

DRAFT - PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 25, 2016 – DRAFT 2.5

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

(See "OTHER RELEVANT INFORMATION – Ratings")

NEW ISSUE – Book-Entry-Only

Interest on the Taxable Obligations (defined below) is **not** excludable from gross income for federal income tax purposes under existing law. See "TAX MATTERS FOR THE TAXABLE OBLIGATIONS" in this document.

\$12,000,000*
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Public Improvement Bonds, Taxable Series 2016

\$8,700,000*
CITY OF AUSTIN, TEXAS
(Travis, Williamson and Hays Counties)
Certificates of Obligation, Taxable Series 2016

Dated Date: October __, 2016

Due: As shown on the inside cover page

Interest on the \$12,000,000* City of Austin, Texas Public Improvement Bonds, Taxable Series 2016 (the "Taxable Bonds") and the \$8,700,000* City of Austin, Texas Certificates of Obligation, Taxable Series 2016 (the "Taxable Certificates") will accrue from the dated date shown above and will be payable March 1, 2017, and each September 1 and March 1 thereafter until maturity or redemption prior to maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Taxable Bonds and the Taxable Certificates are collectively referred to as the "Taxable Obligations". The Taxable Bonds and the Taxable Certificates will be offered separately by the City, and delivery of each issue is not contingent upon the delivery of the other issue. The City of Austin, Texas (the "City") intends to utilize the book-entry-only system of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on the behalf of DTC to discontinue such system. The book-entry-only system will affect the method and timing of payment and the method of transfer of the Taxable Obligations. See "TAXABLE OBLIGATION INFORMATION – Book-Entry-Only System" in this document.

The Taxable Bonds are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinance authorizing the issuance of the Taxable Bonds. The Taxable Certificates are direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and are additionally payable from and secured by a limited pledge of surplus revenues (not to exceed \$1,000) of the City's solid waste disposal system, as provided in the ordinance authorizing the issuance of the Taxable Certificates. See "TAXABLE OBLIGATION INFORMATION – Security" in this document.

Proceeds from the sale of the Taxable Bonds will be used to finance various capital improvements (see "DEBT INFORMATION – Authorized General Obligation Bonds" in this document), and to pay costs of issuance of the Taxable Bonds. Proceeds from the sale of the Taxable Certificates will be used to finance various capital improvements and to pay costs of issuance of the Taxable Certificates. See "TAXABLE OBLIGATION INFORMATION – Authority and Purpose for Issuance" in this document.

MATURITY SCHEDULE

See "MATURITY SCHEDULE" on next page

The Taxable Obligations are subject to redemption prior to their stated maturities as described in "TAXABLE OBLIGATION INFORMATION – Optional Redemption of the Taxable Obligations" in this document.

The Taxable Obligations are offered for delivery when, as and if issued and accepted by the Underwriters, subject to the approving opinions of the Attorney General of the State of Texas and of Andrews Kurth LLP, Austin, Texas, Bond Counsel. See APPENDIX C – "Forms of Bond Counsel's Opinions" in this document. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell LLP.

It is expected that the Taxable Obligations will be delivered through the facilities of DTC on or about October 4, 2016.

SIEBERT BRANDFORD SHANK & CO.
Piper Jaffray & Co.

* Preliminary, subject to change.

MATURITY SCHEDULE

\$12,000,000*
CITY OF AUSTIN, TEXAS
Public Improvement Bonds, Taxable Series 2016
Base CUSIP No. 052397 (1)

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
2017					2027				
2018					2028				
2019					2029				
2020					2030				
2021					2031				
2022					2032				
2023					2033				
2024					2034				
2025					2035				
2026					2036				

(Interest to accrue from the Dated Date)

\$8,700,000*
CITY OF AUSTIN, TEXAS
Certificates of Obligation, Taxable Series 2016
Base CUSIP No. 052397 (1)

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>Suffix</u>
2017					2027				
2018					2028				
2019					2029				
2020					2030				
2021					2031				
2022					2032				
2023					2033				
2024					2034				
2025					2035				
2026					2036				

(Interest to accrue from the Dated Date)

Concurrent Issues . . . The Taxable Bonds and Taxable Certificates (collectively, the “Taxable Obligations”) are being offered concurrently by the City under a common Official Statement. The Taxable Bonds and Taxable Certificates are separate and distinct securities offerings issued and sold independently except for this Official Statement, and while they share certain common attributes, each issue is separate from the others and should be reviewed and analyzed independently, including without limitation the type of obligation being offered, its terms for payment, the rights of the City to redeem the Obligations, the federal, state and local tax consequences of the purchase, ownership or disposition of the Taxable Obligations and other features.

The City anticipates the sale of its Public Improvement and Refunding Bonds, Series 2016 in the aggregate principal amount of \$107,435,000*, Certificates of Obligation, Series 2016 in the aggregate principal amount of \$53,550,000*, and Public Property Finance Contractual Obligations, Series 2016 in the aggregate principal amount of \$25,070,000* (collectively, the “Tax-Exempt Obligations”) concurrently with the sale of the Taxable Obligations on September 1, 2016. The Tax-Exempt Obligations are expected to be delivered on October 4, 2016.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is 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 services provided by CGS. CUSIP numbers are provided for convenience of reference only. The City, the Financial Advisor, and the Underwriters take no responsibility for the accuracy of the CUSIP numbers.

*Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the U.S. Securities and Exchange Commission (the “Rule”), this document constitutes an Official Statement of the City with respect to the Taxable Bonds and the Taxable Certificates (collectively, the “Taxable Obligations”) 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 Taxable Obligations are offered by the City under a common Official Statement. The Taxable Bonds and the Taxable Certificates are separate and distinct securities offerings being issued and sold independently, except for the common Official Statement. While the Taxable Obligations share certain common attributes, each issue is separate from the others and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Taxable Obligations and other features.

No dealer, broker, salesman or other person has been authorized by the City or by the purchasers in the initial offering of all or any of the Taxable Obligations (collectively the “Underwriters”) to give any information or to make any representations, other than as contained in this document, and if given or made such other 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, the Taxable Obligations, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is submitted in connection with the sale of securities referred to in this document and may not be reproduced or used for any other purpose. In no instance may this document be reproduced or used in part.

THE TAXABLE OBLIGATIONS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE ORDINANCE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939 IN RELIANCE ON EXEMPTIONS CONTAINED IN SUCH ACTS.

The information set forth has been furnished by the City and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of the opinions in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made under the Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the other matters described since the date of this Official Statement. CUSIP numbers have been assigned to each series of Taxable Obligations by CUSIP Global Services for the convenience of the owners of the Taxable Obligations.

This Official Statement includes descriptions and summaries of certain events, matters, and documents. The descriptions and summaries do not purport to be complete and all descriptions, summaries and references are qualified in their entirety by reference to this document in its entirety and to each document referred to in this document, copies of which may be obtained from the City or from Public Financial Management, Inc., the Financial Advisor to the City. Any statements made in this Official Statement or the Appendices involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

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.

IN CONNECTION WITH THE OFFERING OF THE TAXABLE OBLIGATIONS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE TAXABLE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE OBLIGATIONS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

	<u>Page</u>
CITY OF AUSTIN.....	vii
Elected Officials.....	vii
Appointed Officials	vii
SELECTED DATA FROM THE OFFICIAL STATEMENT.....	viii
INTRODUCTION	1
TAXABLE OBLIGATION INFORMATION.....	1
Authority and Purpose for Issuance.....	1
Sources and Uses of Funds.....	2
General.....	2
Security.....	2
Remedies.....	3
Defeasance of Taxable Obligations	4
Book-Entry-Only System	4
Paying Agent/Registrar.....	6
Transfer, Exchange and Registration	6
Limitation on Transfer of Taxable Bonds or Taxable Certificates Called for Redemption	6
Optional Redemption of the Taxable Obligations	6
Notice of Redemption	7
TAX INFORMATION.....	7
Ad Valorem Tax Law	7
Tax Valuation	9
Statement of Debt.....	10
Revenue Debt.....	11
Obligations Subject to Annual Appropriation.....	11
Valuation and Funded Debt History.....	12
Tax Rate, Levy and Collection History	12
Ten Largest Taxpayers	13
Property Tax Rate Distribution.....	13
Net Taxable Assessed Valuations, Tax Levies and Collections.....	14
Tax Rate Limitation.....	15
Tax Procedures.....	15
DEBT INFORMATION.....	Error! Bookmark not defined.
Debt Service Requirements.....	Error! Bookmark not defined.
Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes.....	17
Authorized General Obligation Bonds	18
Concurrent Issuance of General Obligation Debt.....	18
Funded Debt Limitation.....	18
FISCAL MANAGEMENT	18
The Capital Improvement Plan and Capital Budget.....	18
2016-2017 Capital Budget	19
Operating Budget.....	20
2016–2017 Budget.....	21
Deficit Budgeting.....	21
Accounting System	21
Short–Term Borrowing.....	22
INVESTMENTS	22
Legal Investments	22
Investment Policies.....	23

Additional Provisions	24
Current Investments	24
GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE	25
CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES	26
Municipal Sales Tax	26
Transfers from Utility Funds	26
ENTERPRISE FUNDS	27
Statement of Revenues, Expenses and Changes in Fund Net Position	27
THE SYSTEMS	27
STRATEGIC PLANS, GOALS AND POLICIES	27
Strategic Plan	27
Austin Energy Resource, Generation, and Climate Protection Plan to 2025: An Update of the 2020 Plan	27
2014 Plan Summary	28
Financial Policies	29
CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY	30
Rate Regulation	30
ERCOT Wholesale Market Design	31
Federal Rate Regulation	31
Environmental Regulation - General	32
Environmental Regulation Related to Air Emissions	32
Environmental Regulation Related to Water Discharges	33
Environmental Regulation Related to Hazardous Wastes and Remediation	33
Environmental - Other	34
Nuclear Regulation	34
Events Affecting the Nuclear Industry	35
THE CITY	36
Administration	36
City Manager – Marc A. Ott	36
Chief Financial Officer – Elaine Hart, CPA	36
Services Provided by the City	36
Employees	36
Annexation Program	37
Recent Annexation	38
Future Annexation	39
Pension Plans	39
Other Post-Employment Benefits	41
Insurance	41
CONTINUING DISCLOSURE OF INFORMATION	41
Annual Reports	41
Disclosure Event Notices	42
Availability of Information	42
Limitations and Amendments	42
Compliance with Prior Undertakings	43
TAX MATTERS FOR THE TAXABLE OBLIGATIONS	43
General	43
Stated Interest on the Taxable Obligations	44
Disposition of Taxable Obligations	44
Backup Withholding	44

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations	44
Reporting of Interest Payments	45
OTHER RELEVANT INFORMATION.....	45
Ratings.....	45
Litigation.....	45
Electric Utility System Litigation.....	45
Registration and Qualification.....	45
Legal Investments and Eligibility to Secure Public Funds in Texas	46
Legal Matters.....	46
Financial Advisor.....	47
Independent Auditors	47
Underwriting.....	47
Forward - Looking Statements	47
Authenticity of Financial Data and Other Information.....	48
Certification of the Official Statement.....	48
APPENDICES	
General Information Regarding the City	APPENDIX A
Audited Financial Statements	APPENDIX B
Form of Bond Counsel's Opinions	APPENDIX C

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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
Rey 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 Goodall	City Clerk

BOND COUNSEL

Andrews Kurth LLP
Austin, Texas

DISCLOSURE COUNSEL FOR THE CITY

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

FINANCIAL ADVISOR

Public Financial Management, Inc.
Austin, Texas

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Austin, Texas

For additional information regarding the City, please contact:

Art P. Alfaro
Treasurer
City of Austin
700 Lavaca, Suite 940
Austin, TX 78701
(512) 974-7882
art.alfaro@austintexas.gov

Dennis P. Waley
Public Financial Management, Inc.
221 West 6th Street
Suite 1900
Austin, TX 78701
(512) 614-5323
waleyd@pfm.com

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	<p>The City of Austin, Texas (the “City”), is a political subdivision located in Travis, Williamson and Hays Counties, operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters in 1953, as amended. The City operates under the Council/Manager form of government where the mayor (elected at-large) and ten councilmembers (elected from ten single member districts) are elected for staggered four year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer.</p> <p>For further information about the City see APPENDIX A – “GENERAL INFORMATION REGARDING THE CITY” in this document.</p>
The Taxable Bonds	<p>The Taxable Bonds are issued in the principal amount of \$12,000,000* pursuant to the general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, Chapter 1371, Texas Government Code (“Chapter 1371”), elections held by the City (see “DEBT INFORMATION – Authorized General Obligation Bonds” in this document), an ordinance passed by the City Council of the City and a pricing certificate evidencing the final terms of sale of the Taxable Bonds (see “TAXABLE OBLIGATION INFORMATION – Authority and Purpose for Issuance” in this document).</p>
The Taxable Certificates ...	<p>The Taxable Certificates are issued in the principal amount of \$8,700,000* pursuant to the general laws of the State of Texas, particularly Subchapter C, Chapter 271, Texas Local Government Code, Chapter 1371, an ordinance passed by the City Council of the City and a pricing certificate evidencing the final terms of sale of the Taxable Certificates (see “TAXABLE OBLIGATION INFORMATION – Authority and Purpose for Issuance”).</p>
Security	<p>Each series of the Taxable Obligations constitutes a direct obligation of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt. The Taxable Certificates are additionally secured by and payable from a limited pledge of the surplus revenues (not to exceed \$1,000) of the City’s solid waste disposal system (see “TAXABLE OBLIGATION INFORMATION - Security”).</p>
Redemption of Taxable Obligations	<p>The City reserves the right, at its option, to redeem the Taxable Obligations of either series having stated maturities on and after September 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2026, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see “TAXABLE OBLIGATION INFORMATION – Optional Redemption of the Taxable Obligations”).</p>
Tax Matters	<p>Interest on the Taxable Obligations is not excludable from gross income. See “TAX MATTERS FOR THE TAXABLE OBLIGATIONS” in this document.</p>
Concurrent Issuance of General Obligation Debt	<p>The City anticipates the sale of its Public Improvement Bonds, Series 2016 in the aggregate principal amount of \$107,435,000*, Certificates of Obligation, Series 2016 in the aggregate principal amount of \$53,550,000*, and Public Property Finance Contractual Obligations, Series 2016 in the aggregate principal amount of \$25,070,000* (collectively, the “Tax-Exempt Obligations”) concurrently with the sale of the Taxable Obligations.</p>
Payment Record	<p>The City has not defaulted since 1900 when all bonds were refunded at par with a voluntary reduction in interest rates.</p>

* Preliminary, subject to change.

Selected Financial Information

Fiscal Year Ended	Estimated City <u>Population</u> (1)	Taxable Assessed <u>Valuation</u>	Per Capita Taxable Assessed <u>Valuation</u>	(000's) Net Funded <u>Tax Debt</u> (2)	Per Capita Net Funded <u>Tax Debt</u>	Ratio of Net Funded Tax Debt to Taxable <u>Valuation</u>	% of Total Tax <u>Collections</u>
2008	746,105	\$68,736,790,926	\$92,128	\$907,667	\$1,216.54	1.32%	99.70%
2009	770,296	76,752,007,737	99,640	1,065,565	1,383.32	1.39%	99.57%
2010	778,560	80,960,540,976	103,988	1,002,186	1,287.23	1.24%	99.22%
2011	805,662	77,619,349,384	96,342	1,049,751	1,302.97	1.35%	99.42%
2012	821,012	79,219,780,879	96,490	1,132,201	1,379.03	1.43%	99.27%
2013	841,649	83,294,536,493	98,966	1,198,730	1,424.26	1.44%	99.36%
2014	878,002	88,766,098,160	101,100	1,313,334	1,495.82	1.48%	100.01%
2015	899,119	98,732,872,327	109,811	1,409,384	1,567.52	1.43%	99.88%
2016	913,917						
2017	937,065						

- (1) Source: City of Austin Department of Planning and Development based on full purpose area as of January 2016.
- (2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer in from the Operating Budget. See "DEBT INFORMATION."
- (3) Estimated Collections as of June 30, 2016 based on the July 2015 Certified Tax Roll tax levy.
- (4) Certified taxable value for the 2015 tax year provided by the Travis County Appraisal District on _____, 2016.
- (5) Includes the Tax-Exempt Obligations and Taxable Obligations (assuming an aggregate issuance of \$206,755,000* par amount) and excludes \$63,660,000* of obligations refunded by the City's Public Improvement and Refunding Bonds, Series 2016. See "DEBT INFORMATION - Concurrent Issuance of General Obligation Debt" in this document.

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* Preliminary, subject to change.

OFFICIAL STATEMENT

Relating to

\$12,000,000*

CITY OF AUSTIN, TEXAS

Public Improvement Bonds, Taxable Series 2016

\$8,700,000*

CITY OF AUSTIN, TEXAS

Certificates of Obligation, Taxable Series 2016

INTRODUCTION

This Official Statement, which includes the cover page, the summary statement and the appendices, provides certain information regarding the issuance by the City of Austin, Texas (the “City”) of its \$12,000,000* Public Improvement Bonds, Taxable Series 2016 (the “Taxable Bonds”) and its \$8,700,000* Certificates of Obligation, Taxable Series 2016 (the “Taxable Certificates”). The Taxable Bonds and Taxable Certificates are collectively referred to as the “Taxable Obligations”. The Taxable Bonds and the Taxable Certificates will be offered separately by the City, and delivery of each issue is not contingent upon the delivery of the other issue. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Taxable Bonds (the “Taxable Bond Ordinance”) and the ordinance authorizing the issuance of the Taxable Certificates (the “Taxable Certificate Ordinance”) except as otherwise indicated. The Taxable Bond Ordinance and the Taxable Certificate Ordinance are collectively referred to as the “Taxable Ordinances”.

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, references to websites and the information or links contained therein are not incorporated into, and are not part of, this document.

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

TAXABLE OBLIGATION INFORMATION

Authority and Purpose for Issuance

The capital improvements to be financed with the proceeds of the Taxable Bonds were authorized at elections held on various dates, and passed by a majority of the participating voters in the City (see “DEBT INFORMATION – Authorized General Obligation Bonds”). The City is authorized to issue the Taxable Bonds by voter authorization pursuant to Chapter 1331, Texas Government Code, Chapter 1371, Texas Government Code (“Chapter 1371”), the Taxable Bond Ordinance, the adoption of which is pursuant to the City Charter adopted by voters on January 31, 1953, as amended, and a pricing certificate evidencing the final terms of sale of the Taxable Bonds. Proceeds from the sale of the Taxable Bonds will be used to finance various capital improvements and to pay costs of issuance of the Taxable Bonds.

The Taxable Certificates are being issued pursuant to the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the “Certificate of Obligation Act”), Chapter 1371, the Taxable Certificate Ordinance and a pricing certificate evidencing the final terms of sale of the Taxable Certificates. Proceeds from the sale of the Taxable Certificates will be used to finance various capital improvements and to pay costs of issuance of the Taxable Certificates.

* Preliminary, subject to change.

Sources and Uses of Funds

The proceeds of the Taxable Obligations will be applied substantially as follows:

	<u>The Taxable Bonds</u>	<u>The Taxable Certificates</u>	<u>Total</u>
Sources of Funds:			
Principal Amount			
Accrued Interest			
Original Issue Premium			
Total			
Uses of Funds:			
Deposit to Project Fund			
Accrued Interest			
Costs of Issuance			
Underwriters' Discount			
Total			

General

Each series of Taxable Obligations is expected to be dated as of October __, 2016 (the "Dated Date") and shall bear interest on the unpaid principal amounts from such date, at the per annum rates shown on the inside cover page of this document for each series of Taxable Obligations. Interest on the Taxable Obligations will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Taxable Bonds and the Taxable Certificates will be payable on March 1, 2017, and on each September 1 and March 1 thereafter until maturity or prior redemption. Principal is payable, upon presentation, at the Designated Payment/Transfer Office of the Paying Agent/Registrar (see "TAXABLE OBLIGATION INFORMATION - Paying Agent/Registrar" in this document). Interest is payable by the Paying Agent/Registrar to the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined below) and shall be paid by the Paying Agent/Registrar by check mailed by United States mail, first class postage prepaid, to the address of such person as it appears on the registration books of the Paying Agent/Registrar on or before each interest payment date or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The Taxable Obligations are issued only as fully registered obligations in denominations of \$5,000 or any integral multiple thereof within a maturity and a series.

Notwithstanding the foregoing, so long as records of ownership of the Taxable Obligations are maintained through the book-entry-only system described under "TAXABLE OBLIGATION INFORMATION – Book-Entry-Only System" in this document, all payments of principal of, redemption premium, if any, and interest on the Taxable Obligations will be made in accordance with the procedures described in "TAXABLE OBLIGATION INFORMATION – Book-Entry-Only System" in this document.

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

Security

The Taxable Obligations constitute direct obligations of the City, payable from a continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City in an amount sufficient to pay the principal of

and interest on all ad valorem tax debt. The Taxable Certificates are additionally secured by and payable from a limited pledge of the surplus revenue (not to exceed \$1,000) of the City's solid waste disposal system.

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter, referred to as the "Charter", which also limits the City's ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. See "TAX INFORMATION – Tax Rate Limitation" in this document.

Remedies

Each Taxable Ordinance establishes specific events of default with respect to the Taxable Obligations. If the City defaults in the payment of the principal of or interest on the Taxable Obligations when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with each Taxable Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, each Taxable Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Taxable Obligations or each Taxable Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Taxable Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Taxable Ordinances do not provide for the appointment of a trustee to represent the interest of the holders upon any failure of the City to perform in accordance with the terms of each Taxable Ordinance, 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.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 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 Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the City for breach of the Taxable Obligations or covenants in the Taxable Ordinances. 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.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

As noted above, each Taxable Ordinance provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the City under each Taxable Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Taxable Obligations. Furthermore, 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 revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. 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 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 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 Taxable Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

Defeasance of Taxable Obligations

Each of the Taxable Ordinances provides for the defeasance of each of the Taxable Obligations when the payment of the principal of the Taxable Obligations of a series, plus interest to the due date (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agency, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to 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 for the Taxable Obligations. Each of the Taxable Ordinances provides that “Defeasance Securities” means any securities now or hereafter permitted by law, including (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent. There is no assurance that the ratings for any Defeasance Security will be maintained by any particular rating agency.

Book-Entry-Only System

The City has elected to utilize the book-entry-only system of The Depository Trust Company, New York, New York (“DTC”), as described under this heading. The City is obligated to timely pay the Paying Agent/Registrar the amount due under the Taxable Ordinances. See “TAXABLE OBLIGATION INFORMATION - Paying Agent/Registrar” in this document. The responsibilities of DTC, the Direct Participants and the Indirect Participants to the Beneficial Owner of the Taxable Obligations are described in this document.

The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes this information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payment of debt service on the Taxable Obligations, or redemption or other notices to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Taxable Obligations), or redemption or other notices, to the beneficial owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this document. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Taxable Obligations. The Taxable Obligations will be issued as fully-registered Taxable Obligations 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 certificate will be issued for each maturity of the Taxable Obligations, 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 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 Taxable Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Taxable Obligations on DTC's records. The ownership interest of each actual purchaser of each Taxable Obligation ("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 Taxable Obligations are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Taxable Obligations, except in the event that use of the book-entry system for the Taxable Obligations is discontinued.

To facilitate subsequent transfers, all Taxable Obligations 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 Taxable Obligations 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 Taxable Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Taxable Obligations 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 Taxable Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Taxable Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Taxable Obligation documents. For example, Beneficial Owners of Taxable Obligations may wish to ascertain that the nominee holding the Taxable Obligations 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 Taxable Obligations within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Taxable Obligations unless authorized by a Direct Participant in accordance with DTC's MMI 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 Taxable Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Taxable Obligations 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 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 Taxable Obligations held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend 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 Taxable Obligations 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, Taxable Obligation certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates for each series of the Taxable Obligations will be printed and delivered to DTC.

Paying Agent/Registrar

The initial Paying Agent/Registrar for each series of the Taxable Obligations is _____. Interest on, and principal of, the Taxable Obligations will be payable, and transfer functions will be performed at, the corporate trust office designated to the City by the Paying Agent/Registrar (the "Designated Payment/Transfer Office"). In the Taxable Ordinances, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times while the Taxable Obligations are outstanding. Any successor Paying Agent/Registrar shall be a commercial bank, trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Taxable Obligations, the City agrees to promptly cause a written notice to be sent to each registered owner of the Taxable Obligations by United States mail, first class postage prepaid. This notice shall also give the address of the new Paying Agent/Registrar.

Transfer, Exchange and Registration

In the event the book-entry-only system should be discontinued, the Taxable Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Taxable Obligation may be assigned by the execution of an assignment form thereon or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Taxable Obligation will be delivered by the Paying Agent/Registrar, in lieu of the Taxable Obligations being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class postage prepaid, to the new registered owner or his designee. New Taxable Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount and series as the Taxable Obligations surrendered for exchange or transfer. See "TAXABLE OBLIGATION INFORMATION - Book-Entry-Only System" in this document for a description of the system to be utilized initially in regard to ownership and transferability of the Taxable Obligations.

Limitation on Transfer of Taxable Bonds or Taxable Certificates Called for Redemption

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

Optional Redemption of the Taxable Obligations

The City reserves the right, at its option, to redeem the Taxable Bonds and the Taxable Certificates having stated maturities on and after September 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2026, or any date thereafter, at the price of par, without premium, plus accrued interest to the date fixed for

redemption. If less than all of the Taxable Bonds or less than all of the Taxable Certificates are to be redeemed, the City shall determine the respective maturities and amounts to be redeemed and, if less than all of a maturity and series is to be redeemed, the Paying Agent/Registrar (or DTC while the Taxable Bonds and the Taxable Certificates are in book-entry-only form) shall determine by lot or other customary random selection method the Taxable Bonds or the Taxable Certificates, or portions thereof, within such maturity and series to be redeemed.

Notice of Redemption

At least 30 days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States mail, first class postage prepaid, to the registered owners of each Taxable Obligation to be redeemed at the address shown on the registration books maintained by the Paying Agent/Registrar and subject to the terms, conditions and provisions relating thereto contained in the Taxable Ordinances. Such notice shall state that the redemption is conditioned upon receipt of sufficient funds for the payment of the redemption price for the Taxable Obligations which are to be redeemed. If a Taxable Obligation (or a portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Taxable Obligation (or the portion of its principal sum to be redeemed) shall become due and payable, and interest on the Taxable Obligation shall cease to accrue from and after the redemption date of the Taxable Obligation, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

If a notice of redemption is given and sufficient funds are not received for the payment of the required redemption price for the Taxable Obligations which are to be redeemed, the notice shall be of no force and effect, the City shall not redeem the Taxable Obligations, and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, that the Taxable Obligations have not been redeemed.

TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the City is the responsibility of the Travis Central Appraisal District, Williamson Central Appraisal District and Hays Central Appraisal District (collectively, the "Appraisal Districts"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal Districts are required under Title 1, Texas Tax Code (commonly known as the "Property Tax Code") to appraise all property within the Appraisal Districts on the basis of 100% of the property's market value and are prohibited from applying any assessment ratios. State law further limits the appraised value of a residence homestead for a tax year (the "Homestead 10% Increase Cap") to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by an Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. The value placed upon property within the Appraisal Districts is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of each Appraisal District. The Appraisal Districts are required to review the value of property within the Appraisal Districts at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant:

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

Once authorized, the exemption described under (1) above may be repealed, or decreased or increased in amount, (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

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

The surviving spouse of an individual who qualifies for the exemption described under (1) above for the residence homestead of a person 65 years of age or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

Section 1-b, Article VIII, and State law authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of persons who are disabled or 65 years of age or older. If the City Council does not take action to establish the tax limitation, voters within the City may submit a petition signed by five percent of the registered voters of the City requiring the City Council to call an election to determine by majority vote whether to establish the tax limitation.

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the residence homestead exemption for persons who are disabled or 65 years of age or older may not be increased, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is 55 years of age or older at the time of the person's death. In addition, the tax limitation applicable to a person's homestead may be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

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

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

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

Article VIII, Section 1-n, provides for an exemption from taxation for "goods-in-transit." "Goods-in-transit" are defined as (i) personal property acquired or imported into Texas and transported to another location in the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 2011, to provide for the

taxation of the goods-in-transit. After holding the public hearing, a taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on the goods-in-transit for the payment of a debt of the taxing unit, the tax officials of the taxing unit may continue to impose the taxes on the goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created.

Freeport property is exempt from taxation by the City, and, on October 20, 2011, the City took action to tax goods-in-transit.

The City grants an exemption to the appraised value of the residence homestead of persons 65 years of age or older and of the disabled of \$80,000.

The City may create one or more tax increment financing districts ("TIF") within the City and freeze the taxable values of real property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF. The City may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to ten (10) years. The City has adopted criteria for granting tax abatements, which establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The City has entered into several such abatement agreements in recent years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant public funds for economic development purposes; however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by the voters of the City. The City has entered into several such Chapter 380 agreements in recent years.

Tax Valuation

January 1, 2016 Certified Appraised Value (1)		\$157,094,739,094
Less Local Exemptions to Assessed Values: (2)		
Residential Homestead	\$3,738,051,598	
Residential Homestead over 65	2,783,723,954	
Homestead 10% Increase Cap	4,020,876,790	
Disabled Veterans	282,718,906	
Agricultural and Historical Exemptions	767,805,275	
Disability Exemption	190,622,933	
Other Exemptions	18,352,918,338	
Freeport Exemption	1,088,941,307	<u>\$31,225,659,102</u>
January 1, 2016 Net Taxable Assessed Valuation (1)		\$125,869,079,992

(1) Appraised value is subject to change pending additional exemption and appeals.

(2) Exemptions or adjustments to assessed valuation granted in 2016 include (a) 8% of the assessed valuation of a residence homestead; (b) exemptions of \$80,000 for homestead property of property owners who are over 65 years of age or disabled; (c) exemptions for residence homestead property exceeding a 10 percent increase in valuation from the previous year; (d) exemptions for property of disabled veterans or certain surviving dependents of disabled veterans; (e) certain adjustments to productive agricultural lands; (f) exemptions to the land designated as historically significant sites by certain public bodies; (g) exemption of freeport property detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication of exported finished goods from Texas.

Statement of Debt (As of September 30, 2016)

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

Public Improvement Bonds (1)	\$1,000,955,000	
Certificates of Obligation (1)	204,155,000	
Contractual Obligations (1)	90,500,000	
Mueller Contract Revenue Obligations	49,410,000	
The Obligations* (2)	186,055,000	
The Taxable Obligations* (2)	20,700,000	
Assumed MUD Bonds (3)	<u>7,564,994</u>	
Total		\$1,559,339,994
Less Self-Supporting Debt:		
Assumed MUDs (3)	\$7,654,994	
Mueller Contract Revenue Obligations	49,410,000	
Airport (4)	78,245	
Austin Energy (4)	404,945	
Austin Water Utility (2) (4)	8,775,615	
City Hall (4)	9,901,627	
Code Compliance (4)	531,021	
Convention Center (4)	15,060,890	
Financial Services (2) (4)	23,392,458	
Fleet Management (2) (4)	2,320,780	
Golf (4)	420,411	
One Texas Center (4)	1,507,983	
Parks and Recreation Department (4)	283,727	
Solid Waste (2) (4)	44,275,377	
Transportation (2) (4)	18,900,822	
Waller Creek (2) (4)	95,969,590	
Watershed Protection (2) (4)	<u>33,714,227</u>	
Total Self-Supporting		\$312,602,712
Interest and Sinking Fund (5)		20,036,897
Self-Supporting General Fund Payments (6)		<u>2,012,648</u>
Net Debt		<u>\$1,224,687,737</u>
Ratio Total Debt to 2016 Net Taxable Assessed Valuation		
Ratio Net Debt to 2016 Net Taxable Assessed Valuation		

2016 Population (Estimate) –
Per Capita Net Taxable Assessed Valuation –
Per Capita Net Debt Outstanding –

- (1) Excludes the Taxable Obligations, Tax-Exempt Obligations and \$63,660,000* of Refunded Obligations (hereinafter defined; see “DEBT INFORMATION – Concurrent Issuance of General Obligation Debt” in this document).
- (2) The Taxable Obligations and the Tax-Exempt Obligations are anticipated to be sold on September 1, 2016, and are expected to be delivered concurrently on October 4, 2016. See also “DEBT INFORMATION - Concurrent Issuance of General Obligation Debt” in this document.
- (3) Represents bonds of the Northwest Austin MUD#1 annexed by the City.

*Preliminary, subject to change.

- (4) Airport, Austin Energy, Austin Water, City Hall, Code Compliance, Convention Center, Fleet Management, Golf, One Texas Center, Parks and Recreation Department, Solid Waste, Transportation, Waller Creek, and Watershed Protection represent a portion of the City's Outstanding Public Improvement Bonds, Certificates of Obligation and/or Contractual Obligations. Debt service for Airport, Austin Energy, Austin Water, Convention Center, Code Compliance, Financial Services, Golf, One Texas Center, Solid Waste, Transportation, and Watershed Protection is paid from revenue of the respective enterprises. The City plans to continue to pay these obligations from each respective enterprise. Fleet Management and One Texas Center are internal service funds that generate revenue through charges to user departments.
- (5) Represents estimate of cash plus investments at cost on September 30, 2016.
- (6) Various general fund departments have issued debt that is supported by a transfer into the debt service fund from the issuing department. These departments budget the required debt service, which reduces the debt service tax requirement.
- (7) Source: City of Austin Department of Planning and Development based on full purpose area as of January 2016.

Revenue Debt

(As of August 31, 2016)

In addition to the above, on a pro forma basis, the City had outstanding \$28,594,668 Combined Utility Systems Revenue Bonds payable from a first lien on the combined net revenue of the Electric System and the Water and Wastewater System and \$119,001,511 Combined Utility System Revenue Bonds payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System; \$1,169,050,000 Electric Utility Obligations payable from a separate lien on the net revenues of the Electric Utility System; \$2,258,615,000 Water and Wastewater Obligations payable from a separate lien on the net revenue of the Water and Wastewater System, and \$54,823,000 Combined Utility Systems Commercial Paper payable from a subordinate lien on the combined net revenue of the Electric System and the Water and Wastewater System.

The City also has outstanding \$519,908,000 Airport System Revenue Bonds payable from net revenues of the City's Airport System. The City also has outstanding \$_____ in Convention Center Bonds, payable from hotel/motel occupancy and rental car tax collections.

Obligations Subject to Annual Appropriation

With respect to the redevelopment of the property formerly known as Robert Mueller Municipal Airport ("Mueller"), the City entered into a Master Development Agreement with Catellus Austin, LLC, effective as of December 2, 2004 (the "Development Agreement"), and in the Development Agreement, the City agreed to issue debt to finance certain "Public Finance Reimbursable Project Costs" either directly or through the auspices of a local government corporation created by the City. The City has entered into an economic development grant agreement (the "Grant Agreement") with Mueller Local Government Corporation ("MLGC"), a non-profit local government corporation created by the City to act on its behalf with respect to the redevelopment of Mueller. MLGC was created in response to the provisions of the Development Agreement. Under the terms of the Grant Agreement, the City will make grant payments to MLGC from the General Fund, subject to annual appropriation by the City, in amounts sufficient to pay debt service on bonds issued by MLGC to fund Public Finance Reimbursable Project Costs and pay administrative costs associated with such bonds. It is anticipated that sales tax revenues generated by properties developed at Mueller will be sufficient to fund the grants throughout the term of the Grant Agreement. \$12,000,000 in Contract Revenue Bonds were issued in 2006 by MLGC to finance Public Finance Reimbursable Project Costs.

The City has also created a tax increment reinvestment zone for the Mueller project to include Reinvestment Zone Number Sixteen (the "Zone") and neighboring areas for the promotion, development, encouragement and maintenance of employment, commerce, economic development and public facility development in the Zone which consists of approximately 700 acres. Currently, only the City participates in the Zone by contributing its tax increment revenues to the Zone, and it is not expected that any other taxing unit will participate in the Zone. The tax increment revenues of the City will be contributed by the City to the MLGC pursuant to the terms of a Tri-Party Agreement among the City, the MLGC and the Zone (the "Tri-Party Agreement"). In addition, the City has agreed to consider making payments to the MLGC under a grant agreement between the City and the MLGC, pursuant to which the City may make available to the MLGC grant funds in amounts sufficient to pay debt service on the Tax Increment Contract Revenue Bonds, should Pledged Revenues be insufficient to allow the MLGC to meet its debt service payment obligations. The grant payments are to be funded from available moneys in the City's general fund, subject to annual appropriation. The City is under no

obligation to make grant payments. The MLGC has issued three series of Tax Increment Contract Revenue Bonds, aggregating \$47,580,000 in principal amount, backed by tax increment revenues generated from taxation of real property within the boundaries of the Zone from taxing units participating in the Zone.

Valuation and Funded Debt History

Fiscal Year Ended	Estimated City	Taxable Assessed	Per Capita Taxable Assessed	(000's) Net Funded	Per Capita Net Funded	Ratio of Net Funded Tax Debt to Taxable Valuation	% of Total Tax Collections
<u>9-30</u>	<u>Population (1)</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Tax Debt (2)</u>	<u>Tax Debt</u>	<u>Valuation</u>	<u>Collections</u>
2008	746,105	\$68,736,790,926	\$92,128	\$907,667	\$1,216.54	1.32%	99.70%
2009	770,296	76,752,007,737	99,640	1,065,565	1,383.32	1.39%	99.57%
2010	778,560	80,960,540,976	103,988	1,002,186	1,287.23	1.24%	99.22%
2011	805,662	77,619,349,384	96,342	1,049,751	1,302.97	1.35%	99.42%
2012	821,012	79,219,780,879	96,490	1,132,201	1,379.03	1.43%	99.27%
2013	841,649	83,294,536,493	98,966	1,198,730	1,424.26	1.44%	99.36%
2014	878,002	88,766,098,160	101,100	1,313,334	1,495.82	1.48%	100.01%
2015							
2016							
2017							

- (1) Source: City of Austin Department of Planning and Development based on full purpose area as of January 2016.
- (2) Excludes general obligation debt issued for enterprise funds and general fund departments which transfer in from the Operating Budget. See "DEBT INFORMATION."
- (3) Estimated Collections as of June 30, 2016 based on the July 2015 Certified Tax Roll tax levy.
- (4) Certified taxable value for the 2016 tax year provided by the Travis County Appraisal District on _____, 2016.
- (5) Includes the Tax-Exempt Obligations and Taxable Obligations (assuming an aggregate issuance of \$206,755,000* par amount) and excludes \$63,660,000* of Refunded Obligations. See "DEBT INFORMATION – Concurrent Issuance of General Obligation Debt" in this document.

Tax Rate, Levy and Collection History

Fiscal Year Ended	Total Tax	Distribution			% Current	% Total
<u>9-30</u>	<u>Rate</u>	<u>General Fund</u>	<u>Interest and Sinking Fund</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Collections</u>
2008	0.4034	0.2730	0.1304	\$277,284,215	99.14%	99.70%
2009	0.4012	0.2749	0.1263	307,929,055	99.03%	99.57%
2010	0.4209	0.2950	0.1259	340,762,917	98.97%	99.22%
2011	0.4571	0.3262	0.1309	354,798,046	99.13%	99.42%
2012	0.4811	0.3551	0.1260	381,126,366	99.27%	99.27%
2013	0.5029	0.3821	0.1208	418,888,224	99.36%	99.36%
2014	0.5027	0.3856	0.1171	446,227,175	99.27%	100.01%
2015	0.4809	0.3691	0.1118		99.15%	99.88%
2016	0.4589	0.3527	0.1062		_____(1)	99.70% (1)
2017 (2)	0.4411	0.3392	0.1019		N/A	N/A

- (1) Estimated collections as of June 30, 2016 based on the July 2015 Certified Tax Roll tax levy.
- (2) Preliminary, subject to change pending adoption of the tax rate, expected to occur on or about September 12, 2016.

* Preliminary, subject to change.

Ten Largest Taxpayers

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	<u>January 1, 2016 Taxable Assessed Valuation</u>	<u>% of Total Taxable Assessed Valuation</u>
Samsung Semiconductor LLC	Manufacturing	\$2,278,757,419	1.81%
CSHV Properties LLC	Commercial	778,524,588	0.62%
Columbia/St David's Healthcare	Hospital/Medical	524,315,780	0.42%
Finley Company	Commercial	441,471,532	0.35%
Apple Inc	Commercial	411,803,833	0.33%
G&I Properties LLC	Commercial	376,959,869	0.30%
HEB Grocery Company	Retail	280,723,199	0.22%
IMT Capital II Riata LP	Commercial	269,944,089	0.21%
Domain Mall LLC	Commercial	249,924,720	0.20%
Parkway Properties LLC	Commercial	238,000,000	0.19%
TOTAL		<u>\$5,850,425,029</u>	4.65%

Source: Travis Central Appraisal District.

Property Tax Rate Distribution

	<u>Fiscal Year Ended September 30</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017 (1)</u>
General Fund	\$.3821	\$.3856	\$.3691	\$.3527	\$.3392
Interest and Sinking Fund	<u>.1208</u>	<u>.1171</u>	<u>.1118</u>	<u>.1062</u>	<u>.1019</u>
Total Tax Rate	\$.5029	\$.5027	\$.4809	\$.4589	\$.4411

(1) Preliminary, subject to change pending adoption of the tax rate, expected to occur on or about September 12, 2016.

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Net Taxable Assessed Valuations, Tax Levies and Collections

Fiscal Year Ended	Valuation	Real Property		Personal Property		Net Taxable	Total	% Current	% Total
<u>9-30</u>	<u>Date</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Assessed Valuation</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Collections</u>
2008	1-1-07	\$61,455,307,904	89.41%	\$7,281,483,022	10.59%	\$68,736,790,926	\$277,284,215	99.14%	99.70%
2009	1-1-08	68,790,111,385	89.63%	7,961,896,352	10.37%	76,752,007,737	307,929,055	99.03%	99.57%
2010	1-1-09	72,029,659,502	94.21%	8,147,372,223	10.66%	80,960,540,976	340,762,917	98.97%	99.22%
2011	1-1-10	70,024,297,956	90.83%	7,072,966,278	9.17%	77,619,349,384	354,798,046	99.13%	99.42%
2012	1-1-11	70,283,821,626	88.72%	8,935,959,253	11.28%	79,219,780,879	381,126,366	99.27%	99.27%
2013	1-1-12	73,663,555,699	88.44%	9,630,980,794	11.56%	83,294,536,493	418,888,224	99.36%	99.36%
2014	1-1-13	79,457,079,537	89.51%	9,309,018,623	10.49%	88,766,098,160	446,227,175	99.27%	100.01%
2015	1-1-14	88,988,097,079	90.13%	9,744,775,248	9.87%		474,418,331	99.15%	99.88%
2016	1-1-15								
2017	1-1-16								

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- (1) Estimated collections through June 30, 2016 based on the July 2015 Certified Tax Roll tax levy.
(2) Preliminary, subject to change pending adoption of the tax rate, expected to occur on or about September 12, 2016.

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Tax Rate Limitation

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter, which also limits the City's ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes.

Administratively, pursuant to Title 1, Section 53.5 of the Texas Administrative Code, the Texas Attorney General prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of such \$2.50 maximum tax rate, calculated at 90% collection. The issuance of the Taxable Obligations will not exceed the above-described limits or violate the Texas Attorney General's administrative rule.

Tax Procedures

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

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

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

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Estimated Direct and Overlapping Funded Debt Payable From Ad Valorem Taxes (As of 9-30-15) (in 000's)

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

<u>Taxing Jurisdiction</u>	<u>Total Funded Debt</u>	<u>Estimated % Applicable</u>	<u>Overlapping Funded Debt</u>
Austin, City of (1)		100.00%	\$ -
Austin Community College	245,489	69.75%	171,229
Austin Independent School District	795,302	94.96%	755,219
Avery Ranch Road District #1	9,610	99.39%	9,551
Del Valle Independent School District	198,345	72.16%	143,126
Leander Independent School District	1,072,980	11.94%	128,114
Manor Independent School District	278,285	73.59%	204,790
Pflugerville Independent School District	517,120	35.25%	182,285
Round Rock Independent School District	716,040	34.55%	247,392
Travis County	695,035	72.08%	500,981
Williamson County	966,600	11.21%	108,356
Eanes Independent School District	157,495	32.44%	51,091
Northtown MUD	23,345	30.19%	7,048
Travis County Healthcare	12,305	72.08%	8,869
Travis County MUD #8	5,709	3.71%	<u>212</u>
TOTAL DIRECT AND OVERLAPPING FUNDED DEBT			<u>\$ 2,518,263</u>

Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation (2)

Per Capita Overlapping Funded Debt (3)

- (1) Fiscal year 2015 figures for the City. Includes the Tax-Exempt Obligations and Taxable Obligations (assuming an aggregate issuance of \$206,755,000* par amount). Excludes \$63,660,000* of Refunded Obligations and general obligation debt reported in proprietary funds. See also "DEBT INFORMATION - Concurrent Issuance of General Obligation Debt" in this document.
- (2) Based on assessed valuation of \$110,743,469,000 provided by the Travis Central Appraisal District, Williamson County Appraisal District and Hays Central Appraisal District.
- (3) Based on 2016 estimated population of 913,917.

Source: 2015 City of Austin Comprehensive Annual Financial Report ("CAFR").

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimated the portion of the outstanding debt of those overlapping governments that is borne by the City's residents and businesses. This process recognized that, when considering the City's ability to issue and repay long-term debt, the entire debt borne by its residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

*Preliminary, subject to change.

Authorized General Obligation Bonds

<u>Purpose</u>	<u>Date</u>	<u>Amount</u>	<u>Amount</u>	<u>Bonds Being</u>	<u>Unissued</u>
	<u>Authorized</u>	<u>Authorized</u>	<u>Previously</u>	<u>Issued</u>	<u>Balance</u>
			<u>Issued</u>		
Brackenridge 2000	10-22-83	\$ 50,000,000	\$ 40,785,000	\$ -	\$9,215,000
Park Improvements	09-08-84	9,975,000	9,648,000	-	327,000
Cultural Arts	01-19-85	20,285,000	14,890,000	-	5,395,000
Cultural Arts	11-07-06	31,500,000	27,500,000	-	4,000,000
Public Safety Facility	11-07-06	58,100,000	53,100,000	-	5,000,000
Mobility Transportation	11-06-12	143,299,000	84,340,000	29,180,000	29,779,000
Parks & Recreation	11-06-12	77,680,000	25,135,000	18,755,000	33,790,000
Public Safety Facility	11-06-12	31,079,000	15,120,000	2,345,000	13,614,000
Health & Human Service Facility	11-06-12	11,148,000	6,145,000	205,000	4,798,000
Cultural Arts	11-06-12	13,442,000	4,615,000	3,325,000	5,502,000
Affordable Housing	11-05-13	<u>65,000,000</u>	<u>20,000,000</u>	<u>10,000,000</u>	<u>35,000,000</u>
		\$511,508,000	\$301,278,000	\$63,810,000	\$146,420,000

The City may also incur non-voted debts payable from or secured by its collection of ad valorem taxes and other sources of revenue, including certificates of obligation, tax notes, public property finance contractual obligations and leases for various purposes.

Concurrent Issuance of General Obligation Debt

The City anticipates the sale of its Certificates of Obligation, Series 2016 in the aggregate principal amount of \$53,550,000*, Public Improvement and Refunding Bonds, Series 2016 in the aggregate principal amount of \$107,435,000* (the "Series 2016 Bonds"), and Public Property Finance Contractual Obligations, Series 2016 in the aggregate principal amount of \$25,070,000* (collectively, the "Tax-Exempt Obligations") concurrently with the sale of the Taxable Obligations. A portion of the proceeds from the sale of the Series 2016 Bonds will be used to refund certain ad valorem tax-supported obligations of the City (the "Refunded Obligations").

Funded Debt Limitation

No direct funded debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see – "TAX INFORMATION - Tax Rate Limitations" in this document).

FISCAL MANAGEMENT

The Capital Improvement Plan and Capital Budget

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

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

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

* Preliminary, subject to change.

2016-2017 Capital Budget

The 2016-2017 five-year Capital Improvement Program (CIP) plan estimates city-wide capital spending in 2016-2017 of \$901.7 million.

The first year of the five-year plan was used to determine the new appropriations required for inclusion in the 2016-2017 Proposed Capital Budget. The proposed city-wide total appropriation is \$1.136 billion. Appropriation by department is listed below.

Summary of 2016-2017 Proposed Capital Budget (millions):

Austin Convention Center	\$ 50.1
Austin Energy	210.2
Austin Public Library	6.5
Austin Resource Recovery	8.1
Austin Transportation	5.0
Austin Water Utility	545.2
Aviation	203.3
Building Services	5.2
Communications & Technology Management	16.6
Development Services	1.0
Fire	0.6
Fleet	17.9
Health and Human Services	2.9
Neighborhood Housing and Community Development	14.1
Parks and Recreation	13.0
Planning and Zoning	1.2
Public Works	3.5
Watershed Protection	<u>31.6</u>
TOTAL PROPOSED NEW APPROPRIATIONS	<u>\$1,136.0</u>

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Operating Budget

The City's Home Rule Charter and State law require the City Manager to prepare and submit to the City Council a balanced budget consisting of an estimate of the revenues and expenditures in the budget period and the undesignated General Fund balance available for re-appropriation. The budget process in the City normally commences with all department heads submitting to the Chief Financial Officer of the City a detailed estimate of the appropriations required for their respective departments during the next fiscal year. The Chief Financial Officer of the City, in turn, forwards these estimates to the City Manager, who submits them to the Mayor and City Council for their consideration and approval.

In June 1989, the City Council approved Financial Management Policies. Among other items, these policies require that a General Fund Emergency Reserve Fund of at least \$40,000,000 shall be budgeted. Additionally, a General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than \$2,000,000, and a General Fund Reserve for Budget Stabilization shall be budgeted annually. At the end of each fiscal year, any excess revenue received in that year and any unspent appropriations at the end of that year will be deposited into the General Fund Reserve for Budget Stabilization. The Budget Stabilization Reserve will then be available for appropriation for one-time expenditures such as capital equipment but no more than one-third of the reserve will normally be appropriated in any one year. There is also a property tax reserve of \$4,500,000.

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2016–2017 Budget (in 000's)

The 2016-2017 operating budget is expected to be adopted as early as September __, 2016, and was prepared in accordance with guidelines provided by the City Council. The proposed budget included a total tax rate of \$0.4411 per \$100 assessed valuation. The tax rolls have not been certified by the Travis Central Appraisal District. A tax rate of \$0.4411 per \$100 assessed valuation would generate revenue for the proposed budget as set forth below. The following is a summary of the proposed 2016-2017 General Fund Budget.

Beginning Balance, October 1, 2016 (Budget Basis)

Summary of Budgeted General Fund Resources

Revenue:

General Property Taxes	\$413,421
City Sales Tax	224,166
Other Taxes	11,748
Gross Receipts/Franchise Fees	36,717
Miscellaneous	<u>132,256</u>

Total Revenue \$818,308

Transfers In:

Electric Revenue	\$108,000
Water Revenue	42,877
Water Infrastructure Inspection	<u>0</u>

Total Transfers In 150,877

Total General Fund Resources \$969,185

Summary of Budgeted General Fund Requirements

Departmental Appropriations:

Administrative Services	\$ 22,103
Urban Growth Management	51,831
Public Safety	657,159
Public Health and Human Services	78,638
Public Recreation and Culture	<u>128,638</u>

Total Departmental Appropriations \$938,369

Transfers Out 24,203

Other Requirements 6,613

Total General Fund Requirements \$969,185

Use of Beginning Balance 0

Ending Balance 0

Budgeted Reserve Requirements

Emergency Reserve	\$ 58,217
Contingency Reserve	0
Property Tax Reserve	4,500
Budget Stabilization Reserve Fund	<u>58,097</u>

Total Budgeted Reserve Requirements \$120,814

Deficit Budgeting

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

Accounting System

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenue being recorded when available and measurable and expenditures being recorded when the services or goods are

received and the liabilities are incurred. Accounting records for the City's enterprise and internal service funds are maintained on an accrual basis.

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

Short-Term Borrowing

Pursuant to Section 1431, Texas Government Code, the City has the authority to conduct short-term borrowings to provide for the payment of current expenses through the issuance of anticipation notes. Anticipation notes issued for this purpose must mature before the first anniversary of the date the Attorney General approves the anticipation notes.

INVESTMENTS

The City invests its available funds in investments authorized by State law, particularly the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code (the "PFIA"), in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

Legal Investments

Under Texas law, the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the PFIA (i) 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 or (ii) that are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and that otherwise meets the requirements of the PFIA; (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 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and (13) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. The City may also invest bond proceeds in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, 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 (commonly referred to as the "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 authorized investments for City funds, the maximum allowable stated maturity of any individual investment, 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) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

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 in the first paragraph 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 that person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value 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 June 30, 2016, the City's investable funds were invested in the following categories.

<u>Type of Investment</u>	<u>Percentage</u>
U. S. Treasuries	13%
U. S. Agencies	42%
Money Market Funds	3%
Local Government Investment Pools	42%

The dollar weighted average maturity for the combined City investment portfolios is 280 days. The City prices the portfolios weekly utilizing a market pricing service.

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GENERAL FUND REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE
(in 000's)

	Fiscal Year Ended September 30				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>Revenues:</u>					
Taxes (1)	\$409,344	\$448,537	\$498,605	\$527,783	\$572,640
Franchise Fees	32,904	32,578	35,040	46,762	37,842
Fines, Forfeitures and Penalties	18,131	15,784	16,971	17,130	17,305
Licenses, Permits and Inspections	18,653	22,664	28,669	33,719	39,006
Charges for Services	44,464	44,147	49,579	57,974	58,297
Interest and Other	<u>5,096</u>	<u>4,414</u>	<u>6,027</u>	<u>9,335</u>	<u>11,831</u>
Total Revenues	\$528,592	\$568,124	\$634,891	\$692,703	\$736,921
<u>Expenditures:</u>					
Administration	\$ 12,229	\$ 12,674	\$ 13,926	\$ -	\$ -
Urban Growth Management	34,299	38,419	44,934	57,636	60,428
Public Safety	422,092	447,944	473,980	515,437	556,417
Public Services and Utilities	14	-	-	-	-
Public Health	39,230	41,991	48,232	54,608	61,504
Public Recreation and Culture	72,189	71,753	81,893	90,441	99,955
Transportation, Planning and Sustainability (3)	-	5	9	249	4
Nondepartmental Expenditures	<u>74,291</u>	<u>83,875</u>	<u>87,126</u>	<u>88,865</u>	<u>100,561</u>
Total Expenditures	\$654,344	\$696,661	\$750,100	\$807,236	\$878,869
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$(125,752)	\$(128,537)	(\$115,209)	(\$114,533)	(\$141,948)
<u>Other Financing Sources (Uses):</u>					
Transfers from Other Funds	141,448	144,208	145,764	162,622	153,936
Transfers to Other Funds	<u>(9,487)</u>	<u>(19,761)</u>	<u>(13,626)</u>	<u>(27,515)</u>	<u>(30,304)</u>
Net Other Financing Sources	\$131,961	\$124,447	\$132,138	\$135,107	\$123,632
Excess (Deficiency) of Total Revenues and Other Services Over Expenditures and Other Uses	\$ 6,209	\$ (4,090)	\$ 16,929	\$ 20,574	\$ (18,316)
Special Item – Land Sale (See FY15 CAFR Note 1)	-	-	-	<u>15,830</u>	<u>11,983</u>
Fund Balances at Beginning of Year	<u>128,044</u>	<u>134,253</u>	<u>130,163</u>	<u>147,092</u>	<u>183,496</u>
Fund Balances at End of Year (2)	<u>\$134,253</u>	<u>\$130,163</u>	<u>\$147,092</u>	<u>\$183,496</u>	<u>\$177,163</u>

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

(2) In addition to the budget stabilization reserve, the ending balance includes a contingency reserve of approximately \$___ million and an emergency reserve of \$___ million.

(3) Reported with Urban Growth Management prior to 2012.

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CERTAIN GENERAL FUND RECEIPTS OTHER THAN AD VALOREM TAXES

Municipal Sales Tax

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

<u>Fiscal Year</u> <u>Ended 9-30</u>	<u>Per Capita</u> <u>Sales and Use Tax</u>	<u>(in 000's)</u> <u>Sales and Use Tax</u>	<u>% of</u> <u>Ad Valorem Tax Levy</u>
2008	\$208.84	\$154,445	55.70%
2009	182.51	139,795	45.40%
2010	186.01	144,710	42.47%
2011	189.01	151,125	42.59%
2012	200.27	164,193	43.08%
2013	209.08	176,198	42.06%
2014	218.72	189,464	42.46%
2015	226.92	204,029	43.01%
2016 (1)	233.50	213,400	41.99%
2017 (2)	239.22	224,166	40.37%

(1) Estimate.

(2) Estimate used in FY 2017 Proposed Budget.

Transfers from Utility Funds

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

<u>Fiscal Year</u> <u>Ended 9-30</u>	<u>(in 000's)</u> <u>Transfers</u>	<u>% of General</u> <u>Fund Requirements</u>
2008	\$115,629	19.8%
2009	121,505	20.9%
2010	129,967	21145.5%
2011	134,263	20.8%
2012	136,919	19.8%
2013	139,548	17.8%
2014	142,909	18.1%
2015	143,755	16.9%
2016 (1)	145,793	16.1%
2017 (2)	150,877	15.6%

(1) Estimate.

(2) Estimate used in FY 2017 Proposed Budget.

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ENTERPRISE FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Position

The Enterprise Funds account for the activities of the City that render services on a user charge basis to the general public. Set forth on pages B-32 and B-33 of APPENDIX B in this document is a summary of the revenues, expenses, transfers and net position of the City's enterprise funds for the year ended September 30, 2015.

THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to in this document as "Austin Energy") and a Water and Wastewater System (also referred to in this document as the "Austin Water Utility" or the "Water and Wastewater Utility") which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet Electric Utility System demand. The Electric Utility System had approximately 1,676 full-time regular employees as of September 30, 2015. The Water and Wastewater System had approximately 1,147 full-time regular employees as of the same date.

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.

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.

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 and the actual Days Cash on Hand (DCOH) was 148 days.

- 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. Rate Stabilization Reserve balance shall not exceed 90 days of net power supply.
- 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.

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.

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 11 member council, with the Mayor to be elected at large, and the remaining members to be elected from 10 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 2007.

<u>Calendar Year</u>	<u>Full Purpose Acres (1)</u>	<u>Limited Purpose Acres</u>
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
2016		

(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

The City has three contributory defined benefit retirement plans for the Municipal, Fire, and Police employees. These plans are single employer funded plans each with a fiscal year end of December 31. The three retirement plans cover substantially all full-time employees. State law requires the City to make contributions to the plans in an amount at least equal to the contribution of the employee group.

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.

During fiscal 2015, the City implemented Governmental Accounting Standards Board Statement (“GASB”) No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No.27*, as amended by GASB Statement No. 71 (“GASB 71”), *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, which increased the net pension liability in the financial statements by \$1.2 billion over the previously reported net pension obligation.

GASB 68, as amended, requires governments offering defined benefit pension plans to recognize as an expense and a liability today, future pension obligations for existing employees and retirees which are in excess of pension plan assets. In addition it allows deferral of certain pension expense items, expands financial statement note disclosures, and changes disclosure of required supplementary information.

The City’s net pension liability was measured as of December 31, 2014 for all three systems. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date for the COAERS plan. For the Fire and Police systems, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013 using the final 2014 assumptions and then was rolled forward to the plan’s year ending December 31, 2014.

The COAERS, as of December 31, 2014, had a net pension liability of \$884.3 million – of which approximately \$100.8 million is allocable to Austin Water – with a plan fiduciary net position as a percentage of the total pension liability of 71.4%. The Police Officers plan, as of December 31, 2014, had a net pension liability of \$333.6 million with a plan fiduciary net position as a percentage of the total pension liability of 65.7%. The Fire Fighters plan, as of December 31, 2014 had a net pension liability of \$72.0 million with a plan fiduciary net position as a percentage of the total pension liability of 91.6%.

The financial statements for each plan are accessible on their respective websites. See APPENDIX B – “AUDITED FINANCIAL STATEMENTS – Note 7” in this document for additional information on the City’s Pension Plans. Also, see Note 7 of the City’s Comprehensive Annual Financial Report (“CAFR”) for their web addresses.

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, 2014, 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 10.57 years.

As of December 31, 2014, 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 \$868,146,375 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.

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 \$777.7 million, of which \$75 million 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 \$9.3 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.

CONTINUING DISCLOSURE OF INFORMATION

In each Taxable Ordinance, the City has made the following agreement for the benefit of the Holders and beneficial owners of the Taxable Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Taxable Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the “MSRB”).

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in the main text of the Official Statement within the various tables (except for “DEBT INFORMATION - Estimated Direct and Overlapping Funded Debt Payable from Ad Valorem Taxes” in this document) and in APPENDIX B. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The City will update and provide this financial information and operating data as of the end of each fiscal year within six months after the end of each fiscal year, beginning with the fiscal year ending in 2016 and audited financial statements within 12 months of each fiscal year beginning with the fiscal year ending in 2016. If audited financial statements are not available within 12 months after any such fiscal year end, the City will provide unaudited financial statements within such 12 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.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the “Rule”), promulgated by the United States Securities and Exchange Commission (the “SEC”).

The City’s current fiscal year is October 1 to September 30. Accordingly, it must provide updated financial information and operating data by March 31 of each year and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available as described above) by September 30 in 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 10 Business Days after the occurrence of the event, of any of the following events with respect to the Taxable Obligations: (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 Taxable Obligations, or other material events affecting the tax status of the Taxable Obligations; (7) modifications to rights of holders of the Taxable Obligations, if material; (8) Taxable Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Taxable Obligations, 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 Taxable Obligations nor the Taxable Ordinances make any provision for debt service reserves or liquidity enhancement.) The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data by the time required by the Taxable Ordinances.

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 Taxable Obligations, the City will file all required information and documentation with the MSRB in electronic format and accompanied by such identifying information as prescribed by and 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 specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Taxable Obligations 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 Taxable Obligations 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 Taxable Obligations 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 Taxable Obligations 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 Taxable Obligations. 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 Taxable Obligations in the primary offering of the Taxable Obligations. 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 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 also 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.

TAX MATTERS FOR THE TAXABLE OBLIGATIONS

General

The following is a general summary of United States federal income tax consequences of the purchase and ownership of the Taxable Obligations. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached in this Official Statement. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Taxable Obligations in light of the investor’s particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the Taxable Obligations). The summary is therefore limited to certain issues relating to initial investors who will hold the Taxable Obligations as “capital assets” within the meaning of section 1221 of the Code, and acquire such Taxable Obligations for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Taxable Obligations who are United States persons within the meaning

of section 7701(a)(30) of the Code (“United States persons”) and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and the discussion below is not binding on the IRS.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TAXABLE OBLIGATIONS.

Stated Interest on the Taxable Obligations

The stated interest on Taxable Obligations will be included in the gross income, as defined in section 61 of the Code, and in the net investment income, for purposes of the 3.8% Medicare tax imposed by section 1411 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when paid or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Disposition of Taxable Obligations

A beneficial owner of Taxable Obligations will generally recognize gain or loss on the redemption, sale or exchange of a Taxable Obligation equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner’s adjusted tax basis in the Taxable Obligation. Generally, the beneficial owner’s adjusted tax basis in a Taxable Obligation will be the beneficial owner’s initial cost, increased by any original issue discount previously included in the beneficial owner’s income to the date of disposition and reduced by any amortized bond premium. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner’s holding period for the Taxable Obligation.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Taxable Obligations who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to “backup withholding” with respect to current or accrued interest on the Taxable Obligations or with respect to proceeds received from a disposition of Taxable Obligations. This withholding applies if such beneficial owner of Taxable Obligations: (i) fails to furnish to the payor such beneficial owner’s social security number or other taxpayer identification number (“TIN”); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Taxable Obligations. Beneficial owners of the Taxable Obligations should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the current rate of 30% (subject to change) on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest income of such beneficial owners of Taxable Obligations is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner’s United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Taxable Obligations is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Taxable Obligations pursuant to a loan agreement entered into in the ordinary course of the bank’s trade or business.

Assuming payments on the Taxable Obligations are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge or reason to know that such person is a United States person.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to Taxable Obligations will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Taxable Obligation for U.S. federal income tax purposes.

OTHER RELEVANT INFORMATION

Ratings

The Taxable Obligations have received ratings of “___” by S&P Global Ratings, a Standard & Poor’s Financial Services LLC business (“S&P”), “___” by Fitch Ratings, Inc. (“Fitch”) and “___” by Moody’s Investors Service, Inc. (“Moody’s”). The presently outstanding ad valorem tax-supported debt of the City is rated “AAA” by S&P, “AAA” by Fitch and “Aaa” by Moody’s. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of one or all such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or by any one of them, may have an adverse effect on the market price of the Taxable Obligations. Except as provided under “CONTINUING DISCLOSURE OF INFORMATION – Disclosure Event Notices” in this document, the City will undertake no responsibility to notify the owners of the Taxable Obligations of any such revisions or withdrawal of ratings.

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 matter described below) will not have a material effect on the City’s financial condition or the financial condition of Austin Energy and/or the Water and Wastewater Utility.

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 syndrome condition. Five underinsured plaintiffs have also intervened. The City has filed a motion challenging jurisdiction that is currently on appeal in the Third Circuit Court of Appeals. The carriers presented property damage claims, including under-insured claims of approximately \$15 million. The appellate court dismissed Plaintiffs’ inverse condemnation claims and remanded the case back to the trial court. The parties are currently in the discovery phase and the City anticipates receiving detailed damages claims. If the case is not resolved, trial is anticipated in February of 2016.

Registration and Qualification

The sale of the Taxable Obligations has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Taxable Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained in the Securities Act of Texas; nor have

the Taxable Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Taxable Obligations under the securities laws of any jurisdiction in which the Taxable Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Taxable Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Taxable Obligations are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Taxable Obligations are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the PFIA, the Taxable Obligations may have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Taxable Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Taxable Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Taxable Obligations for such purposes. The City has made no review of laws in other states to determine whether the Taxable Obligations are legal investments for various institutions in those states.

Legal Matters

The delivery of the Taxable Obligations is subject to the approval of the Attorney General of Texas to the effect that such Taxable Obligations are valid and legally binding obligations of the City payable from sources and in the manner described in this document and in the respective Ordinances and the approving legal opinion of Bond Counsel. The form of Bond Counsel’s opinion is attached in Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Taxable Obligations is contingent upon the sale and delivery of the Taxable Obligations. The legal opinion of Bond Counsel will accompany the Taxable Obligations deposited with DTC or will be printed on the definitive Taxable Obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Bracewell LLP, Counsel for the Underwriter. The legal fee of such firm is contingent upon the sale and delivery of the Taxable Obligations.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained in this document except that in its capacity as Bond Counsel, such firm has reviewed the information appearing in this document under the captions “TAXABLE OBLIGATION INFORMATION” (except for the information under the subcaptions “Sources and Uses of Funds,” “Remedies” and “Book-Entry-Only System”), “TAX INFORMATION – Tax Rate Limitation,” “CONTINUING DISCLOSURE OF INFORMATION” (except for the subsection “Compliance with Prior Undertakings”), “TAX MATTERS FOR THE TAXABLE OBLIGATIONS,” and the information under the subcaptions “OTHER RELEVANT INFORMATION - Registration and Qualification,” “ - Legal Investments and Eligibility to Secure Public Funds in Texas,” and “ - Legal Matters,” and such firm is of the opinion that such descriptions present a fair and accurate summary of the provisions of the laws and instruments therein described, and such information conforms to the Taxable Ordinances.

The legal opinions to be delivered concurrently with the delivery of the Taxable Obligations 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, sale and delivery of the Taxable Obligations. The payment of the fee for services rendered by PFM with respect to the sale of the Taxable Obligations is contingent upon the issuance and delivery of the Taxable Obligations. 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 Taxable Obligations.

Independent Auditors

The financial data listed as fiscal year 2016 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 an explanatory paragraph regarding the City’s implementation of GASB Statement 65, Items Previously Reported as Assets and Liabilities, which established standards of accounting and reporting standards that reclassify certain items that were previously reported as assets and liabilities to deferred outflows or inflows of resources.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Taxable Bonds from the City at a price equal to the initial offering prices to the public, as shown on the inside front cover page of this Official Statement, less an underwriting discount of \$_____. The Underwriters have agreed, subject to certain conditions, to purchase the Taxable Certificates from the City at a price equal to the initial offering prices to the public, as shown on the inside front cover page of this Official Statement, less an underwriting discount of \$_____. The Taxable Obligations to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Obligations into investment trusts) at prices lower than the public offering prices of such Taxable Obligations, and such public offering prices may be changed, from time to time, by the Underwriters.

Forward - Looking Statements

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

The forward-looking statements included 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 Official Statement will prove to be accurate.

Authenticity of Financial Data and Other 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 will be realized. All of the summaries of the statutes, documents and resolutions contained in this document are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Certification of the Official Statement

This Official Statement, and the execution and delivery of this Official Statement, was approved and authorized by each of the Ordinances adopted by the City Council on August 18, 2016.

ATTEST:

Mayor
City of Austin, Texas

City Clerk
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, expiring in 2017, 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 899,119 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 323 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 & 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, the City 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), S&P (AAA) and Fitch (AAA). In November 2012, Austin Energy improved its S&P 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 2015 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 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

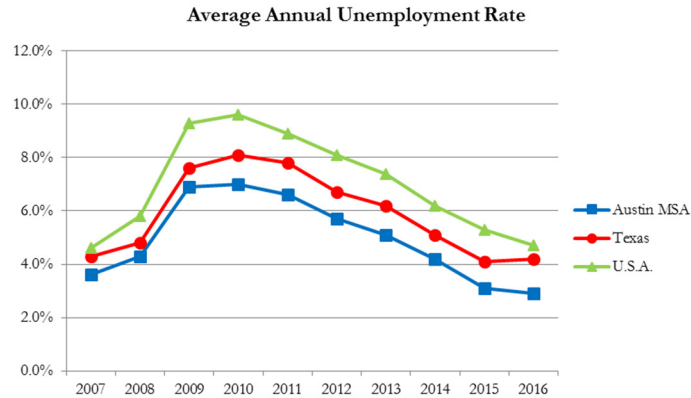
	<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>		<u>2015</u>	
		% of total		% of total		% of total		% of total		% of total
Mining, Logging, and Construction	40,000	5.0%	42,700	5.1%	46,000	5.2%	50,700	5.5%	55,600	5.8%
Manufacturing	55,100	6.8%	56,600	6.7%	57,200	6.5%	57,700	6.3%	57,600	6.0%
Trade, Transportation, and Utilities	139,300	17.3%	145,200	17.3%	152,300	17.3%	158,500	17.3%	164,800	17.2%
Information	21,000	2.6%	22,700	2.7%	23,900	2.7%	25,200	2.7%	26,900	2.8%
Financial Activities	44,800	5.6%	47,000	5.6%	49,300	5.6%	51,900	5.7%	53,700	5.6%
Professional and Business Services	121,400	15.1%	129,600	15.5%	139,300	15.9%	150,400	16.4%	161,300	16.8%
Education and Health Services	92,900	11.5%	98,100	11.7%	102,500	11.7%	106,400	11.6%	111,500	11.6%
Leisure and Hospitality	90,200	11.2%	94,300	11.2%	100,600	11.5%	107,100	11.7%	115,300	12.0%
Other Services	33,800	4.2%	35,800	4.3%	37,900	4.3%	39,600	4.3%	40,700	4.2%
Government	<u>167,900</u>	<u>20.8%</u>	<u>166,800</u>	<u>19.9%</u>	<u>169,000</u>	<u>19.2%</u>	<u>170,000</u>	<u>18.5%</u>	<u>171,800</u>	<u>17.9%</u>
Total nonfarm employment	<u>806,400</u>	<u>100.0%</u>	<u>838,800</u>	<u>100.0%</u>	<u>878,000</u>	<u>100.0%</u>	<u>917,500</u>	<u>100.0%</u>	<u>959,200</u>	<u>100.0%</u>

(a) Austin-Round Rock MSA includes Travis, Bastrop, Caldwell, Hays and Williamson Counties. Information is updated periodically; data contained in this document is the latest provided. Based on calendar year.

Source: U.S. Bureau of Labor Statistics. Non-seasonally adjusted.

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Average Annual Unemployment Rate



Source: Texas Workforce Commission, non seasonally adjusted.

	<u>Austin MSA</u>	<u>Texas</u>	<u>U.S.A.</u>
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%
2016 ⁽¹⁾	2.9%	4.2%	4.7%

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

Source: Texas Labor Market Review, Texas Workforce Commission.

(1) As of April 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	21.884
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	15.667
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	4-1-16	15.528
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	5-1-16	
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	6-1-16	
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	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.

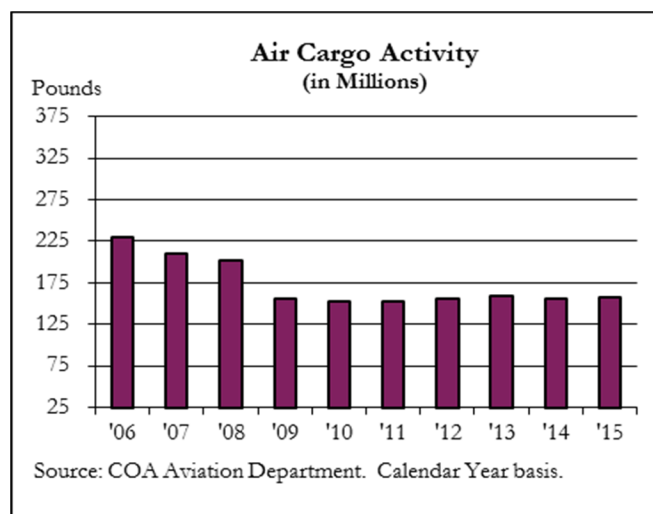
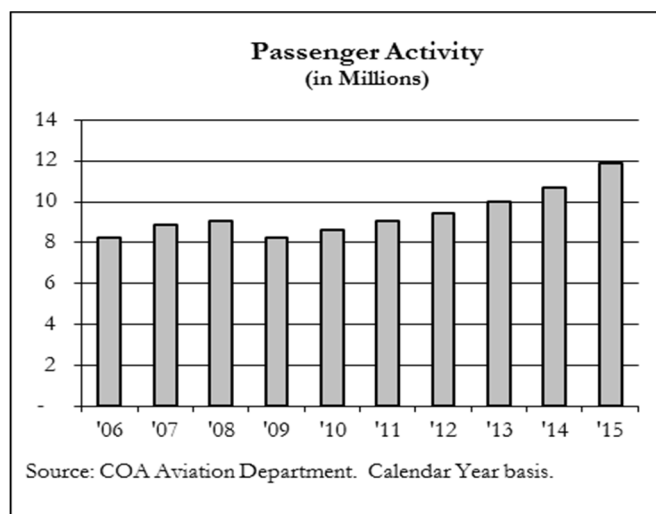
Source: City of Austin, Budget Office.

Ten Largest Employers (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.

On December 9, 2014, the City issued \$244,495,000 of Airport System Revenue Bonds, Series 2014 (Alternative Minimum Tax), to finance the design and construction costs of improvements to ABIA. The projects include terminal expansions (to be completed by summer 2018), parking garage project design (financing for the construction costs anticipated in 2016), and other various capital improvements including HVAC, miscellaneous repair and replacement projects.

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 (3)</u>	<u>Unemployment Rate (MSA) (4)</u>
2006	707,952	296	1,528,958	56,105,872	40,888	36,695	4.1%
2007	724,117	297	1,577,856	59,924,200	42,263	37,978	3.6%
2008	739,543	298	1,633,870	65,153,669	46,340	39,877	4.3%
2009	765,957	302	1,682,338	64,290,898	47,520	38,215	6.9%
2010	777,953	306	1,727,743	69,124,528	48,460	40,009	7.0%
2011	799,578	308	1,782,089	75,581,541	46,689	42,412	6.6%
2012	819,866	319	1,836,149	83,215,532	46,818	45,321	5.7%
2013	842,743	321	1,885,803	85,628,710	46,436	45,407	5.1%
2014	866,249	321	1,912,746	91,385,667	49,227	47,026	4.2%
2015	888,204	323	1,927,989 (6)	95,782,723 (5)	52,519 (6)	49,680 (5)	3.3%
2006-2015 Change	25.46%	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 later in 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.

Utility Connections

<u>Year</u>	<u>Utility Connections</u>		
	<u>Electric (1)</u>	<u>Water (1)</u>	<u>Gas (1)</u>
2006	380,697	197,498	213,009
2007	388,620	200,956	188,101
2008	397,100	207,979	198,718
2009	407,926	209,976	208,232
2010	413,870	210,885	204,823
2011	417,865	212,752	213,365
2012	422,375	214,928	217,170
2013	430,582	217,070	216,688
2014	439,403	217,036	223,500
2015	450,479	223,164	228,700

(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 \$1.39 per square foot, with an occupancy rate of 94.0% as of June 2016, per Capitol Market Research.

Residential Sales Data

<u>Year</u>	<u>Number of Sales</u>	<u>Total Volume (\$)</u>	<u>Average Price (\$)</u>
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	21,033	5,281,578,405	251,100
2012	25,196	6,705,676,184	266,100
2013	29,966	8,601,240,042	287,000
2014	30,146	9,269,347,856	307,500
2015	31,519	10,447,340,988	331,500
2016 (1)	16,155	5,580,311,512	345,400

(1) As of June 2016.

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

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

City-Wide Austin Office Occupancy Rate

<u>Year</u>	<u>Occupancy Rate</u>
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%
2016 (1)	90.4%

(1) As of June 2016.

Source: Oxford Commercial.

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Education

The Austin Independent School District has an enrollment of 83,364 for the 2015/2016 school year and an estimated average daily attendance of 76,413. The District includes 130 campus buildings.

<u>School Year</u>	<u>Average Daily Attendance</u>
2006/07	74,202
2007/08	74,623
2008/09	75,607
2009/10	76,727
2010/11	77,982
2011/12	78,914
2012/13	78,972
2013/14	77,974
2014/15	77,359
2015/16	76,413

Source: Austin Independent School District; Texas Education Agency.

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, 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

FORMS OF BOND COUNSEL'S OPINIONS