<u>717</u>	<u>110,732,138</u>
	<u>875</u>	<u>381,120,905</u>	<u>892</u>	<u>363,363,393</u>	<u>1,034</u>	<u>413,993,346</u>	<u>1,106</u>	<u>422,546,090</u>	<u>1,072</u>	<u>426,317,897</u>
Total Service Area Sales	417,864	12,709,673,850	422,369	12,702,485,094	430,581	12,258,534,504	439,402	12,584,294,485	450,478	12,677,097,549
Sales to UT & ENW (Nightwatchman)	1	13,629,431	1	13,662,906	1	12,198,496	1	15,391,515	1	13,179,451
Loss and Unaccounted For	<u> </u>	<u>637,222,719</u>	<u> </u>	<u>375,856,000</u>	<u> </u>	<u>612,897,000</u>	<u> </u>	<u>547,347,000</u>	<u> </u>	<u>694,988,990</u>
Total kWh Delivered to Service Area	<u>417,865</u>	<u>13,360,526,000</u>	<u>422,370</u>	<u>13,092,004,000</u>	<u>430,582</u>	<u>12,883,630,000</u>	<u>439,403</u>	<u>13,147,033,000</u>	<u>450,479</u>	<u>13,385,265,990</u>
System Peak Demand (kW)		2,714,000		2,702,000		2,592,000		2,578,000		2,735,000

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, 2015, \$202,000 in premiums was deferred. As of September 30, 2015, the fair value of Austin Energy's futures, options, swaps, and congestion rights was an unrealized loss of \$46.2 million, of which \$51.8 million is reported as derivative instruments in liabilities and \$5.6 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, 2015. See APPENDIX B – “AUDITED FINANCIAL STATEMENTS – Note 9a – Energy Risk Management Program” in this document.

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 transferred to Gas Recovery Systems, LLC (“GRS”), the former general partner of APLP. Another megawatt of capacity was added in 2003, bringing the total capacity to 4 MW. In 2012, GRS's parent company, Fortistar Methane LLC, in connection with a refinancing of certain subsidiary obligations, including those of its subsidiary, Fortistar Methane 3 LLC (FM3), caused GRS to assign all of its right, title and interest in the landfill project to Sunset Farms Energy, LLC, a subsidiary of FM3.

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 Tessman 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, predecessor to the current joint owners, Longsol LLC and Metlife, 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 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 September 2013, Austin Energy entered into two 25-year Power Purchase Agreements with Duke Energy affiliates, Los Vientos Windpower III, LLC and Los Vientos Windpower IV, LLC, to purchase the output of 200 MW wind energy projects from each entity located in Starr County, Texas. Construction on Los Vientos III is complete and commercial operation began in April 2015. Los Vientos IV is expected to achieve commercial operation in the third quarter of 2016.

In February 2014, Austin Energy signed an 18-year contract with TX Jumbo Road Wind, LLC, an affiliate of BHE Renewables LLC, to purchase the output of a 300 MW wind energy facility located in Castro County, Texas. Commercial operation began in April 2015.

In May 2014, Austin Energy and RE Roserock LLC, a Canadian Solar affiliate, entered into a 20-year Power Purchase Agreement for the purchase and sale of up to 157.5 MW of solar generated renewable energy from the Roserock Solar Facility to be constructed in west Texas. In November 2015, a Southern Company subsidiary purchased a controlling interest in the project. Commercial operation is expected in the fourth quarter of 2016.

In May 2015, Austin Energy and a subsidiary of Power Fin Texas Solar Projects, LLC entered into a 25-year Power Purchase Agreement for the purchase and sale of up to 3.2 MWac of solar generated renewable energy from a facility to be constructed in the Austin Energy service territory; this purchase will be considered a component of Austin Energy's local solar goal. Commercial operation is expected in 2019.

In October 2015, Austin Energy entered into 3 separate transactions for the purchase and sale of energy from 3 solar projects in west Texas: (1) a 15-year Power Purchase Agreement with East Pecos Solar, LLC, a subsidiary of First Solar Development, LLC, for up to 118.5 MW of capacity from a facility to be constructed in east Pecos County, commercial operation of which is expected to begin the first quarter of 2017; (2) a 25-year Power Purchase Agreement with Midway Solar LLC, a subsidiary of Hanwha Q Cells for up to 170 MW of capacity from a facility to be constructed in east Pecos County, commercial operation of which is expected to begin the fourth quarter of 2017; and (3) a 25-year Power Purchase Agreement with CED Upton County Solar LLC, a subsidiary of Consolidated Edison Development, for up to 150 MW of capacity from a facility to be constructed in Upton County, commercial operation of which is expected to begin in the third quarter of 2017.

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 April 1, 2016 are as follows:

	<u>Number of Substations</u>	<u>Miles of Lines</u>	<u>Kilovolts</u>
Transmission	14	624	345/138/69
Distribution	60	11,496	35/12.5/7.2
Overhead Primary		2,385	
Overhead Secondary		2,667	
Underground Primary		3,237	
Underground Secondary		3,207	

The City and LCRA entered into the FPP Transmission Agreement dated March 17, 1977, setting forth the duties, obligations and responsibilities with respect to the transmission of energy from FPP. See “DESCRIPTION OF PHYSICAL PROPERTY – Fayette Power Project” in this document.

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. See “DESCRIPTION OF PHYSICAL PROPERTY – South Texas Project” in this document.

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, successful 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

Three major business units of Austin Energy have earned their International Organization for Standardization (ISO) 9001 registrations. The Electric Service Delivery (“ESD”) division responsible for the construction, maintenance and operation of the City’s electric system became the first of any utility in the nation to earn ISO 9001:2000 registration. ISO 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 certifies 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 2012, Austin Energy’s Electric Service Delivery Quality Management System was re-registered under the ISO 9001:2008 standard. ESD continues to maintain its ISO certification.

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. In June 2013, Austin Energy’s Customer Care Quality Management System was re-registered under the ISO 9001: 2008 standard. Customer Care continues its ISO Certification.

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. In June 2015, Austin Energy’s Power Supply and Market Operations Quality Management System was re-registered under the ISO

9001:2008 standard. PS MO continues to maintain its ISO certification.

Austin Energy's 311 business unit will be next to pursue ISO registration.

Conventional System Improvements

In September 2015, the 2016-2020 Capital Improvements Spending Plan was approved by the City Council in the amount of \$1,476,979,931. 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.

\$1.5 Billion Five Year Capital Spending Plan

<u>\$ in Millions</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>Total</u>
Distribution	\$ 76	\$ 75	\$ 76	\$ 76	\$ 80	\$ 383
Distribution Substation	11	14	6	20	15	66
Transmission	<u>28</u>	<u>25</u>	<u>32</u>	<u>19</u>	<u>25</u>	<u>129</u>
Electric Service Delivery	115	114	114	115	120	578
Power Production	74	66	152	228	208	728
Customer Service Billing & Metering	12	11	1	1	--	25
Facilities, Technology & Support Services	<u>28</u>	<u>39</u>	<u>41</u>	<u>27</u>	<u>11</u>	<u>146</u>
Total	<u>\$ 229</u>	<u>\$ 230</u>	<u>\$ 308</u>	<u>\$ 371</u>	<u>\$ 339</u>	<u>\$ 1,477</u>

Austin Energy Smart Meter Installation Program

Austin Energy maintains an Advanced Metering Infrastructure ("AMI") program. A component of the AMI program is the installation of AMI meters, which send and receive commands related to acquiring consumptive and diagnostic data, including daily meter reads via radio signals. Austin Energy has approximately 454,000 Automated Meter Reading ("AMR") and AMI meters: 18,000 1-way communicating, AMR- residential meters; 390,000 2-way communicating residential meters and 46,000 2-way communicating commercial and industrial meters. Austin Energy has begun the replacement of its 1-way AMR meters to 2-way AMI meters. The replacement program is expected to be completed by September 2016. Continued improvements in AMI technology has shown demonstrable enhancements to customer service and reliability while reducing operating costs.

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. Austin Energy operates under the approved 2003 strategic plan but new initiatives are underway, including the Technology Roadmap Project, the Facilities Master Plan, and the New Generation Plan. See "STRATEGIC PLANS, GOALS AND POLICIES – Austin Energy Resource, Generation, and Climate Protection Plan to 2025: An Update of the 2020 Plan" in this document.

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 2025 discussed further in the next section.

Austin Energy Resource, Generation, and Climate Protection Plan to 2025: An Update of the 2020 Plan

In 2007, the City Council adopted the Austin Climate Protection Plan ("ACPP") to build a more sustainable community. Austin Energy developed a Resource, Generation and Climate Protection Plan to 2020 (the "RGCP Plan") to meet these objectives, which was approved by the City Council in 2010 and further refined in 2011 by the City Council by adding affordability metrics. Austin Energy will review the RGCP Plan annually and issue a report on performance against goals. Austin Energy will reassess the RGCP Plan in a public forum every two years, the latest of which took place in 2014.

In April 2014, the City Council (1) passed Resolution No. 20140410-024 ("2014 ACPP") that recognized the need to further accelerate the reduction of greenhouse gas emissions beyond the initial ACPP standards and set a goal of reaching net zero community-wide greenhouse gas emissions by 2050, preferring to achieve this goal sooner if feasible, and (2) appointed the 2014 Austin Generation Resource Planning Task Force to make recommendations on the utility's generation mix to 2025 and to further move the energy sector of the City toward achieving the emissions standards set forth in the 2014 ACPP. On July 9, 2014, the Task Force approved recommendations for updating the RGCP Plan. In August 2014, the City Council approved Resolution No. 20140828-157 and Resolution No. 20140828-158, which placed several Task Force recommendations into policy, subject to affordability metrics. Subsequently, based upon the same modeling used for resource planning analysis, Austin Energy performed an affordability analysis of implementing Resolution No. 20140828-157. This analysis indicated that Austin Energy would likely exceed the City Council's affordability metrics and could cost utility customers \$550 million above a business-as-usual case over the next 10 years.

On October 9, 2014, Austin Energy presented the results of its resource planning update, as scheduled, recommending the 500+ Plan, which included many of the Task Force recommendations, expanded renewable generation and replaced the Decker Creek Power Station's steam units with a highly efficient combined cycle gas turbine unit by 2018. The 500+ Plan showed that local generation is critical to maintaining affordability by providing revenues back to Austin Energy and by moderating local electric market prices.

The 2014 Resource Plan Update, resulting in the Resource, Generation and Climate Protection Plan to 2025 (the "2014 Plan") represents recommendations for a resource plan that makes further refinements to the 500+ Plan and brings together generation and energy demand management options over the planning horizon to the year 2025. Developing the 2014 Plan involved extensive analysis by Austin Energy of the expected costs, risks and opportunities to meet the future demand for electricity services by a highly skilled and experienced staff with the help of a calibrated and tested production cost model. The 2014 Plan outlined in this document is based on the current understanding of technology and of national, state and local energy policies.

The recommendations are designed to be flexible and dynamic. As the circumstances change, the City and Austin Energy will maintain flexibility to modify elements to respond to a range of factors, including economic conditions, customer load, fuel prices and power supply availability, infrastructure build-out, technological development, law and regulations, policy direction, rate structures and customer needs. Therefore, it is anticipated that the 2014 Plan will need to be adapted and modified from time to time 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, Austin Energy's recommendations to the City Council shall be supported by assessment of impacts on all customers and by charting the progress each step will make toward achieving the goals outlined in the 2014 Plan. Every major resource decision will be taken before the City Council for review and authorization.

2014 Plan Summary

Austin Energy has adopted the following changes and additions to its current resource planning goals, with a target of meeting these goals by 2025:

- Maintain the current goal of 800 MW of energy efficiency and Demand Response by 2020, and add an incremental 100 MW of Demand Response to achieve a total of at least 900 MW of Demand Side Management (DSM) by 2025.
- Increase the renewable energy goal from 35% to 55%.

- Increase the solar component of the renewable energy goal by 600 MW.
- Establish a CO₂ reduction goal of 20% below 2005 level in 2020 and beyond with retirement of Austin Energy’s share of FPP by 2023 through creation of a cash reserve fund.
- Develop an implementation plan for distribution connected local storage of at least 10 MW complemented by as much as 20 MW of thermal storage.

The 2014 Plan also recommends the following, contingent upon further study, technological development, progress towards goals and rate adjustments or restructuring:

- 1- An additional 100 MW of Demand Response or energy efficiency to increase the DSM achieved to 1000 MW by 2025.
- 2- Issuing a Request For Information (“RFI”) for 170 MW of large scale storage such as Compressed Air Energy Storage.

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 2014 Plan, however, each individual investment will be considered by the City Council and subject to public review.

Nuclear. The 2014 Plan recognizes current ownership levels in the STP and assumes the plant continues to provide power through 2025 at Austin Energy’s current ownership level.

Coal. The 2014 Plan continues to establish a ramp down in production in 2020 to achieve established carbon goals, and anticipates the retirement process in 2022, if funds are available. The 2014 Plan will require the establishment of a cash reserve retirement account in advance of the retirement to be funded with available cash as part of the annual budgeting process.

Natural Gas. The 2014 Plan would add 500 MW of additional gas units by the beginning of 2019 at the Sand Hill Energy Center or Decker. Austin Energy will issue an RFP to select a consultant with the expertise to analyze the ERCOT nodal market using a production cost model to perform an independent review of the 500 MW investment to fully report benefits and risks of this strategy.

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. See “CUSTOMER STATISTICS – Power and Energy Purchase Contracts” in this document.

Wind. The 2014 Plan calls for the majority of the Austin Energy renewables goal to be met through wind-generated power. As of September 30, 2015, wind generation totals 1,340.9 MW of capacity. Austin Energy has executed additional wind contracts for 200.0 MW of capacity which will begin commercial operation in the third quarter of 2016. Under the 2025 Plan, Austin Energy will pursue additional wind energy PPAs and ownership opportunities. Austin Energy expects to contract a minimum of 450 MW of additional coastal and western wind resources to reach at least 55 percent renewable energy goal by 2025 totaling the wind capacity by 2025 to 1,503 MW. See “CUSTOMER STATISTICS - Power and Energy Purchase Contracts” in this document.

Solar. Under the 2014 Plan, installed solar capacity would increase to at least 950 MW by 2025, including 200 MW of local solar. To ensure affordability, the 2014 Plan recommends implementing a phase down of the residential and commercial incentive programs to achieve the first 110 MW of the local solar goal by 2020, including at least 70 MW of customer-sited solar. Current projected cost declines of solar, technology improvements and financing alternatives and the implementation of supportive solar policies shall be utilized to enable the City to reach the 200 MW goal—including at least 100 MW of customer-sited local solar—by 2025 absent further incentives.

In February 2009, the City Council approved a 25-year contract under which Austin Energy purchases the annual output of a 30 MW solar farm built near Webberville on utility property, which went into operation in 2012. In addition, the 2014 Plan assumes full build-out of the announced 150 MW of solar power currently contracted with Canadian Solar that is expected to be online by the fourth quarter of 2016.

In accordance with the 2014 Plan, Austin Energy issued an RFP in May 2015 for up to 600 MW of utility-scale solar in 2015 and contracted about 439 MW of utility scale solar that are expected to be online by 2017. The City Council also directed Austin Energy to continue to explore the procurement of the remainder MW that makes up 600 MW either through PPA or ownership with a start date of 2019. These additions bring a combined total of 750 MW of utility-scale solar.

Storage. The 2014 Plan contemplates Austin Energy will obtain at least 30 MW of local thermal and electrical storage by 2025.

Financial Policies

The goals of Austin Energy's financial policies are to maintain financial integrity while allowing for flexibility. Some of the more significant financial policies reviewed and approved annually by the 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.
- Austin Energy shall maintain operating cash equivalent to 45 days of budgeted operations and maintenance expense, less fuel. As of September 30, 2015, Austin Energy's operating cash was \$250 million.
- 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 coverage.
- A Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components listed below. As of September 30, 2015, Austin Energy's strategic reserve balance was \$152 million.
 - An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.
 - 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, or an 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 used to stabilize 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 operating revenues, calculated using the current fiscal year estimate and the previous two fiscal 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 Cost of Service. 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, a 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 left 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.

ERCOT Wholesale Market Design

The ERCOT wholesale market has been dispatched and settled on a nodal basis since December 1, 2010. The key components of the nodal market include: 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. Austin Energy's service territory is identified as a load zone for settlement purposes.

Austin Energy's Energy and Market Operations staff offers 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.

The PUCT has considered changes to the ERCOT wholesale market to address some potential resource adequacy challenges. While there is some debate over the existence or severity of a resource adequacy issue, the PUCT has increased the market offer caps and implemented an Operating Reserve Demand Curve to represent the value of operating reserves in the real-time market relative to the probability of loss of load. The PUCT continues to solicit comments on further wholesale market design changes, but there is little expectation any major decisions will be made in the near term.

Federal Rate Regulation

Austin Energy is not subject to FERC's jurisdiction under sections 205 and 206 of the Federal Power Act and is not subject to Federal statutes and regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy. Nevertheless, Austin Energy submits various reports to FERC and participates in ERCOT, a stakeholder organization established under State law that is similar to the Regional Transmission Organizations envisioned in FERC Order No. 2000. ERCOT includes stakeholders from all segments of the Texas electric market and is responsible for the management and oversight of the day-to-day operations of the transmission network and wholesale market settlement. Under PURA, the PUCT has specific responsibilities to oversee ERCOT operations and market participant compliance with ERCOT Protocols.

Pursuant to the Energy Policy Act of 2005, municipal entities are now subject to certain FERC authority on reliability. On July 20, 2006, FERC certified the North American Electric Reliability Corporation ("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 NERC and the Texas Reliability Entity, Inc. ("TRE"), which governs the responsibilities of TRE as the Regional Entity responsible for overseeing the NERC reliability standards 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 standards and to evaluate and implement any needed changes to systems and procedures. This process is verified through external audits involving 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

CO₂ GHG New Source Performance Standard for New and Existing Power Plants

In 2013, the United States Environmental Protection Agency ("USEPA") proposed New Source Performance Standards ("NSPS") that set Greenhouse Gas ("GHG") limits on any newly built power plants. That rule will not impact Austin Energy at this time unless new steam or gas units are built. In June 2014, the USEPA proposed a GHG NSPS for all existing power plants, also called the Clean Power Plan ("CPP"). The proposal would require significant reductions in CO₂ emissions in Texas, including via increased energy efficiency and renewable energy, and directed each state to develop their own plan to achieve those reductions from the power sector. The CPP rule went final on August 3, 2015. The rule, along with a set of Model Trading Rules and a Federal Implementation Plan, was published in the Federal Register on October 23, 2015. Twenty-seven states and numerous industry groups filed a combined 39 lawsuits from a total of 157 petitioners asking the D.C. Circuit to review the rule. Petitions were filed in the DC Circuit Court to stay the CPP. The DC Circuit denied the petitions to stay the CPP on January 21, 2016. The DC Circuit Court has accelerated the timing for the Briefings and oral arguments. Briefings are to be completed by April, 22, 2016 and oral arguments scheduled for June 2, 2016. Requests to stay the CPP were filed on January 27, 2016 to the Supreme Court. The Supreme Court stayed the CPP rule on February 9, 2016, pending review in the DC Circuit Court. The USEPA solicited comments on these rules through January 21, 2016. Austin Energy's fleet is less carbon intense than the state-wide fleet as a whole because of investments already made in zero-and-low-carbon generation sources. Austin Energy is well-positioned to comply with this rule, should it go into effect as currently drafted.

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 FPP 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, additional activated carbon injection 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 have installed the activated carbon injection equipment and are currently testing and commissioning this equipment for the MATS rule. LCRA applied for and received a one-year extension of the compliance deadline to April 2016 for mercury to reduce the risk of non-compliance and allow more time, as needed, to optimize the new equipment. Austin Energy anticipates its share of the associated capital expense will be approximately \$5 million. With the scrubbers already in operation, Austin Energy and LCRA are well-positioned to comply with the MATS rule.

On June 29, 2015, the United States Supreme Court held in *Michigan et al. v. Environmental Protection Agency et al.* that the USEPA must take cost, including cost of compliance, into consideration in exercising its authority under the federal Clean Air Act to regulate power plants, and that it unreasonably interpreted the federal Clean Air Act in adopting the MATS rule by failing to take into account the billions of dollars in economic costs imposed by the MATS rule. The MATS rule was remanded to lower courts. On March 3, 2016, the Supreme Court denied the motion to stay the MATS Rule. The USEPA intends to complete its consideration of costs by April 15, 2016, according to their briefs filed in the D.C. Circuit. Austin Energy and its operating partner at FPP have already made the necessary investment to comply with MATS and will continue with plans to comply until further direction is provided from the courts and USEPA. Full compliance with the MATS rule as currently drafted is expected in April 2016.

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 NO_x 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 NO_x, annual SO₂ and ozone season NO_x 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 USEPA appealed to the Supreme Court and in May 2014 won a reversal of the lower court decision to vacate the rule. The USEPA has reinstated CSAPR beginning 2015 and officially removed CAIR requirements. Austin Energy holds more allowances relative to expected emissions for all CSAPR trading programs (annual and seasonal NO_x and annual SO₂) for the first phase of CSAPR (2015, 2016). With scrubbers in place at FPP, Austin Energy owns a large surplus of SO₂ allowances that have the potential to generate revenue if sold to other utilities.

On November 12, 2015, the USEPA published a proposed rule to update the CSAPR rule. The update was to address the 2008 ozone NAAQS. The update also responds to the July 28, 2015 remand of certain states' 2014 ozone season NO_x emissions budgets by the D.C. Circuit. The rule will lower Phase II ozone season allowance allocations (Phase II begins in 2017). Texas' allocations will be lowered by approximately 8%. In addition, the rule states that Phase I ozone season NO_x allocations (2015 and 2016) will have to be retired at a usage rate of 4 to 1 for compliance in Phase II and beyond. The rule update does not affect Phase I ozone season NO_x. The rule also does not affect any phase of annual NO_x and SO₂ CSAPR allowances. Austin Energy will remain in compliance with CSAPR.

Proposed revisions to the federal ozone National Ambient Air Quality Standard

In November 2014, the USEPA proposed to lower the national ambient air quality standards ("NAAQS") for ozone from 75 ppb to a value between 65 and 70 ppb. On October 1, 2015 the USEPA finalized the new ground-level ozone standard. The standard was set at 70 ppb. The Travis County ozone design value for the years 2013-2015 (what TCEQ must use to show compliance with the new standard) will be 68-69 ppb. The design values are expected to drop steadily. The USEPA must designate areas within 2 years of a new standard being established. It is anticipated that Travis County will continue to remain classified as attainment for ozone.

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 promulgated revised standards in 2014 that require cooling water intake structures to be designed to limit organism impingement and entrainment. All major power plants with once-through cooling will be required to complete studies over the next four years assessing impacts to aquatic organisms and appropriate mitigation measures, and plants with potential impacts could be required to upgrade intake structures to meet the new criteria. The rule applies to Decker Creek Power Station and FPP. However both facilities were built on reservoirs specifically made for cooling, which the rule effectively exempts from some of the major requirements. Overall risk associated with this rule is believed to be low at this time and would likely not be realized until four years from now.

Effluent Limit Guideline (ELG) regulations: On April 19, 2013, the USEPA announced proposed technology-based effluent limitation guidelines and standards (mainly for metals) for steam electric power generating units. The standards provide for a phased-in approach and the use of technologies already installed at a number of plants. The USEPA published a final rule on November 3, 2015. The Steam Electric regulations are incorporated into NPDES permits. For existing steam plants, the regulation includes pretreatment standards for discharges to Publically Owned Treatment Works (POTW) Plants. Routinely, wastewater is not discharged to POTWs. The non-chemical metals cleaning processes (that generate wastewater) that happen occasionally at Decker and Sand Hill are already in compliance with the standards in the ELG regulations. FPP's FGD system is not expected to impact the waters of the United States. The wet fly ash and bottom ash pond has been closed and FPP converted to a dry ash system as a result of which any discharges are expected to be in compliance with ELG regulations. Austin Energy estimates that FPP is in compliance with ELG regulations.

Environmental Regulation Related to Hazardous Wastes and Remediation

In January 2015, the USEPA promulgated a rule that sets new requirements for the storage of Coal Combustion Residuals ("CCRs") and potentially reclassifies those CCRs as a hazardous waste when stored in a landfill. FPP, like all coal burning plants, generates CCRs such as fly ash, bottom ash and gypsum. FPP currently recycles the majority of its 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 final rule does not designate CCRs as hazardous and largely minimizes any requirements on existing CCR storage units currently at FPP. Because the ash pond has been closed, Austin Energy does not anticipate any significant future costs associated with this rule at this time.

Environmental - Other

Austin Energy began decommissioning the Holly Street Power Plant in 2011. This project includes the removal of the main power plant and adjacent support structures and the cleanup of historical contamination and site closure approval by the State. This project is expected to be completed by August 2016.

Nuclear Regulation

Nuclear generation facilities are subject to regulation by the 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 (described below) 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 \$13.6 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$127.318 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$18.96 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 (including the City) 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 for such losses (\$2.75 billion is the maximum amount available for purchase from Nuclear Electric Insurance Limited ("NEIL")). Nuclear property insurance consists of \$1.5 billion in primary property damage insurance and \$1.25 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 \$62.76 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 2014 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, 2015 was \$205,108,001. For Fiscal Year 2016, 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.

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, finalized on August 31, 2012, 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. STP has completed engineering design and installation of equipment and modifications to address these requirements, and is currently waiting for final approval for the modifications from the NRC.

The second NRC order applies only to U.S. boiling-water (“BWR”) 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. Since the STP units are Pressurized Water Reactor’s and not BWR’s, no changes are required.

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. STP has completed engineering design and installation of equipment and modifications to address these requirements and is currently waiting on final approval for the modifications from the NRC.

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**COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM
AND WATER AND WASTEWATER SYSTEM OPERATIONS
OCTOBER 1, 2011 TO SEPTEMBER 30, 2015**

(in thousands rounded)

	Fiscal Year Ended September 30				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
INCOME					
Revenue	\$1,876,512	\$1,848,012	\$1,772,129	\$1,633,140	\$1,707,190
Operating Expense	<u>(1,165,615)</u>	<u>(1,246,865)</u>	<u>(1,137,184)</u>	<u>(1,054,566)</u>	<u>(1,071,056)</u>
Balance Available for Debt Service	710,897	601,147	634,945	578,574	636,134
Depreciation and Amortization Expense	<u>(264,896)</u>	<u>(255,892)</u>	<u>(249,029)</u>	<u>(241,884)</u>	<u>(224,995)</u>
Earnings Before Interest Expense	446,001	345,255	385,916	336,690	411,139
Interest Incurred on Debt	(160,881)	(169,567)	(164,692)	(177,954)	(181,665)
Other	<u>(4,963)</u>	<u>(10,367)</u>	<u>(1,908)</u>	<u>4,580</u>	<u>(1,741)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS (1) (2) (3) (4) (5)	<u>\$ 280,157</u>	<u>\$ 165,321</u>	<u>\$ 219,316</u>	<u>\$ 163,316</u>	<u>\$ 227,733</u>
PERCENTAGES					
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Expense	<u>(62.12%)</u>	<u>(64.17%)</u>	<u>(64.17%)</u>	<u>(64.57%)</u>	<u>(62.74%)</u>
Balance Available for Debt Service	37.88%	32.53%	35.83%	35.43%	37.26%
Depreciation and Amortization Expense	<u>(14.12%)</u>	<u>(13.85%)</u>	<u>(14.05%)</u>	<u>(14.81%)</u>	<u>(13.18%)</u>
Earnings Before Interest Expense	23.77%	18.68%	21.78%	20.62%	24.08%
Interest Incurred on Debt	(8.57%)	(9.18%)	(9.29%)	(10.90%)	(10.64%)
Other	<u>(0.26%)</u>	<u>(0.56%)</u>	<u>(0.11%)</u>	<u>0.28%</u>	<u>(0.10%)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>14.93%</u>	<u>8.95%</u>	<u>12.38%</u>	<u>10.00%</u>	<u>13.34%</u>

(1) Income before transfers to the General Fund and Other Funds for the 12 months ended September 30, 2015, are as follows (in thousands rounded):

Transfer to General Fund	\$143,755
Transfers to Other Funds	\$9,994

(2) Excludes Combined Utility Funds' deferred costs recovered in future years of (\$23,838) for the 12 months ended September 30, 2015.

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

(4) Excludes capital contributions of \$80,682 for the 12 months ended September 30, 2015.

(5) Excludes other post-employment benefits ("OPEB") accrual of \$____ and net pension obligation ("NPO") accrual of (\$____) for the 12 months ended September 30, 2015.

Source: City Controller's Office.

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

	Fiscal Year Ended September 30				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>REVENUE</u>					
ELECTRIC UTILITY					
Domestic and Rural Residential	\$ 332,685	\$ 327,508	\$ 459,211	\$ 414,159	\$ 457,272
Commercial General	853,547	897,019	705,009	615,588	641,510
City Utility Departments	0	0	5	21,356	19,065
Public Street Lighting	0	0	0	5,653	6,507
City General Government Departments	0	0	0	10,942	7,400
Sales to Other Utilities	27,798	19,305	6,358	4,057	943
Transmission	74,332	68,974	63,333	63,434	59,066
Rent from Electric Property	2,269	1,998	2,070	2,090	3,206
Customers' Forfeited Discounts and Penalties	6,854	6,966	8,185	1,144	5,031
Miscellaneous	<u>53,953</u>	<u>45,385</u>	<u>44,088</u>	<u>41,449</u>	<u>49,139</u>
Total Electric Utility	<u>\$1,351,438</u>	<u>\$1,367,155</u>	<u>\$1,288,259</u>	<u>\$1,179,872</u>	<u>\$1,249,139</u>
WATER UTILITY					
Water Services	\$ 267,164	\$ 233,827	\$ 229,300	\$ 211,050	\$ 239,769
Miscellaneous Revenue	2,168	158	1,644	1,198	3,036
Revenue Stability Fee	6,905	5,722	4,864	16,639	0
Reserve Fund Surcharge	0	0	3,410	0	0
Reclaimed Revenue	<u>944</u>	<u>820</u>	<u>864</u>	<u>567</u>	<u>579</u>
Total Water Utility	<u>\$ 277,181</u>	<u>\$ 240,527</u>	<u>\$ 240,082</u>	<u>\$ 229,454</u>	<u>\$ 243,384</u>
WASTEWATER UTILITY					
Wastewater Services	\$ 237,553	\$ 231,336	\$ 233,984	\$ 210,534	\$ 201,422
Miscellaneous Revenue	2,257	730	2,715	2,719	3,234
Reclaimed Revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8</u>
Total Wastewater Utility	<u>\$ 239,810</u>	<u>\$ 232,066</u>	<u>\$ 236,699</u>	<u>\$ 213,253</u>	<u>\$ 204,664</u>
Interest	<u>\$ 7,922</u>	<u>\$ 8,264</u>	<u>\$ 7,089</u>	<u>\$ 10,561</u>	<u>\$ 10,003</u>
TOTAL REVENUE	<u>\$1,876,351</u>	<u>\$1,848,012</u>	<u>\$1,772,129</u>	<u>\$1,633,140</u>	<u>\$1,707,190</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>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
ELECTRIC UTILITY					
Production	\$ 313,366	\$ 278,893	\$ 242,994	\$ 330,066	\$ 378,484
Joint Facility Production	81,338	200,373	186,035	189,914	202,217
System Control	16,989	15,286	13,979	17,366	13,663
Transmission and Distribution	166,016	154,556	126,902	116,884	107,035
Jobbing and Contract Work	645	998	(204)	181	415
Customer Accounting and Collection	15,501	15,030	12,678	13,454	18,374
Customer Services	4,391	4,138	3,924	20,926	20,163
Administrative and General	<u>380,038</u>	<u>359,250</u>	<u>340,986</u>	<u>186,884</u>	<u>167,173</u>
Total Electric Utility	<u>\$ 978,284</u>	<u>\$ 1,028,794</u>	<u>\$ 927,294</u>	<u>\$ 875,675</u>	<u>\$ 907,524</u>
WATER UTILITY					
Treatment	\$ 35,593	\$ 35,915	\$ 37,306	\$ 33,464	\$ 31,538
Pipeline Operations	23,169	23,889	23,251	22,317	20,932
Engineering Services	3,472	5,159	5,261	4,926	4,386
Water Resources Management	3,699	3,443	2,216	2,048	1,919
Environmental Affairs & Conservation	7,486	8,464	8,495	6,789	7,766
Support Services - Utility	11,022	12,064	9,843	9,233	8,138
One Stop Shop	264	270	226	219	167
Reclaimed Water Services	(1,609)	(3,575)	(20,409)	212	0
Other Operating Expenses	30,155	<u>31,582</u>	<u>50,230</u>	<u>20,134</u>	<u>16,265</u>
Total Water Utility	<u>\$ 113,251</u>	<u>\$ 117,211</u>	<u>\$ 117,419</u>	<u>\$ 92,342</u>	<u>\$ 91,111</u>
WASTEWATER UTILITY					
Treatment	\$ 36,132	\$ 37,106	\$ 38,187	\$ 30,301	\$ 28,502
Pipeline Operations	16,972	16,488	15,646	13,798	13,102
Engineering Services	4,966	5,789	5,955	5,715	5,431
Water Resources Management	3,911	3,779	2,248	2,104	1,987
Environmental Affairs & Conservation	2,911	2,343	2,062	1,877	1,967
Support Services - Utility	10,769	11,482	10,554	9,869	8,810
One Stop Shop	346	289	394	348	329
Other Operating Expenses	<u>\$ 19,048</u>	<u>\$ 23,584</u>	<u>17,425</u>	<u>15,537</u>	<u>12,293</u>
Total Wastewater Utility	<u>\$ 95,055</u>	<u>\$ 100,860</u>	<u>\$ 92,471</u>	<u>\$ 79,549</u>	<u>\$ 72,421</u>
TOTAL EXPENSE (1)	<u>\$1,186,590</u>	<u>\$1,246,865</u>	<u>\$1,137,184</u>	<u>\$1,054,566</u>	<u>\$1,071,056</u>
NET REVENUE AVAILABLE FOR DEBT SERVICE	<u>\$689,761</u>	<u>\$ 601,147</u>	<u>\$ 634,945</u>	<u>\$ 578,574</u>	<u>\$ 636,134</u>
Electric Customers	457,750	446,872	430,582	412,552	418,968
Water Customers	223,162	217,035	217,070	214,971	212,754
Wastewater Customers	212,260	204,482	203,896	202,444	199,818

(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, 2011 through September 30, 2014 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 FY11 through FY15 were largely attributable to weather and system rate changes, including imposition of Stage 2 watering restrictions beginning in September 2011. See “WATER SYSTEM – Water Use Management Plan” and “COMBINED WATER AND WASTEWATER SYSTEM INFORMATION – Water and Wastewater Rates” in this document.

Austin Energy Expenses

Changes in Austin Energy expenses for the period FY11 through FY15 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 FY11 through FY15 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 THIRTEEN (000's)

	Fiscal Year Ended September 30				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Plant Cost					
Utility Systems					
Electric	\$5,141,259	\$4,980,357	\$4,851,811	\$4,723,203	\$4,585,408
Water	2,663,637	2,576,314	2,415,970	2,209,639	2,046,462
Wastewater	<u>2,352,947</u>	<u>2,299,833</u>	<u>2,255,208</u>	<u>2,205,455</u>	<u>2,111,926</u>
Total Cost	<u>\$10,157,843</u>	<u>\$9,856,504</u>	<u>\$9,522,989</u>	<u>\$9,138,297</u>	<u>\$8,743,796</u>
Allowance for Depreciation:					
Electric	\$2,537,491	\$2,392,899	\$2,265,036	\$2,131,588	\$1,995,831
Water	701,383	650,103	607,609	564,937	555,727
Wastewater	<u>876,532</u>	<u>817,485</u>	<u>760,206</u>	<u>707,281</u>	<u>654,436</u>
Total Depreciation	<u>\$4,115,406</u>	<u>\$3,860,486</u>	<u>\$3,632,851</u>	<u>\$3,403,806</u>	<u>\$3,205,994</u>
Cost after Depreciation	<u>\$6,042,437</u>	<u>\$5,996,018</u>	<u>\$5,890,138</u>	<u>\$5,734,491</u>	<u>\$5,537,802</u>
Equity in Utility Systems					
Utility Systems	\$10,157,843	\$9,856,504	\$9,522,989	\$9,138,297	\$8,743,796
Plus: Inventories, Materials and Supplies (1)	51,884	56,649	54,181	56,019	54,204
Net Construction Assets and Unamortized Bond Issue Cost	<u>166,459</u>	<u>106,369</u>	<u>117,790</u>	<u>104,298</u>	<u>79,769</u>
	<u>\$10,376,187</u>	<u>\$10,019,522</u>	<u>\$9,694,960</u>	<u>\$9,298,614</u>	<u>\$8,877,769</u>
Less:					
Allowance for Depreciation	\$4,115,406	\$3,860,486	\$3,632,852	\$3,403,806	\$3,205,994
Construction Contract Payable	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$4,115,406</u>	<u>\$3,860,486</u>	<u>\$3,632,852</u>	<u>\$3,403,806</u>	<u>\$3,205,994</u>
Utility Systems, Net	\$6,260,781	\$6,159,036	\$6,062,108	\$5,894,808	\$5,671,775
Revenue Bonds and Other Debt Outstanding (2)	\$4,076,665	\$4,062,603	\$3,917,857	\$3,808,929	\$3,595,807
Less: Bond Retirement and Reserve Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Debt	<u>\$4,076,665</u>	<u>\$4,062,603</u>	<u>\$3,917,857</u>	<u>\$3,808,929</u>	<u>\$3,595,807</u>
Equity in Utility Systems	<u>\$2,184,116</u>	<u>\$2,096,433</u>	<u>\$2,144,251</u>	<u>\$2,085,879</u>	<u>\$2,075,968</u>
Percentage of Equity in Utility Systems	34.89%	34.04%	35.37%	35.39%	36.60%

(1) Does not include fuel oil or coal inventories of approximately \$30,910,225 million at September 30, 2015. Consists primarily of spare parts inventory at Fayette Plant and South Texas Project.

(2) Includes Revenue Bonds and Tax and Revenue Bonds of \$3.8 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 \$1.1 million; Commercial Paper of \$200.6 million (net of discounts); General Obligation Bonds of \$3.4 million; and Contractual Obligations of \$7.1 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.

Electric Utility System Litigation

The City has been named in a multi-party lawsuit stemming from the September 4, 2011 wildfire that damaged a number of properties in the Steiner Ranch community. Plaintiff, Ronya Aigner, Individually and as Heir of the Estate of Kevin Lee Aigner, filed suit on November 2, 2012. Plaintiff alleges that the City caused the fire, which allegedly led to the death of Kevin Aigner, a Travis County Constable, who suffered a stroke while working in the Steiner Ranch area six days after the fire. Over 20 insurance companies representing hundreds of property owners intervened in the lawsuit and also alleged that the City caused the fire through its allegedly improper maintenance and operation of power lines. An additional personal injury claimant intervened in the lawsuit alleging that the fires aggravated an individual's pre-existing Tourette's syndrome condition. Five underinsured plaintiffs have also intervened. The City filed a motion challenging jurisdiction. The appellate court dismissed Plaintiffs' inverse condemnation claims and remanded the case back to the trial court. The carriers presented property damage claims, including the wrongful death and under-insured claims of approximately \$20 million. The parties are currently in the discovery phase. If the case is not resolved, trial is anticipated in February of 2017.

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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. As a result of an amendment to the Austin City Charter approved at an election held in November, 2012, the configuration of the City Council has changed from a seven member council, comprised of a Mayor and six council members elected at large, to an eleven member council, with the Mayor elected at large, and the remaining members elected from ten single member districts. The first council election held in accordance with the 2012 amendment to the City Charter was held November 4, 2014. See APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY – General Information” in this document.

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 degree 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 of 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, Austin Water, 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 23,000 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 2006.

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
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
2013	3,484	594
2014	897	136
2015	1,911	3

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

Recent Annexation

In 2015 the City annexed eleven areas for full purposes and one area for limited purposes. These areas included an estimated total population of approximately 3,912 persons, mainly within the Lost Creek subdivision. Approved development plans for the remaining areas include an additional 1,944 single-family homes. The taxable assessed value for these areas at the time of annexation was approximately \$25.4 million.

The City annexed seven areas for full purposes in 2014, including approximately 900 acres of undeveloped land. If developed as anticipated, these areas would include an estimated 1,498 dwelling units and a projected population of 3,747 persons at build-out. The taxable assessed value ("TAV") for these areas as of January 1, 2016 was approximately \$12.6 million.

In 2013, the Wildhorse Ranch and the remainder of the Goodnight Ranch proposed developments were converted from limited to full purpose annexation status. In addition, the City annexed one commercial area and several undeveloped areas for full purposes for a total of 3,484 acres for the year. The TAV for these areas was approximately \$17 million. City Council also approved the creation and limited purpose annexation of a new Public Improvement District ("PID"), Estancia, which is located on the southern edge of the City along Interstate Highway 35 South. Future full purpose annexation of this area will occur in accordance with the terms of the development agreement.

The City annexed 3,818 acres for limited purposes in 2012 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 addition, the City annexed 3,387 acres for full purposes including 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 TAV for these areas was approximately \$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 MUD, 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 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 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.

In 2008, Austin annexed the largest population since 1997, approximately 13,400 people. The largest of the 2008 annexations was Anderson Mill MUD, 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 MUD 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

Three area 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 took place in 2015. It is anticipated that River Place MUD will be annexed for full purposes in its entirety in December 2017. Shady Hollow MUD is scheduled for full purpose annexation in December 2020.

Pension Plans

There are three contributory defined benefit retirement plans for the Municipal, Fire, and Police employees. State law requires the City to make contributions to the funds in an amount at least equal to the contribution of the employee group. The contributions made by the City to the City of Austin Employees Retirement System ("COAERS") include amounts allocable to the City employees within Austin Water. The contributions allocable to such employees are paid from Gross Revenues and constitute Operating Expenses of the Water and Wastewater System. The Austin Water's contribution to the COAERS in Fiscal Year 2014 was approximately \$10.5 million.

The following describes the contributions in place as of October 1, 2015. 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 18.2% of payroll, and the City contributes 22.05%. The Police Officers contribute 13.0% and the City contributes 21.313% 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, 2015, the amortization period of the unfunded actuarial accrued liability for the

COAERS was 24 years, for the Police Officers' Fund was 28.6 years and the Firefighters' Fund was ____ years.

As of December 31, 2015, the actuarial accrued liability for the COAERS was \$3,094,055,712 and the funded ratio was 70.9%. The actuarial accrued liability for the Police Officers' Fund was \$968,340,394 and the funded ratio was 67.5%. The actuarial accrued liability for the Firefighters' Fund was \$861,467,968 and the funded ratio was 90.9%. Austin Water's allocable share of the unfunded actuarial liability for the COAERS has not been determined.

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 an additional 10% in FY 2013 pursuant to the terms of the SFP, which brought 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, was 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.

The net pension obligation for the COAERS at September 30, 2015 totaled \$117.26 million. Of that amount, approximately \$____ million is allocable to Austin Water.

See APPENDIX B – "AUDITED FINANCIAL STATEMENTS – Note 7" in this document for additional information on the City's Pension Plans.

Other Post-Employment Benefits ("OPEB")

In addition to the contributions made to the three pension systems, the City provides certain other post-employment benefits to its retirees which include retirees of Austin Water. Other post-employment benefits include access to medical, dental, and vision insurance for the retiree and the retiree's family and \$1,000 of life insurance on the retiree only. All retirees who are eligible to receive pension benefits under any of the City's three pension systems are eligible for other post-employment benefits. Retirees may also enroll eligible dependents under the medical, dental, and vision plan(s) in which they participate. The City's other post-employment benefits plan is a single employer plan.

The City is under no obligation to pay any portion of the cost of other post-employment benefits for retirees or their dependents. Allocation of City funds to pay other post-employment benefits is determined on an annual basis by the City Council as part of the budget approval process on a pay-as-you-go basis. Payments with respect to retirees of Austin Water are paid from Gross Revenues and constitute Operating Expenses of the Water and Wastewater System.

The City recognizes the cost of providing these benefits to active employees as an expense and corresponding revenue in the Employee Benefits Fund; no separate plan report is available. The City pays actual claims for medical and 100% of the retiree's life insurance premium. Group dental and vision coverage is available to retirees and their eligible dependents. The retiree pays the full cost of the dental and vision premium. The estimated pay-as-you-go cost of providing medical and life benefits was \$39.5 million for 4,431 retirees in 2015 and \$33.3 million for 4,189 retirees in 2014. As of September 30, 2015, the net OPEB obligation is \$777.70 million, of which \$_____ is allocated to Austin Water.

See APPENDIX B – "AUDITED FINANCIAL STATEMENTS – Note 8" in this document 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 \$9.34 million for claims and damages at the end of fiscal year 2015. 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 State 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 Code) 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;
- (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 March 31, 2016, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	12%
U. S. Agencies	39%
Money Market Funds	2%
Local Government Investment Pools	47%

The dollar weighted average maturity for the combined City investment portfolios is 265 days. The City prices the portfolios weekly utilizing a market pricing service.

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TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the 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 Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See APPENDIX E – "Form of Bond Counsel's Opinion" in this document.

In rendering its opinion, Bond Counsel will rely upon (a) the City's federal tax certificate and the verification report prepared by the Verification Agent and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the 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 Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the City with the covenants and the requirements described in the preceding paragraph, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion 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 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 Bonds.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the Project. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the 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 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 owner who has purchased such 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 owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (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 six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month 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.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners 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

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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, holders of tax-exempt obligations, such as the 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 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 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 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.

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 Bonds under federal or state law, and could affect the market price or marketability of the Bonds. Any of the foregoing could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

State, Local and Foreign Taxes

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. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

CONTINUING DISCLOSURE INFORMATION

In the Twenty-Sixth Supplement, the City has made the following agreement for the benefit of the Holders and beneficial owners of the Bonds. 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 this document within (i) the tables numbered one through thirteen, (ii) “ELECTRIC SYSTEM – Customer Base–Average Monthly Number of Customers,” (iii) “ELECTRIC SYSTEM – Fuel Supply,” (iv) “CUSTOMER RATES – Typical Residential Electric Bills of Large Texas Cities,” (v) Austin Energy’s approved rate schedules incorporated into this document by reference as described in “CUSTOMER STATISTICS – Electric Rates,” (vi) “CUSTOMER STATISTICS – GreenChoice® Energy Rider,” (vii) “COMPARATIVE ANALYSIS OF ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM OPERATIONS,” (viii) “OPERATING STATEMENT ELECTRIC UTILITY SYSTEM AND WATER AND WASTEWATER SYSTEM,” (ix) the table of annual results of the City’s annexations in “THE CITY – Annexation Program,” and (x) “INVESTMENTS – Current Investments,” and in “APPENDIX B – AUDITED FINANCIAL STATEMENTS,” and if not provided as part of such financial information and operating data, audited financial statements of the City, when and if available. The City will update and provide this financial information and operating data within six months after the end of each fiscal year, beginning with the fiscal year ending in 2016 and audited financial statements within 6 months of each fiscal year beginning with the fiscal year ending in 2016. If audited financial statements are not available within 6 months after any such fiscal year end, the City will provide notice that the audited financial statements are not available and will file unaudited financial statements within such 6 month period and audited financial statements for such fiscal year when and if the audit report on such statements becomes available. The City will provide the updated information to the MSRB through its Electronic Municipal Market Access (“EMMA”) information system. 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 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 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 nor the Twenty-Sixth Supplement make any provision for debt service reserves or credit or liquidity enhancement relating to the Bonds. See “SECURITY FOR THE BONDS - Reserve Fund for Parity Water/Wastewater Obligations” in this document. 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 Twenty-Sixth Supplement.

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

The City did not file its unaudited or audited financial statements for the Fiscal Year ended September 30, 2011 by the required deadline of March 31, 2012. The audited financial statements of the City for such Fiscal Year were filed on April 2, 2012. Annual financial information and operating data of the City were filed by the required time in accordance with the City’s continuing disclosure agreements in the above-cited year in which the audited financial statements were filed after March 31. The City has filed an event notice in connection with the late filing. In addition, multiple rating changes occurred with respect to certain obligations of the City between 2009 and 2013, and the City did not file event notices with respect to certain of such rating changes. The City has filed event notices with respect to the current ratings of certain of its outstanding obligations. In its annual financial information and operating data filings for the City’s electric system and water and wastewater system revenue bonds, for the years 2009, 2010, and 2011, the City omitted a table relating to the City’s equity in its electric utility and water and wastewater systems. While the information contained in such table was generally obtainable from its audited financial statements for such years, the City has, since its Fiscal Year 2012 filing, included this table in its annual financial information and operating data filings for the City’s electric system and water and wastewater system revenue bonds. Also, the City inadvertently omitted several tables from the annual financial information and operating data filing for the March 31, 2013 continuing disclosure report relating to certain obligations of the City. The City filed the omitted information on May 14, 2014. The City determined that a table in its continuing disclosure regarding its outstanding Airport System Revenue Bonds had transposed years in the presentation of data. The City filed corrected information on May 8, 2015. The City has implemented procedures to ensure timely filing of all future financial information and event notices.

OTHER RELEVANT INFORMATION

Ratings

The Bonds have received ratings of “___” (_____ outlook) by Moody’s, “___” (_____ outlook) by S&P and “___” (_____ outlook) 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 any 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” in this document. 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 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-Sixth Supplement and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under “TAX MATTERS” in this document, including the alternative minimum tax on corporations. The form of Bond Counsel’s opinion is attached to this document 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 for this Official Statement or undertaken independently to verify any of the information contained in it, 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”, “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” and “APPENDIX D” to verify that the information relating to the Bonds, the Master Ordinance and the Twenty-Sixth Supplement contained under such captions and in APPENDICES C and D in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. The opinion of Bond Counsel will accompany the global certificate deposited with DTC in connection with the use of the Book-Entry-Only System. In addition, certain legal matters will be passed upon (i) for the Underwriters by Haynes & Boone, LLP and Kassahn & Ortiz, P.C., Co-Underwriter’s Counsel, and (ii) for the City by Norton Rose Fulbright US LLP, Disclosure Counsel for the City. The payment of legal fees to Bond Counsel, Co-Underwriters Counsel, and Disclosure Counsel in connection with the issuance of the Bonds is contingent on the sale and 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 in those opinions. 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. The Financial Advisor’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.

Underwriting

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the City at a price equal to the initial offering prices shown on page ii of this Official Statement, less an underwriting discount of \$ _____. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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.

Fidelity Capital Markets, an Underwriter of the Bonds, is a division of National Financial Services LLC.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an Underwriter of the Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Forward-Looking Statements

The statements contained in this document 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 document 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 in this document 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 document will prove to be accurate.

Verification of Arithmetical and Mathematical Calculations

Upon the delivery of the Bonds, the Verification Agent 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.

Such reports will be relied upon by Bond Counsel in rendering its opinion with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Bonds. The reports 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.

Independent Auditors

The financial data as of and for the 12 months ended December 31, 2015 in this document 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 the forward-looking 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 which contains a restatement of beginning net position balances and an explanatory paragraph regarding the City's implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement 71, *Pensions Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB 68*.

Miscellaneous Information

The financial data and other information contained in this document 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 in this document will be realized. All of the summaries of the statutes, documents and ordinances contained in this document 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 Twenty-Sixth Supplement will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the offering of the Bonds by the Underwriters.

ATTEST:

City Clerk
City of Austin, Texas

Mayor
City of Austin, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information is presented for informational purposes only.

General Information

The City of Austin (the “City”), chartered in 1839, has a Council-Manager form of government under its home rule charter. A change in governance affecting City Council size, composition, and term duration was approved by the voters with the passage of Propositions 1 – 3 on November 6, 2012. Under the new governance, the Mayor remains elected at-large and ten Councilmembers are elected by geographic district, with all serving four-year staggered terms subject to a maximum of two consecutive terms. The voters also approved moving elections from May to November in even-numbered years, the first of which was held in November 2014. Currently half of the Councilmembers are serving a two-year term as a part of the transition to this new Council structure which became effective January 6, 2015. The City Manager, appointed by the City Council, is responsible to the City Council for the management of all City employees and administration of all City affairs.

The City, which is the capital of Texas, is the fourth largest city in the state (behind Houston, Dallas, and San Antonio) and the eleventh largest in the nation with a September 2015 population of 599,119 according to the City’s estimates. Over the past ten years, Austin’s population has increased by approximately 25.9%, or 184,882 residents. Geographically, the City consists of approximately 321 square miles. The current estimated median household income for residents of the City is \$52,519 according to Nielsen SiteReports. The City’s per capita income is estimated to be \$49,680 based on analysis of the Bureau of Economic Analysis information.

The City 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. The City draws its special character from its physical setting along the Balcones Escarpment, a city wedged between coastal plains and dramatic cliffs, canyons, and juniper-carpeted rolling hills. 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 offers several broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with 46% of adults twenty-five years or older holding a bachelor’s or advanced degree, compared to 29.3% for the U.S. as a whole. Higher education is a significant aspect of life in the Austin area, which is host to six universities, a robust community college system, and numerous other institutions of higher learning. The University of Texas at Austin (UT), the sixth largest public university in the nation, is known as a world-class center of education and research and was ranked 16th among public universities in the 2016 *U.S. News and World Report* survey of undergraduate programs.

Local Economy

The Austin metropolitan area is consistently recognized among the most inventive, creative, wired, educated, fit, and loved cities in which to live and work. The Milken Institute ranked the Austin metropolitan area number 4 in its *2015 Best-Performing Cities* report, which ranks U.S. metropolitan areas by how well they are creating and sustaining jobs and economic growth. The index “was designed to measure objectively which U.S. metropolitan areas are promoting economic vitality based on job creation and retention, the quality of new jobs, and other criteria.” In its report the Institute noted that, “Austin seems poised to remain among the best performers in the years ahead.”

From job growth to population growth to real estate, the Austin metropolitan area continues to boom and the trends reflect it. The Brookings *Metro Monitor* ranks Austin’s economic performance from 2009 to 2014 as the second best in the nation based on an analysis of jobs, gross metropolitan product, and aggregate wages. In January 2016, Newgeography.com and *Forbes* published an analysis of the largest 53 metropolitan areas looking at metrics indicative of past, present, and future vitality to determine which ones are most likely to boom over the next 10 years. Austin was at the top of this list of “America’s Cities of the Future.” The analysis stated that the City “has become one of the nation’s superlative economy over the past decade.”

While Austin has diversified over the last decade, the technology industry still plays a large role in the City's economy. Technology companies with a long history in Austin, like Dell, IBM, and Advanced Micro Devices, continue to be some of Austin's largest employers. Other large technology companies in the area are expanding. Oracle recently announced it will build a new 27-acre corporate office in Austin and expand its workforce in the area by 50%. After beginning to manufacture the Mac Pro in Austin several years ago, Apple Inc. is in the process of building a new 38-acre campus in northwest Austin and further expanding its workforce here. In addition, over the past several years Google has expanded its presence in the City with everything from Google Fiber to the testing of self-driving cars.

Expansion in other business sectors is also strengthening. Austin's vibrancy and favorable economic climate has spurred the development of a number of new hotels over the last few years. The resulting increase in employment in the leisure and hospitality industry was in excess of 30 percent since 2010. Construction of the University of Texas medical school is expected to continue to spur the life science sector. In 2014 Travis County posted growth of 5.7% in the financial services sector, second fastest in the nation. Finally, in its 2015 study of startup activity, the Kaufmann Foundation found that the Austin metro area created more startups than any other metro area, averaging 550 new entrepreneurs per month.

Texas Economy – The Texas economy has been strong for well over a decade. With a \$1.65 trillion economy, Texas ranks second only to California. In October 2015, *Forbes* listed Texas as one of the top ten Best States for Job Growth and ranked the state first for current economic climate. Chief Executive Magazine in its 2015 survey found that CEOs consider Texas as the best state for business for the 11th year in a row stating "Since the recession began in December 2007, 1.2 million net jobs have been created in Texas, while 700,000 net jobs were created in the other 49 states combined."

With the current downturn in oil prices, growth in Texas has been slowing but is still positive. Virtually all Texas metro areas had more jobs in December 2015 than in December 2014; however, the 2015 annual growth rate for the state was 1.4%, below the national rate of 1.9%. In addition, all four of Texas' major cities were in the top ten of the previously mentioned *Forbes* list, "America's Cities of the Future."

Employment – Despite the state-wide slowdown, Austin area employment growth continued in 2015. The Austin metro area was the fastest growing in the state, increasing at a rate of 3.8% during 2015. Austin's unemployment rate was at 3.1% in December 2015, down from 3.4% in December 2014 and well below the December State and National unemployment rates of 4.7% and 5.0%, respectively. Over the last five years, the Austin metro area has created more than 160,000 new jobs, an increase of over 18%. According to the Milken 2015 Best-Performing Cities report "Austin had the second fastest job growth in the nation over the past five years." *Forbes* ranked Austin at the top of its 2015 list of "Cities Creating the Most Technology Jobs." The magazine cited a study by the Praxis Strategy Group that looked at employment data for the 52 largest metro areas from 2004 to 2014. During that time the Austin metro area experienced an expansion in the technology sector of 73.9%. The outlook for 2016 continues to be strong. Recently WalletHub ranked Austin as the third best metro area to find a job in 2016 based on its job market and socio-economic environment. AngelouEconomics Inc. predicts Austin will add another 130,000 residents over the next two years. They further predict the addition of over 60,000 jobs during that same time frame for a two-year job growth rate of 6.3 percent.

Sales Taxes – Since 2009, sales tax revenue has steadily increased. Fiscal year 2015 experienced a robust 7.7% increase over fiscal year 2014, which was a 7.5 % increase over 2013.

Tourism – Austin continues to be a destination for both business and recreational activities. Austin is known around the world as the "Live Music Capital of the World" with over 250 live music venues. In March 2015, South by Southwest (SXSW) hosted its 29th annual festival, conference, and trade show, providing a unique convergence of original music, independent films, and emerging technologies and more recently education and sustainability. According to an economic impact analysis prepared by Greyhill Advisors, SXSW was responsible for injecting more than \$317 million into the Austin economy. Other major festivals include the Austin City Limits Music Festival, Austin Film Festival, and Fun Fun Fun Fest.

The growing local economy in Austin relies on quality air service to foster business, government, and leisure travel. During 2015 Austin's airport, Austin-Bergstrom International Airport ("ABIA"), set a new record for annual traffic for the fifth consecutive year. In 2015, over 11.9 million passengers passed through ABIA, enjoying over 1,100 live music performances, 65 tons of brisket and almost 700,000 breakfast tacos. Air carriers continue to add direct flights to Austin facilitating connections with over 70 countries throughout Europe, Africa, the Middle East, and Asia. In July 2015, *Travel*

enr Leisure ranked ABIA fifth in the publication's list of best domestic airports.

To accommodate the increased flights and passengers, ABIA completed 3 major projects in 2015: an expanded taxiway, a consolidated rental car facility, and expansion of the east terminal adding over 56,000 square feet including a new Customs and Border Protection area which more than doubles the capacity to process international arrivals as well as adding a new six-lane TSA checkpoint. In 2016, construction will begin on a nine gate terminal expansion.

Hotel/motel tax revenues were 15% greater in 2015 than the previous year. High occupancy rates have spurred construction of new hotels across the Austin metro area. The greatest concentration is downtown where hoteliers such as JW Marriott, Fairmont, Westin, and Kimpton added 2,000 rooms in 2015 and are constructing over 1,000 more. Additional hotel inventory allows Austin to accommodate an increase in both number and size of events hosted and is having a positive impact on the City's convention center.

Medical School – In 2016, the Dell Medical School at the University of Texas at Austin will be operational. The University is partnering with the Seton Healthcare Family, who is building a cutting-edge teaching hospital, and Level 1 Trauma Center, and Central Health, who will purchase services from the medical school for the population it serves. In 2015, the first medical school class was selected, preliminary accreditation was received, and construction of both the medical school and the Dell Seton Medical Center at the University of Texas continued. The school is scheduled to accept its first class in June 2016 and the hospital will open in 2017. An economic analysis by TXP, Inc. estimated the economic impact of the school to be almost \$1 billion in direct annual spending and 6,900 direct jobs. To leverage the economic potential created by the medical school, in December 2014 the City Council directed the City Manager to explore creation of an innovation zone in the northeast quadrant of downtown. Such zones have been successful economic engines in other major U.S. cities such as Seattle, Boston, and Raleigh-Durham. Central Health supports the zone and has begun the visioning process for redevelopment of 14 acres it owns in the heart of the zone which will become available when hospital operations transition to the teaching hospital in several years.

Real Estate – All sectors of the real estate market are performing well. Austin area home sales for 2015 were up 5% over 2014 and set a record for annual single-family home sales. As of the end of December the market featured 2.2 months of housing inventory, less than half of the level considered to represent a balanced housing market. As a result, the median price for a single family home continues to rise, up about 9% over the previous year from \$242,500 to \$263,900. Opinions about Austin's real estate market are mixed. Fitch believes that Austin's real estate market is overpriced by about 19% but views growth and pricing appreciation as currently supportable. However, an analysis by Trulia indicated Austin as number 3 on its list of real estate markets to watch in 2016 based on its share of millennials and job growth.

Multifamily occupancy rates are near 95%, down from the 2013 high of 97%. Total absorption in 2015 was at an all-time high of over 9,300 units. With strong occupancy and absorption, rents per square foot continue to increase but at a slower pace, 1.5% for the last six months of 2015 to a high of \$1.35. The office market is also solid with an average occupancy rate of 92.5% at the end of 2015 and absorption of "direct" lease space of over 925,000 square feet during the year. The retail market remains tight with a 2015 year-end occupancy rate around 96%. According to Emerging Trends in Real Estate 2016 published by PricewaterhouseCoopers US and the Urban Land Institute, Austin will be one of the two top markets to watch in 2016 along with Dallas/Fort Worth. Among other things, the study cited diverse job creation and being attractive to all age levels.

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Recognition – In addition to the accolades mentioned above, Austin has ranked at the top of lists such as Kaufmann Foundation, WalletHub, Savills, and others in regards to growth, jobs, recreation opportunities, health, and business opportunities:

#1 Top Cities for Tech Businesses (International ranking) <i>Savills World Research</i> – February 2015	#3 Best Places to Live and Work as a Moviemaker 2016 (Big Cities) <i>MovieMaker</i> – January 2016	#1 Kaufmann Index of Startup Activity Kaufmann Foundation – June 2015
#4 Top Ten Cities for Creatives <i>SmartAsset</i> – July 2015	#1 Best Cities for Millennials <i>Money</i> – September 2015	# 1 Healthiest City in Texas <i>24/7 Wall St.</i> – August 2015
#1 Best Cities for Young Families in 2016 <i>ValuePenguin.com</i> – Winter 2016	#6 2015's Best Cities for Summer Travel <i>WalletHub</i> – Spring 2015	#1 Cities with Abundant Transportation Choices <i>U.S. Public Interest Research Group</i> – February 2015
#2 Economic Growth Potential <i>Metro and Global Rankings Business Facilities</i> – July 2015	#1 Cities Americans Are Flocking to <i>Forbes</i> – October 2015	Tied for #1 Job Creation Index Scores <i>CGallup</i> – March 2015

Major Initiatives

The City's vision is to be the most livable city in the country. The following policy priorities were adopted in April 2007 by the City Council and amended in 2009:

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

Best Managed City – To achieve the vision of making Austin the most livable city in the country and to support City Council's policies and initiatives, the employees of the City – whether they are executives, managers, or front-line service providers – have the singular mission of making the City of Austin the best managed city in the country. This mission is implemented through transparent business practices, excellence in public service, innovative leadership, and providing services that are reliable, safe, efficient, and above national standards.

City staff is committed to creating a work environment that fosters creative thinking and innovation throughout the organization, thereby better positioning the workforce to more effectively respond to new challenges as well as new opportunities. 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. The elements of PRIDE include: **P**ublic Service & Engagement; **R**esponsibility & Accountability; **I**nnovation & Sustainability; **D**iversity & Inclusion; and **E**thics & Integrity.

Being “best managed” means everyone in the organization is providing the best service possible to the community. Reflecting the PRIDE that the City's employees take in their work, Austin ranks 28 percentage points above the national average for large cities for overall quality of customer service and is at or above the national average in 31 of 46 of the City's benchmark indicators.

Imagine Austin – 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 here. In 2012, after an extensive public process, the City Council unanimously voted to adopt Imagine Austin, the City's comprehensive plan for Austin's future. The plan defines where the City is today and where we want to go, setting a context to guide decision-makers for the next 30 years. The resulting plan adheres to 6 core principles established by Austin citizens:

- ❖ Grow as a compact, connected city
- ❖ Integrate nature into the city
- ❖ Provide paths to prosperity for all

- ❖ Develop as an affordable and healthy community
- ❖ Sustainably manage water, energy, and other environmental resources
- ❖ Think creatively and work together

Implementing this vision will take many incremental steps over time. The plan's success is monitored annually with performance metrics and will be formally assessed at least every five years. Cross-departmental and cross-jurisdictional action teams have been created for these areas and the 2016 budget and capital plan include funding to support these principles. Additionally, a number of the initiatives discussed below also directly support Imagine Austin.

CodeNext – The City has embarked on a major initiative to revise the City's land development code which determines how land can be used throughout the City. This initiative is one of the priority programs of Imagine Austin and is expected to be completed in late 2016.

Development – For a number of years, the City has been committed to the redevelopment of many of its downtown properties. Beginning with the development of six blocks in the warehouse district in the early 2000's, Austin's participation in joint public/private partnerships continues to contribute to a vibrant downtown and an enhanced tax base. Current downtown redevelopment is focused in the Seaholm District, an area in the southwest portion of downtown which was previously home to a water plant, an electric generation plant, and other electric facilities. The area is in the process of being transformed into an extension of Austin's downtown waterfront. In early 2016, portions of the new street grid serving the area were opened and the grid will be fully complete and operating by the summer or early fall of 2016.

Construction in this area includes:

- The City's new central library which will open in the fall of 2016. Among other things, this "library for the future" will feature flexible and blended spaces, state-of-the-art technology, sustainable features, and community gathering places.
- Extensive improvements to Shoal Creek in the Seaholm area to facilitate bicycle and pedestrian use.
- A \$130 million mixed-used development that involves renovation and reuse of the historical and architecturally-significant Seaholm power plant, as well as several new buildings on the site. As the result of one of the City's economic development agreements, the offices of athenahealth, Inc., a software company, moved into the renovated power plant in February 2015. Construction of the site is well underway and condominium tower occupancy is expected in early 2016.
- Redevelopment of the Green Water Treatment Plant site with 1.7 million square feet of mixed use development. Construction on two of the four blocks on this site is well underway and a third block is expected to break ground in 2016. The tallest predominately residential building west of the Mississippi on the previous site of Austin Energy's energy control center. Groundbreaking occurred in January 2016 and construction is expected to be complete in three years.

On the eastern edge of downtown, construction of the Waller Creek Tunnel Project continues. This mile-long stormwater bypass tunnel will address problems of flooding, erosion, and water pollution along lower Waller Creek. By taking nearly 28 acres of prime downtown land out of the 100-year floodplain, the project is expected to spur redevelopment and revitalization in the area. Several miles from downtown, the City continues its public/private partnership to redevelop the site of the previous airport, Mueller. This 700 acre, vibrant, mixed-use urban village includes residential neighborhoods, retail, and office spaces, extensive parks, and trails. The development, which is sustainable, transit-oriented, and offers affordable housing opportunities, is approximately 40 percent complete, and has a current assessed value of over \$800 million. Demand for housing at Mueller has been high due to its proximity to downtown and many amenities. During 2015, the development received the American Planning Association's HUD Secretary's Opportunity and Empowerment Award recognizing the success of this project which uses creative housing, economic development and private investments to empower the community and improve the quality of life for low and moderate income community members.

Addressing the Impacts of Growth – The level of growth that Austin has sustained over the last few years does not come without a cost. Housing affordability is increasingly an issue in a region where housing costs have been rising at a brisk pace for several years. More than 40% of Austinites pay more than 35% of their income on housing. Affordability is a prime consideration as the City makes decisions that impact the citizens who live here and the businesses that operate here. Whether setting taxes or utility rates, taking actions that provide affordable housing, or providing services and programs to the underprivileged members of the community, affordability is always part of the discussion. To address this, during 2015 City Council approved the construction of more than 5,300 affordable housing units and created the first Homestead Preservation Districts in Texas.

Traffic continues to be an issue that the region as a whole must address. In 2015, the City developed a Traffic Congestion Action Plan that outlines immediate and long-term steps to help alleviate traffic issues throughout the City. As a result of construction levels at an all-time high, the City is dealing with the stresses placed on its development-related services. An external operational assessment was completed in 2015 and the City developed a multiyear action plan to address the resulting recommendations beginning with the addition of funding and staff in the 2016 fiscal year budget.

Transparency – The City’s ongoing commitment to transparency of financial transactions and processes is exemplified by Austin Finance Online (AFO). Since its inception in 2011, AFO has been recognized by the Texas State Comptroller for achieving the highest standards in financial transparency online. After receiving the Gold Level Leadership Circle Award for four consecutive years, the City recently received its second Platinum Leadership Award. AFO provides a one-stop web-based portal containing an extensive library of budget and financial documents, an online contract catalog, payment register information, and other City financial information.

Innovation and Sustainability – Austin’s commitment to sustainability and innovation has been recognized by a number of organizations. The City’s Neighborhood Partnering Program was awarded the American Planning Association’s Leadership in Sustainability award in April 2014. This program provides opportunities for community and neighborhood organization to affect public improvements by cost sharing with the City. In October 2015, the Austin Water Utility received the Sustainable Water Utility Management Award from the Association of Metropolitan Water Agencies for its conservation and drought management strategies and its partnerships with stakeholders to develop policies reflective of community values. The City of Austin was also named a Top 10 Digital City by the Center for Digital Governance in November 2015 in recognition of a variety of innovative efforts across the City.

Climate Protection - The City of Austin has long been a national leader in the climate protection arena through the efforts of City leaders, the City-owned electric utility (Austin Energy), and the participation of customers from residential to other governmental entities and private businesses. As a result of these efforts and partnerships, Austin Energy led all public power utilities in the country for sales of renewable energy again in 2014. In January 2016, the EPA’s Green Power Partnership program ranked Austin fifth in the country among all local government program partners using the most renewable energy. During 2015, Council approved an update of the Austin Energy’s Energy Resource Plan to 2025, which increased the renewable energy goal to 55 percent by 2025. Progress towards this goal was made in October when the City approved the purchase of an additional 300 MW of solar power which will position Austin Energy to be the largest user of solar power in Texas. Additionally, in June 2015 City Council adopted the Austin Community Climate Plan which includes strategies to meet the City’s goal of achieving net zero greenhouse emissions by 2050.

FINANCIAL INFORMATION

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 GAAP. 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.

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 and to provide a foundation for financial sustainability. 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. Compliance with these policies is reviewed annually as part of the budget process. The policies and results of the review are published in the Approved Budget document.

Long-Term Financial Planning

The City's leaders look towards and plan for the future. The City's approach of balancing the budget by not relying on one-time solutions, while at the same time making key investments in the community, the infrastructure, the economy, the sustainability, and its employees is providing a 21st century "best-managed" model for cities all around the country. 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 tool to develop the following year's operating budget. As directed by the financial policies, the City's budgeting approach emphasizes fiscal responsibility by limiting spending in a given year to projected revenue collections.

In addition, the City annually prepares a five-year Capital Improvement Project (CIP) Plan that outlines all capital projects in progress, those that will be implemented in the five-year horizon, and related funding sources. During 2014, the City completed its first Long-Range CIP Strategic Plan, which covers a 10-year planning horizon, improving the transparency of the City's long-term infrastructure plans. This plan further aligns the City's CIP investments with the Imagine Austin Comprehensive Plan as the City strives to strike a balance between ongoing capital needs necessary to maintain services for a growing community and strategic investments that support community priorities.

On November 5, 2013, voters approved \$65 million in general obligation debt for affordable rental and ownership housing as well as preservation of existing affordable housing stock. The City is implementing projects authorized by this election as well projects authorized in the November 2012 election, when Austin voters approved a \$307 million general obligation bond program that includes transportation and mobility projects, as well as projects for open space and watershed protection, parks and recreation, public safety, health and human services, and library, museum and cultural arts facilities. This bond program is being overseen by the Council-appointed Bond Oversight Committee, which is charged with ensuring efficiency, equity, timeliness, and accountability in the implementation of the program.

Maintaining sound financial and economic development policies within the City organization allows for a high level of services to the community. Because of consistent adherence to our financial policies, the City's bond ratings for General Obligation bonds continue to receive the highest rating issued by each rating agency: Moody's (Aaa), Standard & Poor's (AAA) and Fitch (AAA). In November 2012, Austin Energy improved its Standard & Poor's credit rating from A+ to AA-, a reflection of a rate increase and the utility's diverse portfolio, as well as the City's robust economy.

Budgetary Control

The annual operating budget is proposed by the City Manager and approved by the City Council after public discussion. Annual budgets are legally required for the General Fund, debt service funds, and certain special revenue funds. While not legally required, annual budgets are also adopted for the enterprise and internal service funds. Annual updates to the CIP budgets follow a similar process. Multi-year budgets are adopted for capital projects and grant funds.

Throughout the year, primary responsibility for fiscal analysis of budget to actual expense or revenue and overall program fiscal standing rests with the department operating the program. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council must approve amendments to the budget and transfers of appropriations from one fund and department to another. As demonstrated by the statements and schedules included in the City's 2014 Comprehensive Annual Financial Report ("CAFR"), the City continues to meet its responsibility for sound financial management.

Budgetary Information

The 2016 Budget was developed in a manner true to the City's 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 the City's citizens, employees, and Councilmembers. The result was a budget built around the ideals of livability, affordability and inclusivity that dictate the operations of the City government and form the basis of the budget.

The structurally balanced fiscal year 2016 Approved Budget totals \$3.5 billion and includes \$911 million for the General Fund, providing for the continuation of high-quality public safety, health, library, parks, water, energy, infrastructure, development, and other services to the citizens of the City. The 2016 budget was approved with a decrease to the property tax rate of more than 2 cents, from 48.09 to 45.89 cents per \$100 of taxable value. The approved tax rate balances the tax

impact to property owners with the need to invest in our community and continue providing the outstanding services Austinites have come to expect.

Included in the approved budget are 3.0 % pay increases for non-sworn employees. Sworn EMS employees and Austin Police Association members will receive a base wage increase of 1% as well as step and longevity pay as established in labor contracts in 2013. Under a recently approved labor contract with the Austin Firefighters' Association, firefighters received a 1% increase in June 2015 and will receive an additional 2.5% in 2016. In response to continuing growth in the City, the approved budget enhances public safety by adding approximately 100 new sworn positions. Positions were also added to the 911 call center to address increased call intake. Funding was provided to continue a multiyear strategy to better manage demands on service delivery resulting from the City's growth in recent years.

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 455,000 customers within a service territory of approximately 437 square miles in the Greater Austin area. The approved budget for fiscal year 2016 is \$1.4 billion in annual revenues, including transfers. The utility has a diverse generation mix that includes nuclear, coal, natural gas, and an increasing portfolio of renewable energy sources such as solar and wind.

The City's second largest enterprise activity is Austin Water, which provides water and wastewater services to more than 890,000 retail and wholesale customers within Austin and surrounding areas. The fiscal year 2016 approved budget projects revenues of \$548.8 million. Growth in revenue is the result of projected customer growth as well as a combined system-wide rate increase of 4.9%. In December 2014, the utility opened Water Treatment Plant 4. With a capacity of 50 million gallons per day, it provides redundancy in the water system and helps to sustain reliable water services into the future.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its 2014 CAFR. The City has received this award for 8 consecutive years. The certificate is valid for a period of one year only. City management believes that the 2015 CAFR conforms to the Certificated of Achievement Program requirements, and is submitting it to the GFOA for review.

The City also received the GFOA Distinguished Budget Presentation award for the 2015 budget as well as a 2014 Certificate of Excellence in Performance Measurement from the International City/County Management Association (ICMA).

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Employment by Industry in the Austin Metropolitan Area (a)

Employment Characteristics

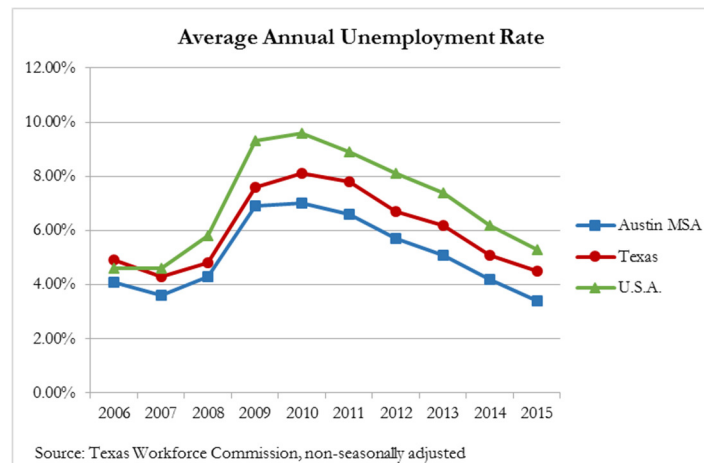
<u>Industrial Classification</u>	<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015 (1)</u>	
		% of <u>Total</u>		% of <u>Total</u>		% of <u>Total</u>		% of <u>Total</u>		% of <u>Total</u>
Manufacturing	49,500	6.5%	47,300	6.2%	49,500	6.5%	47,300	6.2%		
Government	167,900	22.1%	170,500	22.2%	167,900	22.1%	170,500	22.2%		
Trade, warehousing, transportation & utilities	152,500	20.1%	134,200	17.5%	152,500	20.1%	134,200	17.5%		
Services and miscellaneous	304,000	40.0%	333,200	43.5%	304,000	40.0%	333,200	43.5%		
Finance, insurance and real estate	43,900	5.8%	42,300	5.5%	43,900	5.8%	42,300	5.5%		
Natural resources, mining & construction	<u>42,000</u>	<u>5.5%</u>	<u>39,000</u>	<u>5.1%</u>	<u>42,000</u>	<u>5.5%</u>	<u>39,000</u>	<u>5.1%</u>		
Total	<u>759,800</u>	<u>100.0%</u>	<u>766,500</u>	<u>100.00%</u>	<u>759,800</u>	<u>100.0%</u>	<u>766,500</u>	<u>100.00%</u>		

(1) 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, _____ 20__, Texas Workforce Commission.

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Average Annual Unemployment Rate



	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.A.</u>
2005	4.5%	5.4%	5.1%
2006	4.1%	4.9%	4.6%
2007	3.6%	4.3%	4.6%
2008	4.3%	4.8%	5.8%
2009	6.9%	7.6%	9.3%
2010	7.0%	8.1%	9.6%
2011	6.6%	7.8%	8.9%
2012	5.7%	6.7%	8.1%
2013	5.1%	6.2%	7.4%
2014	4.2%	5.1%	6.2%
2015	3.4%	4.5%	5.3%

Note: Information is updated periodically; data contained in this document is latest provided.

Source: Labor Market & Career Information, Texas Workforce Commission, Accessed April 13, 2016.

City Sales Tax Collections (In Millions)

<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>	<u>Period</u>	<u>Amount</u>
1-1-11	\$11.492	1-1-12	\$12.189	1-1-13	\$13.126	1-1-14	\$15.123	1-1-15	15.260	1-1-16	16.138
2-1-11	16.149	2-1-12	16.923	2-1-13	18.079	2-1-14	19.112	2-1-15	21.092	2-1-16	
3-1-11	11.117	3-1-12	11.762	3-1-13	13.324	3-1-14	13.782	3-1-15	14.677	3-1-16	
4-1-11	10.312	4-1-12	11.838	4-1-13	12.727	4-1-14	13.803	4-1-15	14.345		
5-1-11	14.022	5-1-12	15.239	5-1-13	15.962	5-1-14	17.750	5-1-15	19.404		
6-1-11	11.941	6-1-12	12.949	6-1-13	12.869	6-1-14	15.581	6-1-15	15.958		
7-1-11	11.924	7-1-12	13.168	7-1-13	14.699	7-1-14	14.723	7-1-15	16.180		
8-1-11	14.387	8-1-12	15.371	8-1-13	16.088	8-1-14	16.970	8-1-15	19.483		
9-1-11	11.307	9-1-12	14.220	9-1-13	14.119	9-1-14	15.385	9-1-15	16.429		
10-1-11	13.385 (1)	10-1-12	13.960	10-1-13	14.644	10-1-14	15.309	10-1-15	16.514		
11-1-11	13.873	11-1-12	14.570	11-1-13	16.187	11-1-14	17.734	11-1-15	18.952		
12-1-11	12.004	12-1-12	14.373	12-1-13	14.192	12-1-14	15.735	12-1-15	16.269		

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

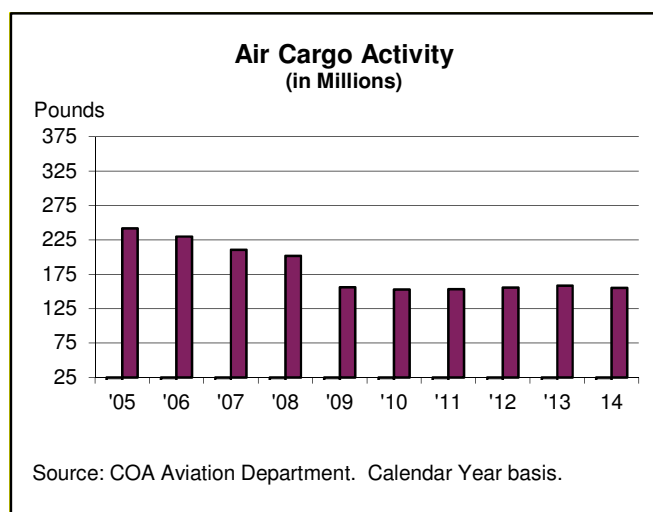
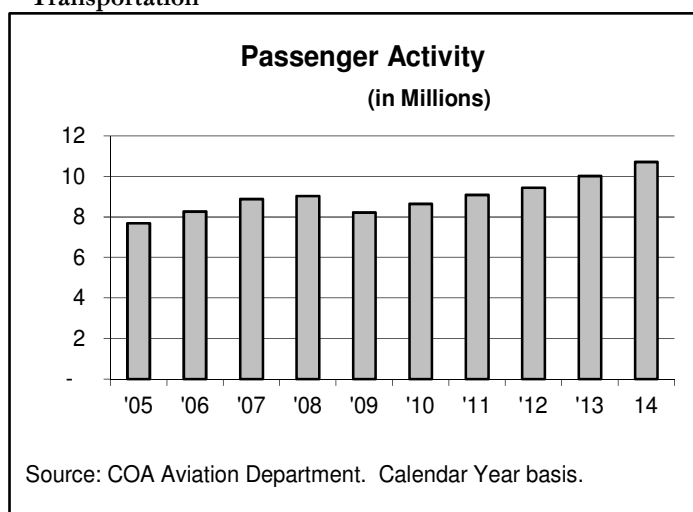
Source: City of Austin, Budget Office.

Ten Largest Employers (1) (As of September 30, 2015)

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	Government	38,499
The University of Texas at Austin	Education	23,131
Dell Computer Corporation	Computers	13,000
City of Austin	Government	12,977
Federal Government	Government	11,800
Austin Independent School District	Education	11,478
HEB Grocery	Grocery/Retail	11,277
Seton Healthcare Network	Healthcare	10,945
St. David's Healthcare Partnership	Healthcare	8,369
IBM Corporation	Computers	6,000

Source: 2015 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 seven signatory airlines: American Airlines, Delta, Frontier, JetBlue, Southwest, United and US Airways. Non-stop service is available to 34 U.S. destinations. On March 3, 2014, British Airways began non-stop service to London Heathrow Airport.

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 the facility opened for business, as scheduled, on October 1, 2015.

Other Forms of Transit

Rail facilities are furnished by Union Pacific and Longhorn Railway Company. Amtrak provides a stop for its passenger train traveling 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>	<u>City of Austin Population (1)</u>	<u>Area of Incorporation (Square Miles) (1)</u>	<u>Population MSA (2)</u>	<u>Income (MSA) (thousands of dollars) (2)</u>	<u>Median Household Income MSA (3)</u>	<u>Per Capita Personal Income MSA (2)</u>	<u>Unemployment Rate (MSA) (4)</u>
2006	714,237	296	1,528,958	56,105,872	40,888	36,695	4.1%
2007	732,381	297	1,577,856	59,924,200	42,263	37,978	3.6%
2008	746,105	298	1,633,870	65,153,669	46,340	39,877	4.3%
2009	770,296	302	1,682,338	64,290,898	47,520	38,215	6.9%
2010	778,560	306	1,727,743	69,124,528	48,460	40,009	7.0%
2011	805,662	308	1,782,089	75,581,541	46,689	42,412	6.6%
2012	821,012	319	1,836,149	83,215,532	46,818	45,321	5.7%
2013	841,649	321	1,885,803	85,628,710	46,436	45,407	5.1%
2014	878,002	321	1,912,746	91,385,667	49,227	47,026	4.2%
2015	899,919	323	1,927,989 (6)	95,782,723 (5)	52,519 (6)	49,680 (5)	3.3%
2006-2015 Change	25.89%	9.19%	26.1%	70.72%	28.45%	35.39%	

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 2015 which will not be available until after first quarter 2016.
- (3) Source: Claritas, a Nielson Company.
- (4) Source: Bureau of Labor Statistics; United States Department of Labor as of September 30.
- (5) Data not available for 2015. Figures are estimated.
- (6) Source: Nielsen SiteReports

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Connections and Permits

Year	Utility Connections			Building Permits		
	Electric	Water (1)	Gas	Taxable	Federal, State and Municipal	Total
2005	372,735	192,499	207,686	1,405,871,887	40,484,950	1,446,356,837
2006	380,696	197,498	213,009	2,353,171,746	16,526,040	2,369,697,786
2007	388,626	200,956	188,101	2,529,648,915	14,272,851	2,543,921,766
2008	396,791	207,979	198,718	1,468,699,801	4,099,000	1,472,798,801
2009	407,926	209,976	208,232	834,498,480	6,988,999	841,487,479
2010	419,355	210,885	204,823	1,413,989,503	4,252,978	1,418,242,481
2011	418,968	212,752	213,365	745,909,589	2,812,350	748,721,939
2012	412,552	214,928	217,170	1,088,133,995	23,788,268	1,111,922,263
2013	430,582	217,070	216,688	1,456,541,504	-	1,456,541,504
2014		317,036				
2015		223,164				

(1) Based on the City's fiscal year, which runs October 1 through September 30.

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

Housing Units

Rental rates in the City averaged \$_____ per square foot, with an occupancy rate of ____% as of _____ 20__, per Capitol Market Research.

Residential Sales Data

Year	Number of Sales	Total Volume	Average Price
2006	29,767	6,815,921,279	229,000
2007	27,571	6,783,518,944	246,000
2008	22,068	5,369,952,456	243,300
2009	20,407	4,830,082,305	236,700
2010	19,547	4,819,525,215	246,600
2011	21,032	5,281,514,091	251,100
2012	25,196	6,705,431,385	266,100
2013	29,965	8,601,111,424	287,000
2014	30,137	9,267,487,161	307,500
2015	31,517	10,449,121,329	331,500

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

Year	Occupancy Rate
2006	87.5%
2007	85.6%
2008	80.6%
2009	77.7%
2010	80.0%
2011	82.7%
2012	86.8%
2013	89.2%
2014	90.9%
2015	90.9%

Source: Oxford Commercial.

Education

The Austin Independent School District had an enrollment of 83,364 for the 2015/2016 school year. The District includes 129 campus buildings.

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>
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
2013/14	84,591	77,359
2014/15	83,364	

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 50,950 for the fall semester of 2015 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 City's economy is significant. There are approximately 32,000 hotel rooms available within the Austin Metropolitan Area and occupancy through the 4th quarter of 2015 was 74.1%.

Existing City convention and meeting facilities include a 881,000 square-foot Convention Center with 369,000 total square feet of exhibit and meeting space, which is supported by hotel/motel occupancy tax collections and revenues of the facility and the Lester E. Palmer Events Center with 70,000 square feet of exhibit space and 5,000 square feet of meeting 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 a 6,000-seat arena and 20,000 square feet of banquet/exhibit hall facilities. The Long Center for the Performing Arts, a \$77 million venue, opened in March 2008. The Center contains two theaters: the 2,400-seat Michael and Susan Dell Hall and the flexible 230-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 approximately 100 concerts a year. In 2012, the Circuit of the Americas opened its 1,500-acre venue just outside downtown Austin, that is a premier destination for world-class motorsports and entertainment in the United States. The venue includes a 3.41 mile racetrack and the Austin360 Amphitheater, which is the largest permanent outdoor amphitheater in Central Texas. Additionally, the University of Texas Darrel K. Royal-Texas Memorial Stadium has a seating capacity of 100,119.

APPENDIX B
AUDITED FINANCIAL STATEMENTS

APPENDIX C

COPY OF MASTER ORDINANCE

APPENDIX D

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

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-shall mean 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.

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.

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.

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.

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.

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.

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 purchaser 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.

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.

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.

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.

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.

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.

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.

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.

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.

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 OPINION

APPENDIX F

SUMMARY OF REFUNDED BONDS (1)

	<u>Maturity Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
Water and Wastewater System Revenue Refunding Bonds, Series:	SERIAL	11/15/25	3.500%	\$ 4,965,000	11/15/16	(2)
	SERIAL	11/15/26	3.500%	5,215,000	11/15/16	(2)
	SERIAL	11/15/27	3.500%	5,485,000	11/15/16	(2)
	SERIAL	11/15/28	3.500%	5,765,000	11/15/16	(2)
	SERIAL	11/15/29	3.500%	6,060,000	11/15/16	(2)
	SERIAL	11/15/30	3.500%	6,370,000	11/15/16	(2)
	SERIAL	11/15/31	3.500%	6,700,000	11/15/16	(2)
	SERIAL	11/15/32	4.250%	7,045,000	11/15/16	(2)
Water and Wastewater System Revenue Refunding Bonds, Series:	Term 2032	11/15/25	5.000%	\$ 24,680,000	11/15/17	(2)
	Term 2037	11/15/26	5.000%	38,675,000	11/15/17	(2)
Total				\$ 110,960,000		

(1) Preliminary, subject to change.

(2) Refunded Bonds are subject to redemption at a price equal to the principal amount thereof, plus accrued interest to the redemption date.